

Volume 343 July 1, 2013

Electricity Cost impact of Natural Gas

The U.S. is producing more natural gas than we can use. Many energy companies are now seeking permission to export to other countries. The revolution in drilling technology that has made fracking a household word has changed the American energy policy discussion. Now the U.S is debating what to do with all this extra natural gas we have laying around. According to the Associated Press, up to 40% of the U.S. production of liquefied natural gas (LNG) could be exported if all of the current energy company export requests are approved by the government. There are **two dimensions** to the debate: environmental impact and economic impact.

Natural Gas Fracking:

The use of hydraulic fracturing has been the subject of intense debate focusing on ground water contamination, earthquakes, and methane release. Proponents point out that the increased use of natural gas has helped to curb growth in CO2 emissions. As natural gas increasingly becomes the fuel of choice for producing electricity, it is largely replacing coal resulting in a net win in terms of carbon dioxide emissions.

Economic Impact of Exporting Natural Gas

Potential environmental issues aside, it's hard to deny the potential economic benefits of the U.S. becoming a natural gas exporter. The glut of natural gas production in the U.S has brought prices down so low it's getting harder for producers to make a profit. Other parts of the world, on the other hand, are seeing higher prices for natural gas. Energy companies are eager to exploit this. Undoubtedly, the loss of this supply to the domestic market would affect energy prices in the U.S. This raises the question of whether the economic benefit of increased tax revenue, employment, and, yes, energy company profits would offset the detrimental impacts of higher energy costs. To begin with, natural gas production has leveled off lately not because there is a shortage of product in the ground but because low prices remove incentive for increased production. Throwing foreign markets into the demand mix might not dramatically impact prices if supply can easily be increased by ramping up production.

The Department of Energy must approve requests to export LNG. To that end, the Department commissioned a detailed study conducted by a third party consulting group named NERA Economic Consulting. NERA used sophisticated modeling techniques to look at various scenarios taking into account a range of possible values for prices, domestic output and foreign demand.

The results, laid out in [detail in the 230 page report, http://energy.gov/sites/prod/files/2013/04/f0/nera_lng_report.pdf](http://energy.gov/sites/prod/files/2013/04/f0/nera_lng_report.pdf) point to natural gas exporting being an economically positive outcome for the U.S. The study concludes that the positive effects increase with assumptions of greater levels of export. "Across all these 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.

Electricity Pricing – July 1, 2013 Com Ed Average LMP Electric Price

Time Period	Average per Kwh
June, 2012	\$.03089
July, 2012	\$.04303
Aug, 2012	\$.03112
Sep, 2012	\$.03034
Oct, 2012	\$.02829
Nov, 2012	\$.03327
Dec, 2012	\$.03081
Jan, 2013	\$.03111
Feb, 2013	\$.03219
Mar, 2013	\$.03665
April, 2013	\$.03821
May, 2013	\$.03501
Jun 1–Jun 27, 2013	\$.032543

Extended Temperature Forecast: Chicago Area

	Tue	Wed	Thu	Fri	Sat
High	75	72	73	82	84
Low	61	60	62	65	68

