

Informational Committee Meeting on the Natural Gas Industry

Before the
Consumer Affairs Committee
Pennsylvania House of Representatives

**Remarks of
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- Good morning Chairman Godshall, Chairman Preston and members of the Committee.
- I am Terry Fitzpatrick, President & CEO of the Energy Association of Pennsylvania, a trade association of electric and natural gas utilities operating in Pennsylvania.
- EAP performs two functions:
 - Advocate industry positions before state agencies (especially the PUC) and the General Assembly;
 - Education role – assist companies in sharing best practices, and sponsor conferences on operations and consumer issues that are attended by employees of members, out-of-state utilities and government.

EAP's Natural Gas Member Utilities

Columbia Gas of PA
Equitable Gas Company
National Fuel Gas Distribution Corp.
PECO Energy
Peoples Natural Gas Company
Philadelphia Gas Works
Pike County Light & Power Company
UGI Central Penn Gas
UGI Penn Natural Gas
UGI Gas Utilities, Inc.
Valley Energy, Inc.

Natural Gas Utilities

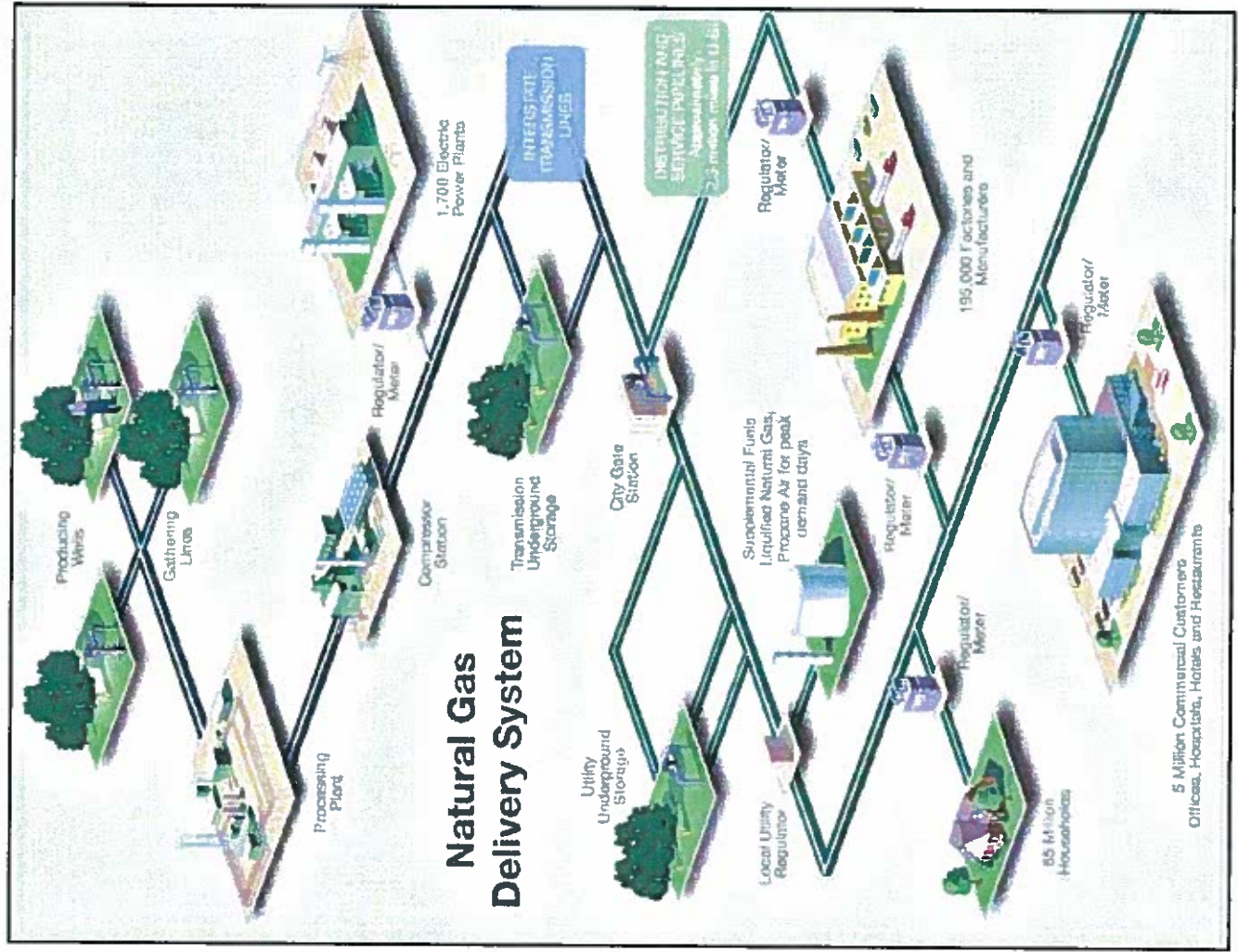
- Aka, “natural gas distribution companies” or “NGDCs”.
- Own and operate natural gas distribution systems – as distinguished from gas production facilities and interstate pipelines.
- “Default Suppliers” - supply gas to non-shopping customers pursuant to PUC-approved “least cost” purchasing strategy. Do not earn profit on gas supply charges, only on distribution charges.
- Provide bills to customers and administer programs to assist low-income and payment-troubled customers.
- Are subject to regulation by the PA Public Utility Commission.

