San Leon Energy: Hydraulic Fracturing in Poland

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What are Externalities?

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Often times the full cost of a good is not paid by the producer and those hidden costs are also not included in the price. However, that cost is still being paid by others, which means that the price of that good is artificially low and is being subsidized by those “others.” These “external” costs (costs external to the company) are called externalities and can be positive or negative.

Negative Consumption Externalities

Positive Consumption Externalities

Negative Production Externalities

Positive Production Externalities

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In general, an externality is a cost or benefit which affects a party who did not choose to incur that cost or benefit.

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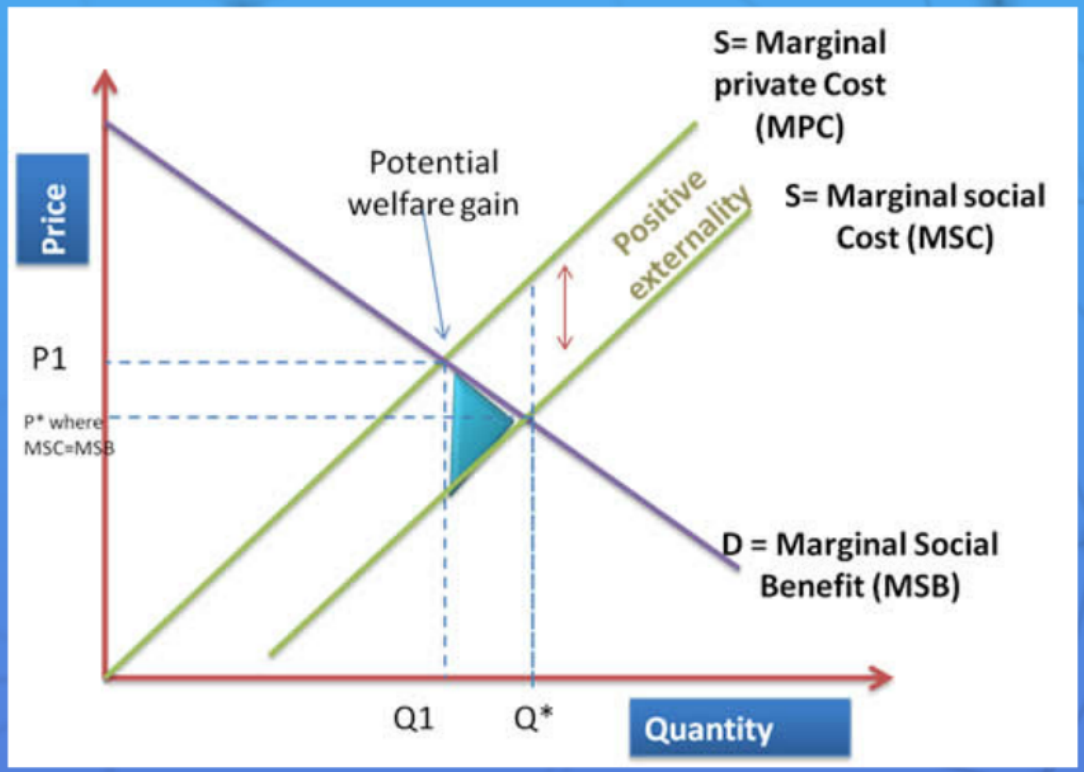
Positive Externalities

Positive externalities create external benefits to those not directly involved. For Example, say there has been a positive externality in production in the form of a new technology. The use of this new technology brings down costs to other producers.



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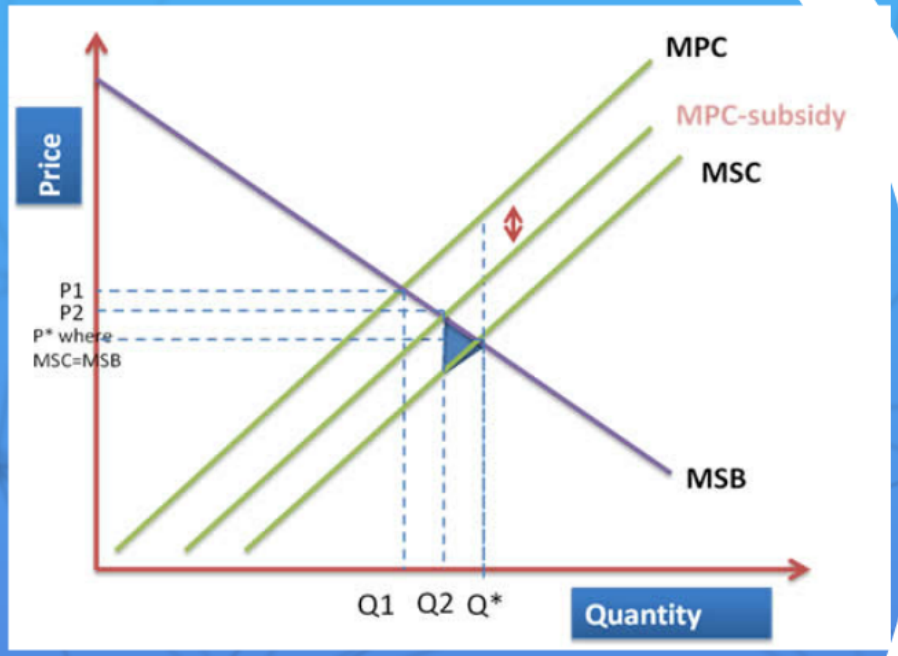
Positive externalities in production means that social cost is less than private cost, and more of the good should be produced than will occur in a free market.

