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Reason Energy and Environment Newsletter

March 2015

Edited by Julian Morris

New Federal Fracking Rules v State Regulations: Is One Size Good for All?

On Friday, the Department of the Interior released its [<http://click.email.reason.org/?qs=fb3ed7edb02eefc47be641a1d21ed5204fce45e61ca487c49bac932db931967b43bd037493f5b180>](http://click.email.reason.org/?qs=fb3ed7edb02eefc47be641a1d21ed5204fce45e61ca487c49bac932db931967b43bd037493f5b180) for regulating the use of "hydraulic fracturing" — a method for extracting oil and gas from shale deposits. The rule, which applies only to federal lands, is additional to, not in place of existing federal permitting requirements [<http://click.email.reason.org/?qs=fb3ed7edb02eefc4e7315a4dc529a24ecc2b3904c46937455e3227455e53fb0b1e0d27e19efdd05d>](http://click.email.reason.org/?qs=fb3ed7edb02eefc4e7315a4dc529a24ecc2b3904c46937455e3227455e53fb0b1e0d27e19efdd05d). The result will be an increase in the average cost per well of around \$11,000, according to Interior. Although less than one percent of the typical well cost (of \$1 million to \$15 million), it is nonetheless likely to reduce the already small proportion of wells drilled on federal land. Given the scale of federal land ownership, that represents a lost opportunity. More worrying, however, is the possibility that these new rules might form the basis for new EPA regulation of fracking on state and private land.

Shale deposits exist in a wide variety of circumstances, ranging from wilderness to urban areas. So why, then, impose uniform rules? Why not allow states to continue to develop and implement their own regulations that can better reflect this variety? The fracking revolution has been responsible for making the U.S. the world's largest producer of oil and gas, as President Obama noted [<http://click.email.reason.org/?qs=fb3ed7edb02eefc4471189844467b54d862a435c63fa26f1b5211da021bb69af55d06fbaa8461a28>](http://click.email.reason.org/?qs=fb3ed7edb02eefc4471189844467b54d862a435c63fa26f1b5211da021bb69af55d06fbaa8461a28) in his State of the Union address in January. Yet, most of this development has come on state and private land — due in part to the onerous restrictions on drilling on federal land.

There are millions of acres of federally owned land that could be utilized more sustainably and oil and gas production represents a huge opportunity that is in many cases being foreclosed unnecessarily. By further limiting the use of this innovative technology, the administration is undermining economic opportunities

in states with significant shale deposits on federal land. That is no small matter given the high proportion of land controlled by the federal government (over 70% in some Western states).

More worrying is the prospect that these regulations will become the basis for federal regulation of fracking on state and private land, where the current regulatory burden is in most cases far lower. If that were to happen, the amount of fracking in the U.S. might fall dramatically, with adverse consequences for the price of oil and gas and for America's competitiveness.

Department of Energy Report Overstates Wind Power's Potential, Understates Costs and Limitations

The U.S. Department of Energy just released [a report](http://click.email.reason.org/?qs=fb3ed7edb02eefc4270b87ec15ddfb1957d42895563ee4ce228a444266487a96c1896d8090fe03cd) [in which it claims that consumers and the environment would benefit from increasing the proportion of electricity derived from wind power. But as I point out in this article](http://click.email.reason.org/?qs=fb3ed7edb02eefc4270b87ec15ddfb1957d42895563ee4ce228a444266487a96c1896d8090fe03cd) [at RealClearMarkets](http://click.email.reason.org/?qs=fb3ed7edb02eefc4ba1d717d4240254d0823c0e4a345aa97f5af05ab62bd83a475f4fb84dc381907), the DOE's estimate is based on hope — hope that some as-yet unimagined future technology will change the economics of wind power, making it more cost effective than fossil fuel-based generation. That's not impossible — but it is very unlikely. And hope without change can be both costly and unpleasant.

State Renewable Portfolio Standards: More Costs Than Benefits

More than half the states have in place "renewable portfolio standards," which require a rising proportion of electricity to come from specified "renewable" sources. While wind, solar and other forms of renewable power generation clearly have a role to play, a [new analysis from Reason Foundation](http://click.email.reason.org/?qs=fb3ed7edb02eefc4677cc6658601650264066aee6d0e47f3e153f6fcf114b0b7d158d47513260814) [questions the claim that mandating minimum amounts of such generation provides benefits that exceed their costs. From the summary:](http://click.email.reason.org/?qs=fb3ed7edb02eefc4677cc6658601650264066aee6d0e47f3e153f6fcf114b0b7d158d47513260814)

Some renewable energy technology installations conserve resources and some don't; some are efficient and some are not. Renewable portfolio standards (further exacerbated by various federal tax treatments and local subsidies) fail to recognize this distinction and foster the development of inefficient installations, thereby discouraging the use of more efficient and environmentally effective

facilities. For example, most of the compliance with state-level RPSs has come in the form of wind energy. Wind energy is unpredictable and volatile, leading to lower value and imposing significant costs on others.