Natural Gas Utilities

- Transport and (in some cases) supply clean-burning, dependable energy for heating, cooking, and industrial uses, among others.
- 52% of Pennsylvanians use natural gas to heat their homes.
- Maintain more than 47,000 miles of gas distribution mains.
- Employ approximately 5,500 men and women in their Pennsylvania operations.

Gas Industry “Players” in Pennsylvania

- Producers - sell gas at market prices, generally into wholesale market.
- Interstate Pipelines – regulated by Federal Energy Regulatory Commission.
- Natural Gas Suppliers – sell gas in retail market; licensed by PUC but prices not regulated.
- Natural Gas Utilities / NGDCs – regulated as “public utilities” by PUC. (*Includes PGW, a city natural gas distribution operation*)



Source: American Gas Association

Natural Gas Production

Production - Transmission - Distribution

Natural gas is moved from a natural gas well into a gathering system, which includes a processing facility that purifies natural gas and also removes useful by-products such as propane and butane.

Natural Gas Transmission

Production - **Transmission** - Distribution

- Natural gas is moved to a collection point and into the transmission system by compressors located in the processing plant; then moved thousands of miles to local distribution companies.
- The pipeline transmission system, the “interstate highway” for natural gas, consists of 220,000 miles of high strength steel pipe 20 inches to 42 inches in diameter. Compressor stations every 75 to 100 miles boost the pressure that is lost through the friction of gas moving through steel pipe.
- Underground storage facilities are located along transmission networks where the natural gas is stored upstream from the production areas for easy withdrawals during high usage periods.

Natural Gas Distribution

Production - Transmission - **Distribution**

- After the natural gas is moved through a transmission pipeline, it reaches a local distribution company's delivery point called a "city gate station" where pressure is reduced and an odorant is added to the natural gas so that the product can be easily detected even in minute quantities.
- From the city gate, natural gas is moved into distribution lines (also called "mains"). Mains range from two to 24 inches in diameter. Here pressure is reduced even further. Gas from high pressure supply mains is fed through pressure regulators into high, medium or low pressure distribution networks.
- Service lines branch off from the distribution lines to provide natural gas to individual homes, where it flows through the customer's meter and pressure is again reduced. Service lines are typically an inch or less in diameter.