Correcting Positive Externalities

Subsidies can be provided to firms which produce these goods. The effect will be the lowering of MPC and thus the MPC will more downward to MSC. This will increase the output to a level Q2 near to the socially optimal level Q*. The price will also fall from P1 to P2.



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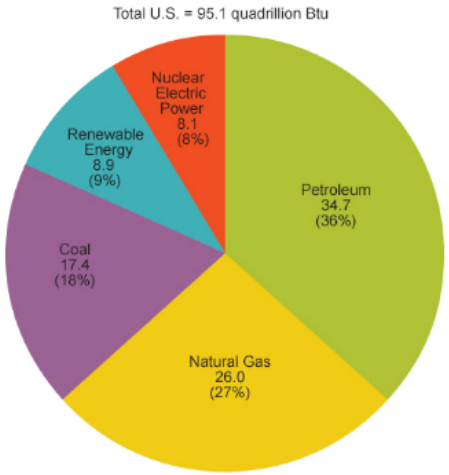
Externalities lead to an inefficient quantity of production and consumption. The price of an energy source should reflect its impact on health, natural resources, and aesthetics, not just its production costs. Science and economics need to trump politics and irrational fears when it comes to our nations energy needs, both renewable and non-renewable

Primary energy use by source, 2012

quadrillion Btu and percent of total[1]

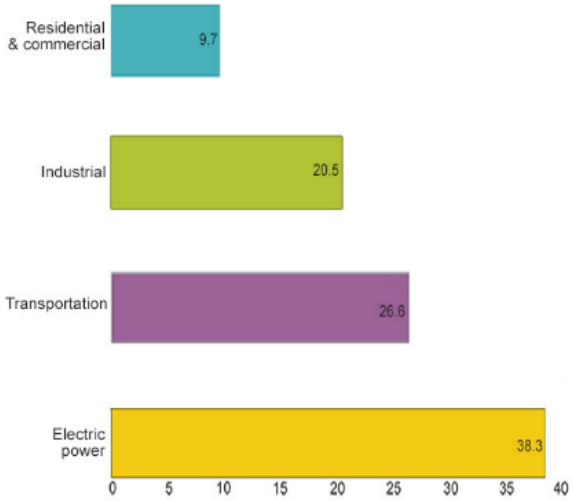


[1]Does not add to 100 due to independent rounding.

Source: U.S. Energy Information Administration, *Monthly Energy Review*, Table 1.3 (April 2013), preliminary 2012 data.

Primary energy use by sector, 2012

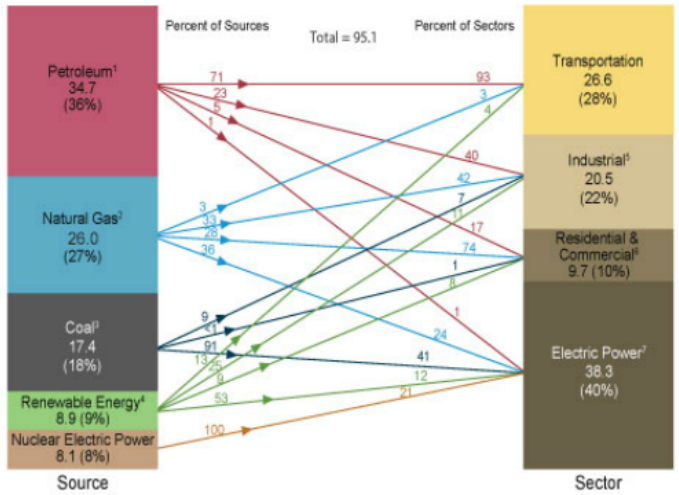
quadrillion Btu



Source: U.S. Energy Information Administration, *Monthly Energy Review*, Table 2.1 (April 2013), preliminary 2012 data.

Primary energy consumption by source and sector, 2012

quadrillion BTU



In 2012, total U.S. energy use was approximately 95 quadrillion Btu. Primary energy is used in residential and commercial buildings, in transportation, by industry, and to generate electricity. Primary energy includes petroleum, natural gas, coal, nuclear fuel, and renewable energy. Electricity is a secondary energy source that is generated from these primary forms of energy. The bar chart shows the amount of primary energy used in each of these sectors. As you can see, electric power generation is the largest user of primary energy, followed by transportation.