The Hidden Costs of Wind Energy Revealed (in Idaho)

Intermittent "renewable" energy sources such as wind and solar are growing in use largely because of government regulations, favorable tax treatment and mandates. In addition to their generally higher cost, they also impose hidden "integration" costs on the electrical grid — due to their intermittent nature, as [we showed in a 2012 Reason study <http://click.email.reason.org/?qs=fb3ed7edb02eefc4d23ac61e66fbb66ce1c3321d52fa3e9d91890ceea89f5af78ef1e807b9cba300>](http://click.email.reason.org/?qs=fb3ed7edb02eefc4d23ac61e66fbb66ce1c3321d52fa3e9d91890ceea89f5af78ef1e807b9cba300). In some states, such as California, these costs are borne by utility companies and ultimately their consumers.

However, in Idaho, regulators [recently adopted <http://click.email.reason.org/?qs=fb3ed7edb02eefc4140c1aefc07c0dbe7b25f9e398c33b30e96f70f8e390216eb3c8e2a433ef2e7e>](http://click.email.reason.org/?qs=fb3ed7edb02eefc4140c1aefc07c0dbe7b25f9e398c33b30e96f70f8e390216eb3c8e2a433ef2e7e) new rates to be charged wind generators who sell to Idaho Power Company to account for the utility's expense of integrating wind power. They also approved a new method for calculating the wind integration charge under which wind developers will pay a rate that increases as the utility's overall wind penetration level increases. That effectively reduces the price paid for wind-derived electricity sold to the grid, which should reduce consumers' electric bills.

Bird Conservation Group Warns That Wind Farms Will Kill Millions of Birds

The American Bird Conservancy [estimates that <http://click.email.reason.org/?qs=fb3ed7edb02eefc44c5ad16a6427c0c2ec549033d1f42227e3ed6fc20fd6f7cc6df49e028e828c1d>](http://click.email.reason.org/?qs=fb3ed7edb02eefc44c5ad16a6427c0c2ec549033d1f42227e3ed6fc20fd6f7cc6df49e028e828c1d) wind farms will result in between 1.4 and 2 million bird deaths when projects planned and in development are completed. It is petitioning the U.S. Fish and Wildlife Service to provide tighter regulations in order to prevent some of those deaths.

West Virginia Legislature Repeals Renewable Portfolio Standard

West Virginia's Republican-led Senate recently passed a bill to repeal the state's renewable and alternative energy standard and on February 3, Governor Tomblin signed Bill 2001 <http://click.email.reason.org/?qs=fb3ed7edb02eefc496cadbda817d66dcedcdd2485f88eab951fd597b79d4c65>

b431084d00e1510f1> into law, thereby relieving West Virginians of the economic burden of this government mandate.

Some in Congress Want to Stop Mandates That Turn Food Into Fuel

Reason has repeatedly pointed out the [economic](http://click.email.reason.org/?qs=fb3ed7edb02eefc4ea1b0fdd812459a43ad3c6ef03527a73aa35a1b37432dda66905458a57cd0d25) <<http://click.email.reason.org/?qs=fb3ed7edb02eefc4ea1b0fdd812459a43ad3c6ef03527a73aa35a1b37432dda66905458a57cd0d25>> and [environmental harm](http://click.email.reason.org/?qs=fb3ed7edb02eefc4095217a3266960ed6c31cd35d757c0e02ca43f981e885a5c1b6af88f326ca476) <<http://click.email.reason.org/?qs=fb3ed7edb02eefc4095217a3266960ed6c31cd35d757c0e02ca43f981e885a5c1b6af88f326ca476>> done by the federal renewable fuel standard — which mandates the production of specific amounts of ethanol and diesel from biological sources (also called [making fuel from food](http://click.email.reason.org/?qs=fb3ed7edb02eefc4f39ee2906df89fdf236cdaefaa9022aad65983f8b1573f5ab80e1226b9e3726c) <<http://click.email.reason.org/?qs=fb3ed7edb02eefc4f39ee2906df89fdf236cdaefaa9022aad65983f8b1573f5ab80e1226b9e3726c>>). Now, finally, it looks like the issue may be gaining traction in Washington.

U.S. Senators Dianne Feinstein (D-Calif.) and Pat Toomey (R-Pa.) offered an amendment to the Keystone pipeline bill that would have repealed the corn ethanol mandate of the renewable fuel standard, which they describe accurately as a "law that drives up the cost of everything from gasoline to groceries.