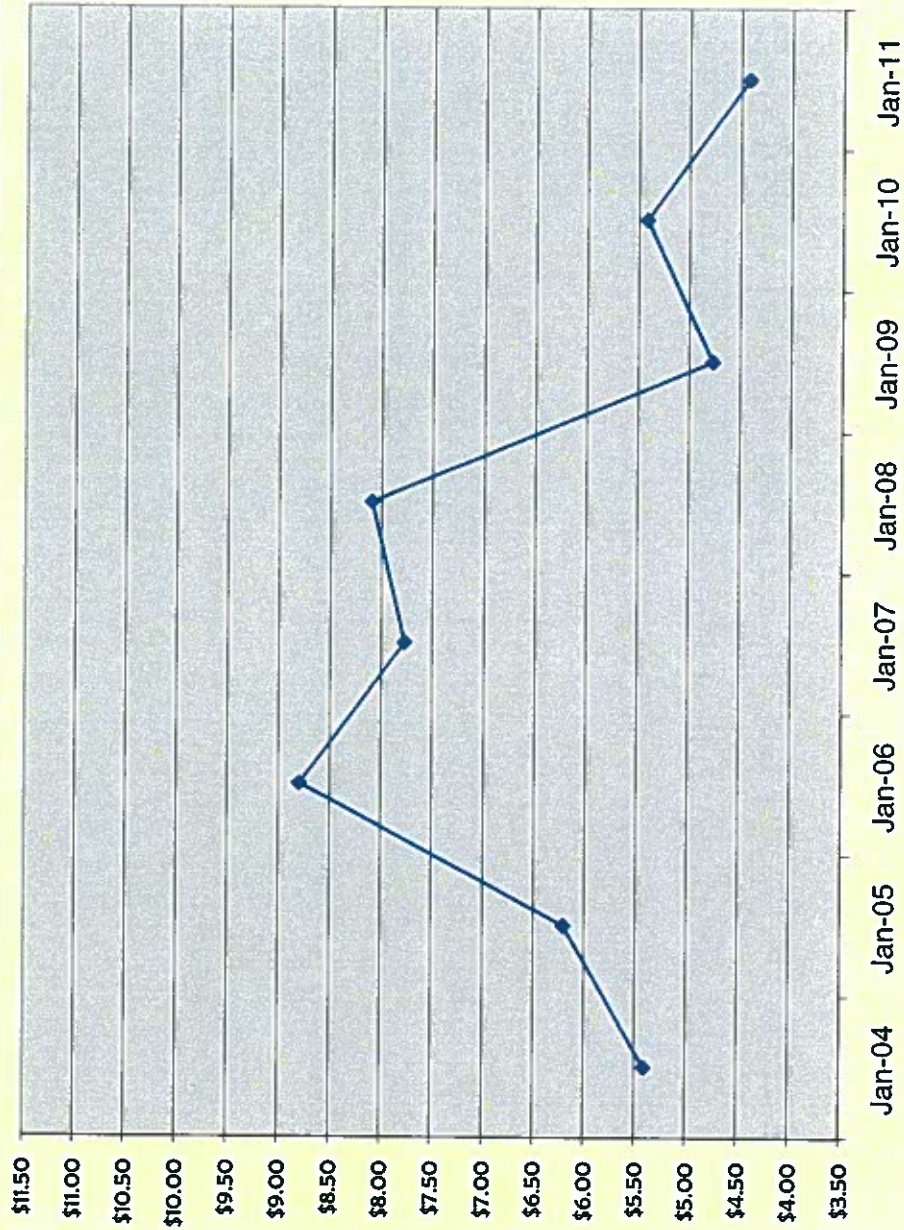
Natural Gas – A Fuel of the Future

- Natural gas is clean-burning fossil fuel.
- Most (84%) of the natural gas consumed in the United States is produced in the U.S.
- The Energy Information Administration projects that natural gas production from unconventional resources in the U.S. will increase 35% between 2007 and 2030. The largest increase is expected to come from the development of shale formations in the lower 48 states.
- New technological advancements have unlocked the ability to produce gas from deep shale rock formations. Development of the Marcellus Shale formation in the Commonwealth is a “*game changer*”.

