



**Comments of the Institute for Energy Economics and Financial Analysis to the Federal Energy Regulatory Commission regarding final authorization the CP2 LNG and CP Express Projects, Docket Nos. CP22-21-000, CP22-22-000
November 14, 2023**

The Institute for Energy Economics and Financial Analysis (IEEFA), a nonprofit organization focused on research and analysis of global energy markets and trends, provides the following comments in response to the Draft Environmental Impact Statement (EIS) for CP2 LNG and CP Express projects, Docket Nos. CP22-21-000, CP22-22-000. Our comments are intended to address information that to our knowledge has not been considered by the Federal Energy Regulatory Commission (FERC) in its interpretation of the public interest.

The proposed projects involve the construction of a liquefied natural gas (LNG) export terminal with 20 million tonnes per annum (MTPA) of nameplate liquefaction capacity and the construction of 91 miles of natural gas pipeline to supply feed gas to the export terminal located on the Calcasieu Ship Channel in Cameron Parish, Louisiana. Our comments address the question of whether these projects align with the public interest.

As discussed in IEEFA's prior comments on this project, new LNG export projects currently under construction will add roughly 78 million tons per year (Mtpa) of liquefaction capacity by 2028, nearly doubling U.S. LNG export capacity. At the same time, new export projects being built in Qatar, Russia, Canada, Australia, Mexico, Mauritania, Mozambique, and elsewhere could add an additional 120 Mtpa of LNG exports to the global market over the same period. The International Energy Agency now acknowledges that the massive addition of new LNG supplies could oversaturate the global market, warning that "The strong rise in [LNG] capacity ... risks creating a supply glut, given that global gas demand growth has slowed considerably."¹ In this market context, CP2 is likely a superfluous and unnecessary project that could worsen an impending LNG market glut.

Furthermore, several key studies that FERC has used to decide that LNG exports are in the public interest are now badly out of date. Most importantly, they miss the fact that surging LNG exports drove domestic gas prices to their highest level in decades in 2022. They also fail to account for the substantial increase in domestic gas price volatility over the past several years, as well as the continued effects of the COVID-19 pandemic on energy demand and the global supply chain. Higher inflation, both in the U.S. and globally, along with recessionary cycles and demand destruction, are other trends that these studies fail to capture. Consideration of these factors collectively indicates that FERC's authorization of the CP2 and CP Express would not be in the public interest.

¹ International Energy Agency. The Energy World Is Set to Change Significantly by 2030, Based on Today's Policy Settings Alone. October 24, 2023. <https://www.iea.org/news/the-energy-world-is-set-to-change-significantly-by-2030-based-on-today-s-policy-settings-alone>

Consensus Exists That LNG Exports Drive Local Prices Higher Due to Competition for Natural Gas Supply

Three studies are used by the Department of Energy (DOE) and FERC to consider the cumulative economic impacts of exporting domestically produced LNG. They are the 2014 Energy Information Administration (EIA) LNG Export Study, the 2015 LNG Export Study, and the 2018 LNG Export Study by the DOE's Office of Fossil Energy and Carbon Management.^{2,3,4}

All three studies acknowledged the growth in LNG exports would result in domestic natural gas price increases. However, the general assumption that domestic natural gas prices would remain advantageously lower than global prices downplayed the effect that greater export levels would have on consumers and businesses in the U.S.

Recent analysis by the U.S. Energy Information Administration (EIA) from May 2023 is consistent with the old studies' conclusions about the impact of LNG exports on domestic prices. The EIA reports, "[M]odel results showed that higher LNG exports results in upward pressure on U.S. natural gas prices and that lower U.S. LNG exports results in downward pressure."⁵

Statements by natural gas utilities Spire and Rocky Mountain Power also point to increasing LNG exports supporting higher natural gas prices. Spire has informed its customers that, "recent international events impacting the global supply of natural gas mean it costs more for Spire to purchase natural gas for our customers."⁶ Similarly, public testimony by Ramon J. Mitchell of Rocky Mountain Power to the Wyoming Public Service Commission elaborated on why natural gas prices have increased since June 2020. Mr. Mitchell said:

"[T]he primary driver is the conflict in Ukraine which has decreased European availability of natural gas, previously sourced from Russian imports. With decreased European supply, the associated European demand has turned to U.S. domestic supply to fill the gap and the increased competition over domestic supply has driven regional natural gas fuel prices upwards..."⁷

² EIA. Effect of Increased Levels of Liquefied Natural Gas Exports on U.S. Energy Markets. October 29, 2014. <https://www.eia.gov/analysis/requests/fe/pdf/lng.pdf>

³ Center for Energy Studies. The Macroeconomic Impact of Increasing U.S. LNG Exports. October 2015. https://www.energy.gov/sites/prod/files/2015/12/f27/20151113_macro_impact_of_lng_exports_0.pdf

⁴ NERA Economic Consulting. Macroeconomic Outcomes of Market Determined Levels of U.S. LNG Exports. June 7, 2018. <https://www.nera.com/publications/archive/2020/analysis-of-the-macroeconomic-outcomes-of-market-determined-level.html>

⁵ EIA. AEO2023 Issues in Focus: Effects of Liquefied Natural Gas Exports on the U.S. Natural Gas Market. May 2023.

