Getting Berned

What's the price tag of banning fracking?

By Steve Huntoon

Presidential candidate Bernie Sanders wants to ban fracking. Prompting his opponent, Hillary Clinton, to say she'd impose so many conditions on fracking that few places would remain where it could occur.

What's the price tag for all of us?

Economists at Rice University have done a credible job of estimating the cost to consumers of a federal fracking ban. The cost would be about 100 billion dollars per year.[1]

The Rice study passes a basic sanity check. If fracking were banned, then natural gas prices would return to their level in 2008, before fracking started to take hold.

This extra 100 billion dollars per year in natural gas prices is just the beginning. This is because natural gas is the most important factor in the price for electric generation.

The last time natural gas was at 8-10 dollars per million Btu, the range that is forecasted under a federal fracking ban, was in 2008. As noted above, that was the year when fracking started to take hold, and the price of natural gas began its dramatic decline.

In 2008, the wholesale price for electric generation was about twice what it was last year. The price was 70 dollars per megawatt-hour in 2008, versus 37 dollars per megawatt-hour last year. This is based on prices in the PJM Interconnection, the largest market for electric generation in the U.S.

> Ironically, a ban on fracking would increase coal generation, which emits carbon dioxide at twice the rate of gas generation.

A wholesale price increase in PJM of 33 dollars per megawatt-hour (the difference between 2008 and last year) carries an annual price tag around 26 billion dollars. And there would be tens of billions in higher prices in other electric markets around the U.S.

Higher costs for natural gas and electricity would cause higher costs for everything made with natural gas and electricity (which is basically everything). This would raise our cost of living, make the U.S. less competitive, and cost U.S. jobs from less exports and more imports.

Senator Sanders would impose this massive cost on all of us for purported environmental concerns. But, ironically, a ban on fracking would increase coal-fired generation, which emits a global warming gas (carbon dioxide) at twice the rate of natural gas-fired generation. This is not to mention more of other pollutants. If you don't believe me, believe the *Washington Post* lead editorial of April 19, 2016: "Mr. Sanders's War on Clean Energy."[2]

As for fracking contaminating water supplies, credible reports are rare.[3]

What about the sensational scenes in the films Gasland and Gasland II, where a kitchen sink flames up and a homeowner lights the end of a garden hose? The former was not due to oil and gas development, and the latter was faked. The garden hose was connected to a gas supply, not to a water pipe.[4]

Where fracking can cause environmental damage the right answer is to regulate it. And any damages should be compensated. That's what our legal system is for.

But banning would be a tragic overreaction to sensationalism, imposing huge costs on all of us. Berning all

(Cont. on page 76)

Steve Huntoon is the principal of Energy Counsel, LLP. Mr. Huntoon is a former President of the Energy Bar Association, and for over 30 years of practice in energy regulatory law he has advised and represented such companies and institutions as Dynegy, PECO Energy (now part of Exelon), Florida Power & Light (NextEra Energy), ISO New England, Entergy, PacifiCorp, Williston Basin (MDU Resources) and Conectiv (now part of PHI).

and the gas-producer affiliate, or just the utility itself, is the largest beneficiary with utility customers bearing most of the risk.

What we have learned across a wide range of industries is that, more times than not, when companies, including utilities, expand their business activities outside their core corporate skills and culture, failure ensues. Customers should not have to bear the costs of unsuccessful utility endeavors in peripheral businesses such as gas production, especially since the wholesale market for natural gas has demonstrated for the past thirty years its success in meeting the demands of electric and gas utilities.

What regulators need to consider

Regulators should start with the premise that long-term contracting with an independent gas producer or middleman is preferable (e.g., with a marketer). Vertical arrangements pose a number of tough questions for state public utility regulators.

One argument favoring utility ownership is that it would provide utilities with a secured supply of natural gas at stable prices over several years. Although this outcome would be a positive development, regulators have to ask whether other forms of commercial transactions would be more beneficial to utility customers.

Another issue relates to regulatory oversight in which utility-ownership of gas reserves or a joint venture arrangement involves a utility and an affiliate. A regulator would have to monitor this relationship, for example, to ensure utility customers are not overpaying for natural gas purchased by the utility from its affiliate.

The regulator might also need to establish codes-of-conduct rules that explicitly prohibit self-dealing abuses by restricting certain actions. Ring fencing or structural separation would help to avoid cost shifting from the unregulated affiliate to the regulated utility, but not necessarily eliminate it.

Finally, regulators will likely see more vertical arrangements over the coming years as gas producers will continue to endure financial stress if gas prices remain low, and utilities and their holding companies try to grow their earnings. Whether regulators should approve vertical arrangements depends largely on the value they assign to long-term hedging within the confines of utilities' gas procurement portfolios. To date, utilities have not done a good job of coming forth with reliable estimates of this value in their plans. PUF

Depends on the value regulators assign long-term hedging in utilities' gas procurement portfolios.

Counterflow

(Cont. from p. 63)

Americans, but especially those who can least afford it. PUF

Endnotes

1. An article that includes a summary of the study results is here: http://www.forbes.com/sites/thebakersinstitute/2016/03/25/hillary-bernie-hydraulic-fracturing-and-the-future-of-us-oil-and-gas-production/#4e481d8041d9
   The full study is here: http://bakerinstitute.org/files/9350/
2. As for getting rid of all fossil fuels, relying solely on renewables and storage, the cost would be astronomical, 280-600 dollars per megawatt-hour by one account: https://www.jpmorgan.com/cm/BlobServer/Brave_New_World_-_Annual_energy_piece.pdf?blobkey=id&blobwhere=1320687247153&blobheader=application/pdf&blobheadername1=CacheControl&blobheadervalue1=private&blobcol=urldata&blobtable=MungoBlobs (page 17)
3. An MIT report is here: https://mitei.mit.edu/system/files/NaturalGas_Report.pdf (pages 37-41)
   EPA's draft assessment is here: https://www.epa.gov/sites/production/files/201506/documents/draft_hf_assessment_fs_6_3_15_508_km_0.pdf
4. The Gasland scene homeowner's case was investigated here by a Colorado agency: http://cogcc.state.co.us/documents/library/Technical/Public_Health,_Saftey_and_Welfare/Hydraulic_Fracturing/GASLAND%20DOC.pdf
   The Gasland II scene was faked as found by a Texas court: http://www.barnettshalenews.com/documents/2012/legal/Court%20Order%20Denial%20of%20Lipsky%20Motion%20to%20Dismiss%20Range%20Counterclaim%202-16-2012.pdf