<[http://click.email.reason.org/?](http://click.email.reason.org/?qs=fb3ed7edb02eefc473bcc2ea984223885685c4ffa0257604562f96aba6c14a8d93e20f5b9f3126cf)

[qs=fb3ed7edb02eefc473bcc2ea984223885685c4ffa0257604562f96aba6c14a8d93e20f5b9f3126cf](http://click.email.reason.org/?qs=fb3ed7edb02eefc473bcc2ea984223885685c4ffa0257604562f96aba6c14a8d93e20f5b9f3126cf)>" Meanwhile, a group of House members (Reps. Bob

Goodlatte (R-Va.), Peter Welch (D-Vt.), Steve Womack (R-Ariz.), Jim Costa (D-Calif.)) has [re-introduced a bill](http://click.email.reason.org/?qs=fb3ed7edb02eefc477332b49bc650bf74c7580a9210aff680459105df12eb3cb25fb6dd3b3e82886) <[http://click.email.reason.org/?](http://click.email.reason.org/?qs=fb3ed7edb02eefc477332b49bc650bf74c7580a9210aff680459105df12eb3cb25fb6dd3b3e82886)

[qs=fb3ed7edb02eefc477332b49bc650bf74c7580a9210aff680459105df12eb3cb25fb6dd3b3e82886](http://click.email.reason.org/?qs=fb3ed7edb02eefc477332b49bc650bf74c7580a9210aff680459105df12eb3cb25fb6dd3b3e82886)> aimed at doing the same.

Reason Foundation Comments on EPA's Clean Power Plan

The EPA's proposed "Clean Power Plan" requires states to reduce emissions of carbon dioxide from power plants. In [comments filed with the EPA](http://click.email.reason.org/?qs=fb3ed7edb02eefc4a37d20e141e03c32e121cad6fb85290d5310a2d0d164f2887ce45a5a6659704d)

<[http://click.email.reason.org/?](http://click.email.reason.org/?qs=fb3ed7edb02eefc4a37d20e141e03c32e121cad6fb85290d5310a2d0d164f2887ce45a5a6659704d)

[qs=fb3ed7edb02eefc4a37d20e141e03c32e121cad6fb85290d5310a2d0d164f2887ce45a5a6659704d](http://click.email.reason.org/?qs=fb3ed7edb02eefc4a37d20e141e03c32e121cad6fb85290d5310a2d0d164f2887ce45a5a6659704d)>, Reason Foundation questions the merits of the

regulation, arguing that it is likely to increase substantially the amount Americans pay for electricity, negatively and significantly impact the reliability of the electrical service they receive, provide less benefit than estimated by the EPA, and disproportionately harm disadvantaged communities. As such, we question whether the Clean Power Plan is the best means of achieving the

stated goal of reducing carbon emissions.

In response to numerous comments from the public, EPA has announced that it will make changes to the Clean Power Plan <<http://click.email.reason.org/?qs=fb3ed7edb02eefc41bc66dc39436b2615fe8051d4c9c3dfcb7382f229a05ca73383354d44847e216>>. It is unclear whether these will be marginal changes to the timing of requirements or more substantial.

Subsidies, Carbon Abatement Policies Impede Success of Carbon Capture and Storage

One of the reasons many economists are concerned about the impact of imposing restrictions on emissions of carbon dioxide is that such emissions are a natural byproduct of so many productive activities. Some proponents of carbon dioxide controls have sought to allay these concerns by asserting that technologies, such as "carbon capture and storage," will be developed in response to the emissions controls and will keep the costs down. At the same time, proponents of carbon capture and storage (CCS) argue that in the near term, development of CCS will require additional financial support from taxpayers.

These two strands of reasoning are neatly captured in this assertion by the [International Energy Agency](http://click.email.reason.org/?qs=fb3ed7edb02eefc4438c7892e25f4b68cc06e92e0c98a2d7727cee26281d2fd8ffffe09e4450c3) <<http://click.email.reason.org/?qs=fb3ed7edb02eefc4438c7892e25f4b68cc06e92e0c98a2d7727cee26281d2fd8ffffe09e4450c3>>: "There is general agreement among public and private actors alike that in the long term CCS will only need the incentive of a carbon price, but that in the meantime targeted sector-specific industrial strategies are needed to convey CCS from the pilot project phase to the demonstration and then deployment phases."

But [a recent study](http://click.email.reason.org/?qs=fb3ed7edb02eefc48a1c0fcc9b489227b4e43de44ab860dd387661de08adcd9bc8ae5825d1078fdc) <<http://click.email.reason.org/?qs=fb3ed7edb02eefc48a1c0fcc9b489227b4e43de44ab860dd387661de08adcd9bc8ae5825d1078fdc>> looking at the high failure rate of CCS projects found that the "presence of a carbon policy and non-commercial storage of CO₂ are negatively linked to project success." So much for government planning of the great low-carbon revolution.

EPA's Ozone Rule Might Make Asthma Worse

In December, [the EPA issued a proposed rule](http://click.email.reason.org/) <<http://click.email.reason.org/>>