⁶ Spire. Understanding your bill. Website visited November 8, 2023. <https://www.spireenergy.com/understanding-your-bill>

⁷ Rocky Mountain Power. Application of Rocky Mountain Power for the authority to increase its retail electric service by approximately \$140.2 per year or 21.6 percent and to revise the energy cost adjustment mechanism. March 2023.

https://www.rockymountainpower.net/content/dam/pcorp/documents/en/rockymountainpower/rates-regulation/wyoming/filings/docket-20000-___-er-23/3-1-23-application---direct-testimony/10_Ramon_J_Mitchell_Direct_Testimony_and_Exhibits.pdf

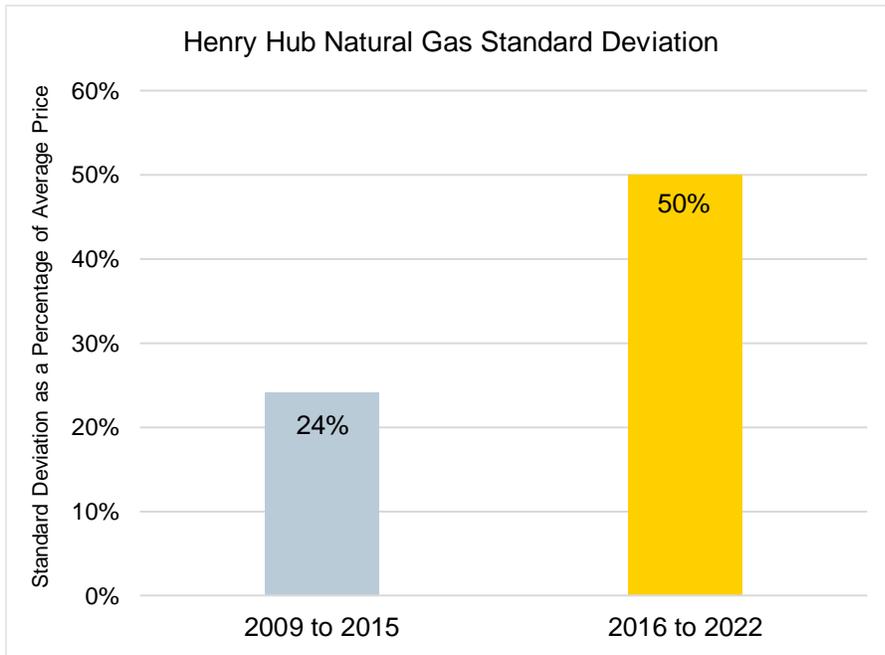
A stark example of domestic natural gas prices reacting to lower LNG export levels is the Freeport LNG explosion on June 8, 2022. The effect of removing Freeport’s feed gas demand of about 2 billion cubic feet per day caused the natural gas futures market to fall by 16% on the news.⁸

Price Volatility Levels Are Also Tied to LNG Export Levels

Lessons learned from Australia, one of the world’s top three exporters of LNG, could provide a clear analog of what consumers in the U.S. should expect as LNG exports ramp. Greater volatility swings accompanied the ramping up of exports.^{9, 10}

A comparison of domestic long-term natural gas price action illustrates this pattern, which is presently occurring in the United States. Exposing the U.S. local natural gas markets to global prices, through the initiation of LNG exports, causes local price fluctuations to respond to global conditions.

Figure 1: Natural Gas Price Volatility Pre- and Post-LNG Export Commencement in U.S.



