

**TESTIMONY OF WILLIAM LUCAS,
EXECUTIVE VICE PRESIDENT,
EQUITABLE GAS COMPANY,
BEFORE THE PENNSYLVANIA HOUSE
CONSUMER AFFAIRS COMMITTEE
MARCH 10, 2011**

**NATURAL GAS INDUSTRY
OVERVIEW MEETING**

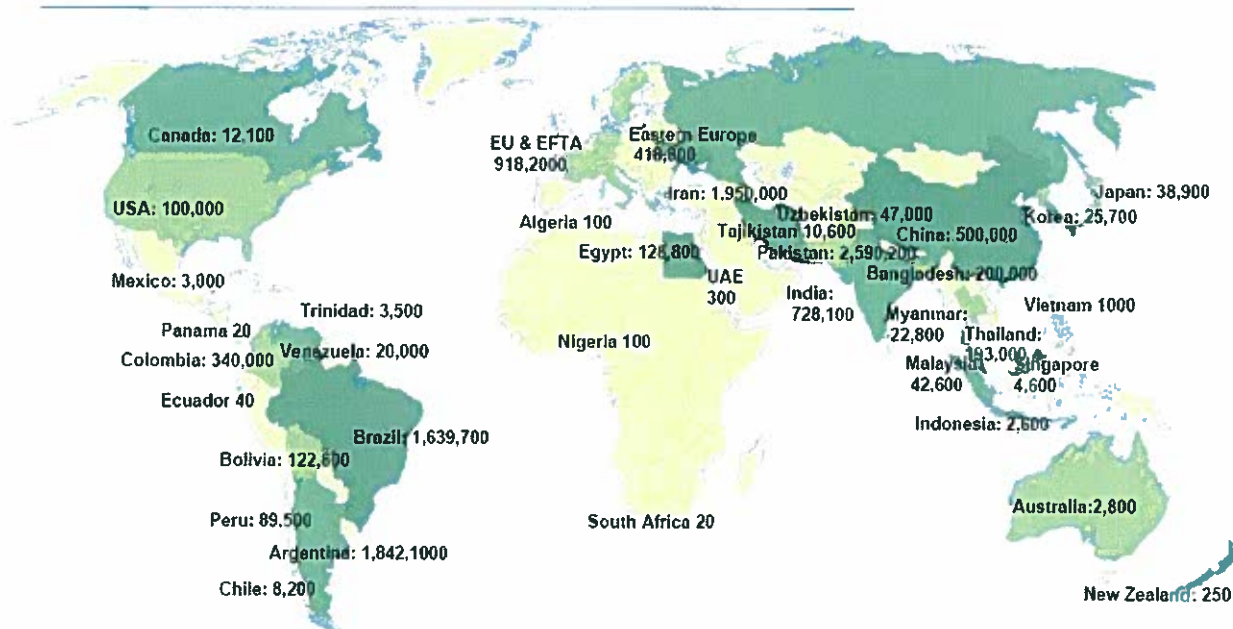
Good morning Chairman Godshall, Chairman Preston, and members of the Committee. I am Bill Lucas, Executive Vice President of Equitable Gas Company.

Equitable Gas is a local distribution company serving approximately 260,000 residential, commercial and industrial customers primarily in Allegheny County, but also in nine other counties in western Pennsylvania. We also serve more than 15,000 customers in West Virginia and Kentucky. We are headquartered on Pittsburgh's North Shore and we employ approximately 400 in the region.

I am here today to discuss the benefits to the Commonwealth of Pennsylvania that would result from increasing the utilization of natural gas vehicles and the efforts of Equitable Gas Company in expanding the use of natural gas vehicles in western Pennsylvania.

Natural gas powers more than 12 million vehicles in the world today. Unfortunately only 150,000 of those vehicles are in use in the United States. In Pennsylvania, there are less than 1,000 natural gas vehicles – or NGVs for short – in use.