(American Gas Association; EIA's Natural Gas Year- In-Review 2009, released July 2010; Expansion of the U.S. Natural Gas Pipeline Network: Additions In 2008 and Projects through 2011 -EIA, September 2009)

Price of Natural Gas

Analysis, End January 2004 - 2011 Henry Hub - \$ per mmbtu



MMBtu - A thermal unit of energy equal to 1,000,000 Btus, that is, the equivalent of 1,000 cubic feet of gas having a heating content of 1,000 Btus per cubic foot, as provided by contract measurement terms

Price of Natural Gas

- Gas acquisition prices at Henry Hub have remained in the mid-\$4s per MMBtu as supply hit a 6 year high on December 8, 2010.
- Nationwide storage inventory is nearly 10% above the five year average as of the week ending 12/3/10.
- The Energy Information Administration expects the 2011 average natural gas price to drop slightly to \$4.33 per MMBtu. This is in strong contrast to oil spot prices, which EIA projects to average \$86.08 per barrel, a 9% gain for 2011.
- Factors that may contribute to a decline in natural gas prices include the weakened economy, higher than usual production and storage levels and reduced heating demand.

Finding Solutions for the State's Aging Natural Gas Infrastructure

- Natural gas utilities across the state invest billions of dollars into the economy to replace their delivery systems as they reach the end of their useful operating life and that work only stands to increase in the coming years.
- Of the approximately 47,000 miles of distribution main in PA, 3,276 miles are made up of cast wrought iron and 8,433 miles of unprotected bare steel. This is similar to the gas distribution infrastructure of other states in the Northeast.

Source: AGA Gas Facts publication, Table 5-4, Miles of Main by Material By State, 2008 PA Data –based on data collected from individual utilities by AGA

- Many existing regulatory and cost allocation policies were put into place decades ago and must be re-examined to ensure continued reliability of one of our most precious energy sources.
- Reforms to the traditional ratemaking process are necessary to enable greater investment in natural gas distribution infrastructure.

Distribution Integrity Management Program (DIMP)

- February 2010 - new federal laws requiring NGDCs to develop an integrity management program and procedures to minimize the risk of their pipeline facilities and enhance safety.
- Program focuses on three components:
 - Damage Prevention
 - Corrosion (includes pipeline replacement programs)
 - Operator Qualification
- Requires operators to install excess flow safety valves on new and replaced residential service lines to stop the flow of gas if a problem is determined.

EAP Member Universal Service Programs

- Utility programs (“safety nets”) to help low-income and payment-troubled customers access and maintain utility service.
- Total 2009 Universal Service Program (USP) spending ... \$441 million. (**gas utilities: \$201 million; electric utilities: \$240 million;**)
- Paid for by other customers and some utility-funded programs.
- Largest component is Customer Assistance Programs (CAP) offering reduced bills based on percentage of income or rate discount.
- More money in these programs than PA spends on its entire federally-funded Low Income Home Energy Assistance Program (LIHEAP), which encompasses ALL fuel types.

Chapter 14 (2004)

- Provides public utilities with equitable means to reduce uncollectibles and increase timely collections; provides protections against rate increases for timely-paying customers.
- PUC's *Chapter 14 Biennial Report (issued Jan 15, 2011)* determined that:
 - Gas and electric utilities successfully implemented Chapter 14 since its passage;
 - Percent of PA gas customers in debt has declined by 30%; while the percent of dollars in debt have declined 28%;
 - Gas utilities' gross residential write-offs ratio have declined 18%;
 - PGW's collections performance and overall financial health have improved dramatically;
 - Assistance programs for low income customers have improved through efforts like the annual *STAY WARM* initiative and greatly expanded Customer Assistance Programs.

Potential Legislative Issues This Session

- Reform ratemaking process to better achieve public policy goals such as increasing investment in infrastructure (i.e., gas mains).
- Reauthorize Chapter 14.
- Promote environmentally sound development and use of natural gas.

Thank you.

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