

Economics of Fracking in North Carolina

Fracking Doesn't Benefit Local Economies

A 2008 study found that counties in the western U. S. that have relied on fossil-fuel extraction for growth are doing worse economically than their peers, with less-diversified economies, a less-educated workforce, and greater disparities in income.

A highly variable amount of local revenue makes local government budgeting difficult, crowds out other local economic options, and reduces economic diversity in the long run. After the initial "boom", there is a "bust" within a few years, leaving counties' economies weaker.

North Carolina has a very small amount of natural gas! The 2012 USGS estimate predicts a supply that, if it were all used within the state of NC, **would last only 5.6 years**, if all of the gas could be recovered. And this doesn't include supplying gas fired power plants which many utilities are now switching to.

Is that worth the cost to the state? NC has no gathering pipelines and little infrastructure for natural gas processing. How much has it already cost tax payers for years of studies, public hearings, rushed rule development by the Mining and Energy Commission and debate in the NC General Assembly?

Projected income and jobs for NC

The 2012 North Carolina Oil and Gas Study predicts that **only 36 percent** of drilling investments will be spent within NC. Because NC does not have a developed fossil fuel extraction industry, there will likely be substantial economic "leakages", with money being spent outside of NC. The same study predicts that fracking would sustain an **average of 387 jobs per year**, over the seven year time period predicted. That's about as many jobs as would be needed to operate two new grocery stores—but they'd be temporary!

-Most states (with the exception of Pennsylvania, which has an "impact fee" instead) impose a severance tax for the oil and gas industry, to help ensure that extra costs caused by gas development are paid by the gas operators. NC's 1945 Oil and Gas Conservation Act set the state's severance tax for natural gas at \$.0005 per 1,000 cubic feet of gas—**the lowest in the nation**. MEC rules do not address severance taxes, relying on already existing state regulations not specific to oil and gas. The NC Association of County Commissioners is asking the state for assistance with anticipated costs. Even in states with higher severance taxes, the costs of road repair alone are far higher than income to the state (see reverse). Severance taxes in NC will likely be far from adequate to fund a protective regulatory program, including inspectors to ensure public safety.

Effect on Home Values: Fracking lowers home values, and harms agricultural activity. A recent study found that home values near or in view of a fracking well fell 10-15% and up to 25%. Mortgage financing is increasingly risky for properties where the mineral rights have been leased or sold off. Several Credit Unions in NC no longer approve such mortgages, and Fannie Mae and Freddy Mac won't back such mortgages.

The Myth of Energy Independence

Oil and gas are traded on a global market as a global commodity. Because the price of natural gas is higher in Europe and Asia, the US oil and gas industry is selling more and more of it abroad.

Resources:

North Carolina Oil and Gas Study (2012).

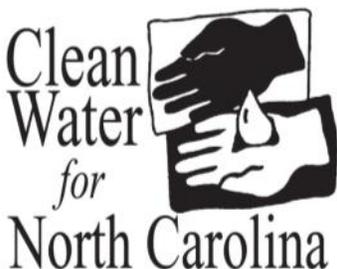
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Duke Energy Initiative, October 2014 www.energy.duke.edu/shalepublicfinance



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Road Impacts Cost Taxpayer Money

Gas development significantly increases truck traffic on roads not designed for heavy use, and in many cases repairs cost the state more than what they receive in severance taxes from oil and gas companies.

In Pennsylvania, road impacts have been a major problem for municipalities in the Marcellus shale region. For many of PA's small towns, road maintenance and repair accounts for the largest part of the town budget. In 2012, PA received \$204 million in revenue from the oil and gas industry, but it cost the state \$3.5 billion in road damages. Here are some other states that have spent more on roads than gained from fracking:

- ◆ Arkansas: \$182 million revenue, \$450 million in road damages
- ◆ Texas: \$3.6 billion revenue, compared to \$4 billion road damages
- ◆ North Dakota: \$1.3 billion revenue, compared to \$7 billion road damages

...and it is tax payers who end up paying for the roads!

Fracking is a Boom/ Bust industry: After an initial boom in fracking, the production rate for gas wells in the biggest shale plays peaked in 2010, and has been sharply decreasing. Due to volatile oil prices, revenue streams are unpredictable and leave communities vulnerable to rapidly changing economies. Today, the US is experiencing shocking deterioration in production and declines since November 2014. Companies are laying off workers by the thousands. Shale need very high prices to work. In order to meet production targets, more and more wells must be drilled, increasing production costs per volume of gas, and big companies are slashing the value of their mineral holdings by \$\$ billions. In order to prevent more losses, gas companies are now pushing to export natural gas to European and Asian markets, where gas prices are much higher. Federal regulators are busy approving permits for many export terminals at ports previously used to import natural gas.

Cost to Local Governments

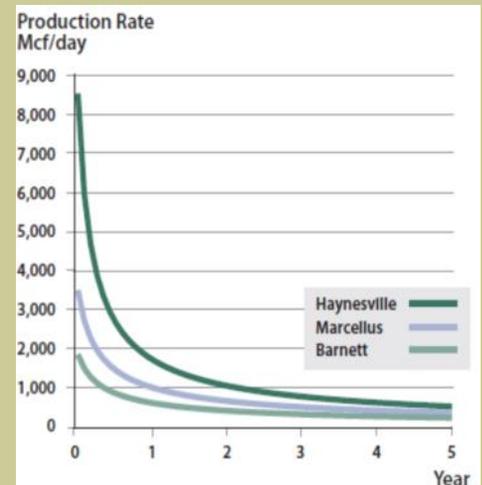
Local governments get no financial benefits from fracking, but have to deal with many of the problems: noise, storage of toxic chemicals, degraded water sources, heavy truck traffic, and costs of clean up. The NC Association of County Commissioners is asking the General Assembly to establish a mechanism for local governments to recover costs associated with providing services or reversing negative effects on the community related to gas and oil exploration.



Renewables and Efficiency

Efficiency and renewables provide many more jobs per kilowatt hour produced or saved. All of the applications that shale gas is being considered for—heating and cooling, power generation, vehicles—are easily, cheaply and cleanly replaced with improved efficiency and conservation.

Production drops quickly in all major shale plays:



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