12.0 million NGVs worldwide in mid 2010
(4 million at the end of 2004)

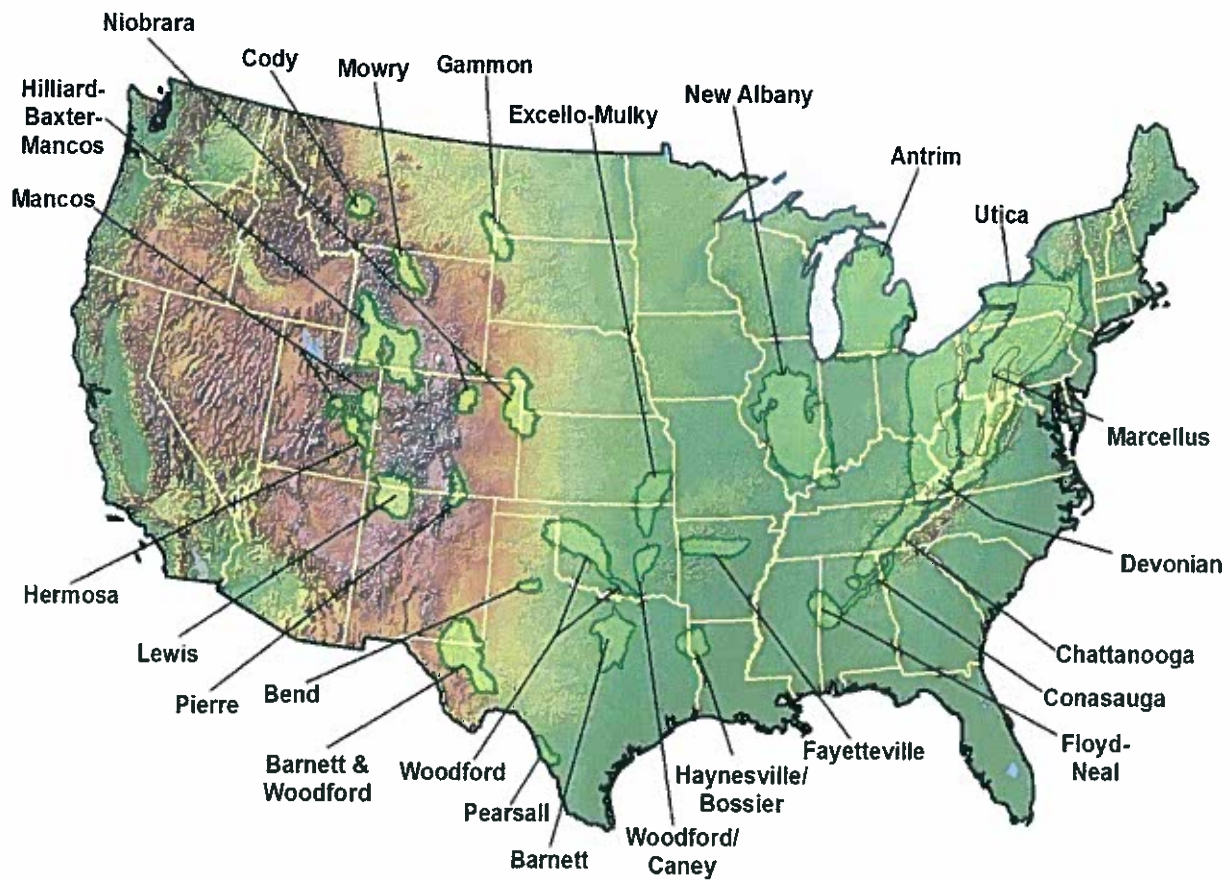


Source: The GVR, adjusted

11,188,100 cars, 400,700 buses, 217,900 trucks, and 205,800 other vehicles now running on NG/ biomethane, using 40.8 billion Nm³ of methane annually (35.1 Mtoe). A total of 17,750 filling stations worldwide.