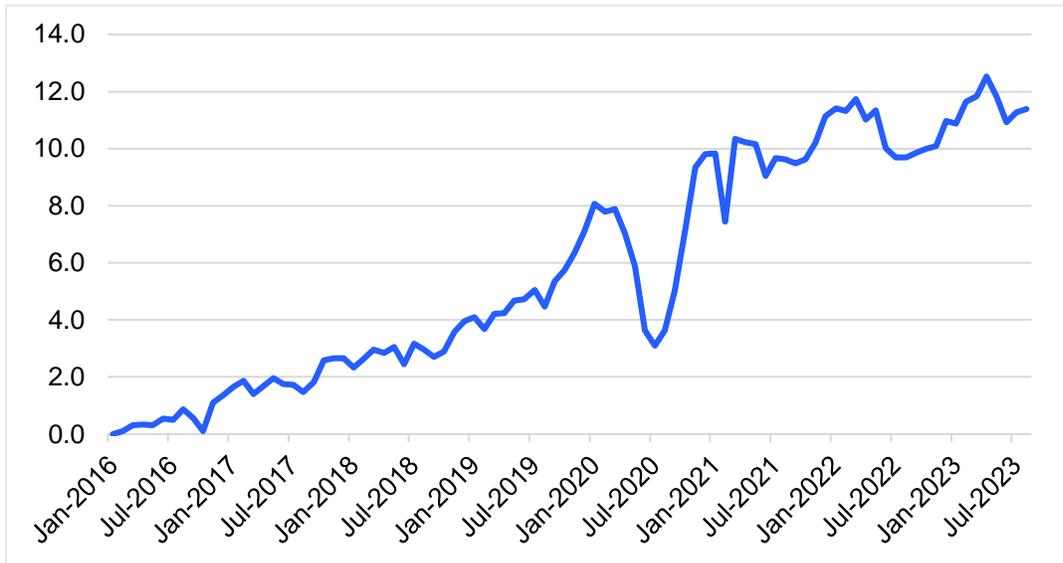
Source: EIA.

⁸ CNBC. Natural gas plummets as Freeport delays facility restart following explosions. June 14, 2022. <https://www.cnbc.com/2022/06/14/natural-gas-plummets-as-freeport-delays-facility-restart-following-explosion.html>

⁹ IEEFA. Seesawing gas market dominated by fear and volatility. September 6, 2023. <https://ieefa.org/resources/seesawing-gas-market-dominated-fear-and-volatility>

¹⁰ IEEFA. LNG exports may spell trouble on horizon for U.S. consumers. April 24, 2023. <https://ieefa.org/resources/lng-exports-may-spell-trouble-horizon-us-consumers>

Figure 2: Ramp of U.S. LNG Exports Over Time (Bcf/day)



Source: EIA.

Between 2009 to 2015, the seven years prior to the U.S. exporting LNG, volatility for Henry Hub natural gas prices measured 24% standard deviation based on the average spot price for the corresponding period. In the subsequent seven years as LNG exports ramped, U.S. natural gas prices experienced volatility doubling to 50% of the average spot price. Simply put, the trade-off for exporting LNG is the importation of global price swings.

Local Employment Levels Defy Public Interest Assumption Linking LNG Exports to More Jobs

Local indirect employment levels do not necessarily increase proportionally to direct LNG export terminal jobs added. Sabine Pass LNG, owned by Cheniere and operating in Cameron Parish, Louisiana, has approximately 950 employees.¹¹ This was the first LNG export terminal to commence operations in the U.S., with the first shipments of cargo occurring in April 2016. Data from the U.S. Census Bureau indicates Cameron Parish has experienced relatively flat employment levels over the past decade.¹² The Census Bureau's five-year estimate in 2015 for Cameron Parish was 3,077 civilian jobs. Skipping ahead to 2020, the Census Bureau's 5-year estimate was 3,078 civilian jobs. Thus, although Sabine Pass added 950 direct jobs, the statistics suggest the project did not generate significant, vibrant new business development with indirect new jobs, and the local community did not thrive consistent with the prevailing economic theory. Such an inconclusive observation begs the question of where the economic benefits from LNG exports do prevail.

¹¹ Cheniere. Where We Work/ Sabine Pass. Website accessed November 8, 2023. <https://www.cheniere.com/where-we-work/sabine-pass>

¹² U.S. Census Bureau. Table S2401 Occupation by Sex for the Civilian Employed Population 16 Years and Over. Website accessed November 8, 2023. <https://data.census.gov/table/ACSST5Y2021.S2401?g=050XX00US22023>

Conclusion

Today's economic conditions – which are key factors in whether an additional LNG export facility will yield local, statewide, or national economic benefits – do not point to the same conclusions as data from studies conducted five years ago and earlier, when the fundamental environment was starkly different. Like other supply and demand patterns related to commodities, responses by the market tend to be self-correcting to anomalous trends instead of self-sustaining. FERC would better serve public interest by not allowing the industry to build the unnecessary CP2 project and put local communities in the crosshairs of the detrimental forces that will arise.