

Public Abstract

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Title:The Effects of Increased Corn-Ethanol Production on U.S. Natural Gas Prices

Under current U.S. biofuel policies, corn-ethanol production could reach a level of 15 billion gallons by the year 2015. The possible effects this could have on consumer prices for food has garnered much attention recently. This study attempts to determine how consumer natural gas prices may be affected by increased corn-ethanol production. A model of the U.S. natural gas market was developed, and natural gas prices were projected for the period 2007 to 2015. Shocks representing the effects removing biofuel mandates, tax credits, and tariffs were introduced, and each scenario was analyzed relative to the baseline. The results showed that increased corn-ethanol production as a result of current U.S. biofuel policies could result in natural gas prices that are of 2 to 6 percent higher, on average, than if there were no such policies in place. These results shed light on yet another important link between agricultural and energy markets, and it is one that policymakers may need to consider in the future.