As you know, the discovery of substantial gas reserves in shale basins across the United States, such as the Marcellus Shale, has positively changed the outlook for low-cost domestic energy production and supply. This, coupled with increasing gasoline prices – some estimates put gasoline above four dollars per gallon this summer – has many promoting the use of natural gas energy as transportation fuel because it makes good economic sense, is a cleaner alternative, and is domestically produced.

U.S Natural Gas Shale Formations

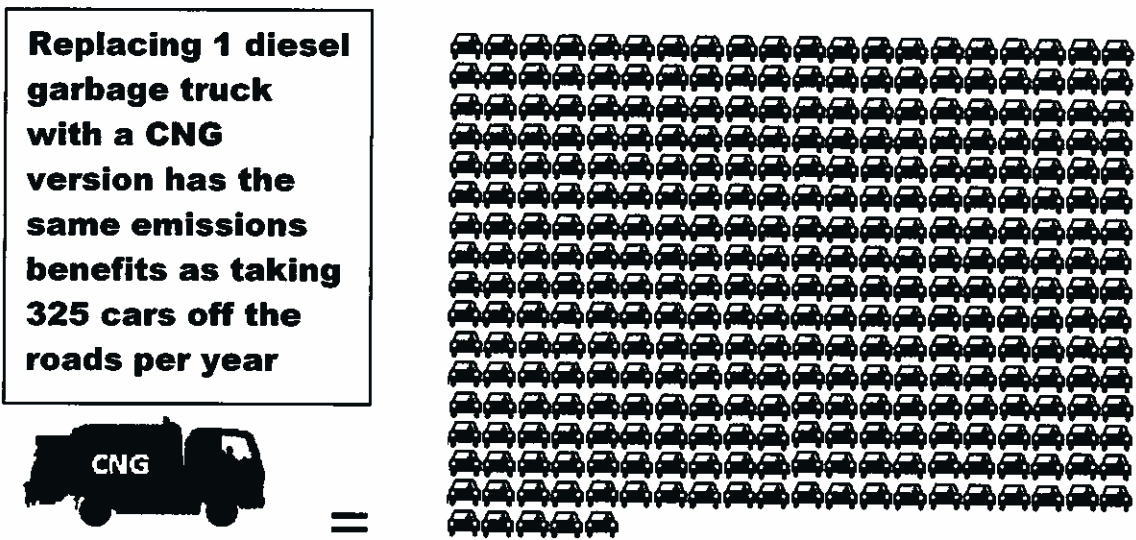


The Shale Formations Hold An Estimated 116 Years of U.S. Gas Supply

NATURAL GAS VEHICLE BENEFITS

There are many benefits to using natural gas vehicles. First, NGVs are cheaper to operate from a refueling perspective. At today's prices, filling up an NGV would cost one dollar and ninety cents per gallon equivalent as compared to three dollars and fifty cents for each gallon of gasoline. This is not a passing phenomenon. Natural gas has been cheaper than gasoline and diesel for the last five years.

Second, NGVs are better for the environment compared to all other vehicle types including electric vehicles. NGVs reduce greenhouse gas emissions by 20 to 30 percent as compared to diesel or gasoline powered vehicles and they also emit less criteria pollutants like particulate matter and NOx.



Third, the residents of the Commonwealth of Pennsylvania are sitting on top of the fuel source for their vehicles. It is estimated that there are enough gas reserves in the Marcellus Shale formation alone to fuel 140 million vehicles in the United States for more than 20 years. Pennsylvania and America could be truly energy independent by switching to natural gas vehicles.

Why is energy independence important? The recent unrest and armed conflict in Tunisia, Egypt, Libya, Iran and Saudi Arabia caused prices for a barrel of oil to rise to more than \$100 and a gallon of gasoline to increase in the Pittsburgh area to \$3.50 per gallon. The gasoline price increases over the last few weeks are the largest weekly increases since Hurricane Katrina knocked out much of the U.S. Gulf Coast refining capacity in 2005. These price increases could hamper the economic recovery we all hope will continue in the United States in 2011. Relying on our own local, domestic energy resources to improve the economic health of Pennsylvania and the United States is the right public policy objective – not only for our pocket books but for the country's entire economic health.

