How Fracking Saved California Politicians From Themselves

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Napoleon Bonaparte said, “I’d rather have lucky generals than good ones.”

This maxim holds true for much of life, including, to a certain extent, politics. In 2006, I was a member of the California legislature when Gov. Schwarzenegger and a majority of lawmakers set out to “green” California’s energy landscape.

In addition to fighting global warming, another argument used to promote renewable energy at the time was that a looming natural gas supply crunch would lead to higher prices and shortages for home heating and electricity generation in California. Natural gas has traditionally played an outsized role in the Golden State’s energy mix.

Bolstering the green case was the fact that by 2004 American natural gas production had plateaued for the past 40 years. That year, the U.S. Department of Energy projected that American natural gas production would increase by a modest 10% over a decade, leaving the U.S. far more dependent on imports. The California Energy Commission noted that California imported 87% of its natural gas and that “The U.S. long term supply/demand balance outlook is pessimistic.”

To supply the natural gas California needed in a tightening domestic market, eight liquefied natural gas (LNG) terminals costing about $5 billion were proposed at sites ranging from the coast of Northern California 840 miles south to Mexico. These facilities would import natural gas from such far-flung places as Algeria, Australia, Indonesia, Malaysia and Qatar.

Then fracking happened.

New hydraulic fracturing techniques supercharged U.S. oil and gas production. Domestic natural gas supplies started to ramp up in 2006. Last year, America produced 41% more natural gas than it did in 2005. As a result, the price of natural gas plummeted 70% from 2005 to 2015. That 2004 Department of Energy forecast? It underestimated 2015 U.S. natural gas production by 34% while vastly overestimating needed imports by seven-fold.

None of the proposed West Coast LNG terminals were built—they weren’t needed (winning political permitting approval even if they were needed would have been another matter).

On the cusp of this remarkable energy revolution, liberal California politicians were vying with each other to phase out fossil fuels while mandating more renewable energy. In 2006, the California Legislature passed, and Gov. Schwarzenegger signed, AB 32, the California Global Warming Solutions Act, which aimed to make steep reductions in carbon dioxide emissions. The same year, SB 1368, a bill which prohibited the renewal of electric generation contracts from coal-fired power plants, was signed into law. These laws, and other initiatives, would fundamentally change how California generated its electricity.

At the time, supporters claimed that phasing out coal power and switching to renewables would come at no cost to the consumer. Even one of the state’s largest publicly-regulated utilities, Pacific Gas & Electric (PG&E), supported the anti-coal bill. Buried in SB 1368’s language was a provision allowing California’s

publicly-regulated utilities to double their profit with renewable energy projects—a classic example of crony corporatism.

A decade later, supporters of California's green energy push might be forgiven for claiming victory: The Golden State's electricity costs were some 44% above the national average in 2006 and, relative to the nation, rose only slightly to 45% above the U.S. average in 2014 all while almost doubling the amount of power generation from more expensive renewables from 10.9% to 20.1%.

The irony is that California's apparent success in remaking its electrical market is entirely owed to fracking, a technology that most of the liberal authors of California's ongoing decarbonization experiment oppose.

In truth, California's policymakers dodged the bullet of public disapproval. Had natural gas costs increased the expected 20%, instead of plunging 70%, today's electric rates in California would be some 26% higher—with Californians likely paying more for their electricity than the residents in all other states but Hawaii. For an average Californian not living on the temperate coast, a 26% boost to electric rates would mean a $150 per month increase in summer cooling costs.

A similar cost equation has played out across the nation. Electric rates have only risen in line with inflation since 2006 and have done so while inexpensive coal slipped from providing about half of U.S. electric generation needs to 32% this year.

To be clear, fracking has cushioned the blow of shifting to higher cost and more intermittent sources of renewable energy.

But, California's electric rate holiday may soon come to an end. Policymakers, not satisfied with the state's doubling of renewable electric generation from 10 to 20% over the past decade with a mandate to hit 33% by 2020, upped the ante to 50% by 2030 with SB 350's passage last year.

A 2014 study by Energy and Environmental Economics, Inc. found that pushing California's mandate for renewable energy to 50% could increase average retail electricity rates by as much as 70%. Further, the additional money needed to build solar arrays, wind turbines, energy storage and new power lines could hit $104 billion—about $11,000 for a family of four; a little more than California's High Speed Rail project which will likely never be completed.

California's energy policy actions mirror the rationale of the U.S. EPA's Clean Power Plan, stayed from moving forward by the U.S. Supreme Court in February. The Clean Power Plan, if eventually implemented, would, in effect, force every state to conform to California's energy policies at great cost to average Americans.

A comparison of the two most-populous states shows how costly the Clean Power Plan's emulation of California could be for American families. Just as California lawmakers pushed more regulation to force renewable energy on ratepayers, Texas went the other direction, with the final phase of an electric market deregulation reaching some 85% of Texans in 2007. Initially panned by anti-free market liberals, Texas' electric rates moved from being 16% above the national average in 2006 to 14% below the national average in 2014—all while the Texas economy boomed and electricity demand grew 9.2% from 2006 to 2014 vs. 0.7% in California. Lest critics say the lower demand growth in California was due entirely to conservation, California's nonfarm employment grew by an anemic 3.8% from January 2006 to December 2014 compared to 18.4% job growth in Texas.

Lastly, while energy mix and climate certainly play a big role in determining electric rates -- for instance, Washington State benefits mightily from the Grand Coulee Dam, a Depression-era project that generates

plentiful and cheap hydroelectric power -- politics and land-use policy are even greater determinants. Analyzing the 48 contiguous states, there are two factors which reliably predict retail electric costs: a state legislature's American Conservative Union rankings and the land-use freedom index from the Mercatus Institute. Reliance on expensive renewable power or inexpensive hydro, temperature, and urbanization all lack statistical significance.

The 48-state statistical analysis is clear. If you want affordable power, move to a conservative state.

Want costly power? Californiaize the national grid by implementing the EPA's Clean Power Plan