Over the last two decades states such as Utah, Colorado, Texas and California have made it a priority to provide incentives to companies to build required infrastructure and natural gas refueling stations. In addition, those states have provided both commercial fleets and individuals incentives to purchase and drive NGVs. Now is the time for Pennsylvania to step forward and commit to becoming a leader in the promotion, development and operation of NGVs not only in the United States but also the world.

EQUITABLE GAS AND NGVS

So what is Equitable Gas doing to promote the use of NGVs? We are in the process of building a new natural gas refueling station in the City of Pittsburgh. This two million dollar project is partially funded by AFIG - Alternative Fuel Incentive Grant - money awarded by the Department of Environmental Protection in 2010 and we will have our facility open and operational by the end of May.

This publicly accessible fueling station will be open 24/7 and Equitable Gas will seed refueling activity through the 33 service vehicles we have committed to purchase and operate by the end of 2011. We are “bullish” on NGVs and we expect the main users of the station to be fleet operators who do business in and around the City of Pittsburgh. These fleet operators will recognize the many benefits of switching to natural gas vehicles.

NGVs will provide economic and environmental benefits not only to private sector fleet vehicle operators but also to local government entities that use fleet vehicles such as transit authorities including the Allegheny County Port Authority and refuse trucks for the Cities of Philadelphia and Pittsburgh. One new natural gas refuse truck could save those cities approximately ten thousand dollars per year in refueling costs and transit authorities could see similar savings per bus if they would switch from diesel to natural gas.

In addition, Equitable Gas is working with Giant Eagle Inc., a food retailer and distributor in western Pennsylvania, to provide natural gas to a natural gas refueling station they are building in Crafton, Pennsylvania, west of the City of Pittsburgh. Giant Eagle will purchase more than 20 NGVs to distribute their products in the region.

Equitable Gas also worked with Waste Management last year to develop a NGV project that will be built at their Washington, Pennsylvania, hauling facility. This project consists of the construction of a public access natural gas fueling station and the purchase of 30 new natural gas refuse trucks.

The Giant Eagle and Waste Management NGV projects were also partially funded by the Commonwealth of Pennsylvania' AFIG program.



OBSTACLES FOR NGVS

However, there are significant public policy obstacles that need to be overcome to promote the growth of natural gas vehicle usage in Pennsylvania.

First, there is the initial cost differential in purchasing an NGV rather than a gasoline powered vehicle. A natural gas powered Honda Civic is five thousand dollars more than its gasoline powered equivalent and a new natural gas powered refuse truck may cost fifty thousand dollars more than a conventional diesel truck. We believe the General Assembly should consider public policy incentives for all vehicle types to reduce the upfront cost differential for local governments, small business and other companies in addition to residents. These incentives to purchase NGVs can come in the form of tax credits for the private sector or residents, or grants for local governments.

A second obstacle to growing NGV use in Pennsylvania is the need to build a refueling infrastructure throughout the Commonwealth. Currently there are only a handful of refueling stations with public access in Pennsylvania, and because of a previous Pennsylvania Public Utility Commission ruling, a local distribution company like Equitable Gas cannot recover the costs associated with building a new station through

rates. We recommend the General Assembly review this issue and allow a local distribution company to recover costs to build natural gas refueling infrastructure through its rate making process as is done in the state of Utah.

Finally, several years ago, the Pennsylvania Department of Environmental Protection adopted the CARB (California Air Resource Board) standard that is used to test and certify the durability of a new vehicle's emissions over its lifetime. This new testing procedure was adopted over the EPA certification procedure used in 33 states. The CARB certification procedure applies not only to new vehicles but those that are up fit with a natural gas fueling system.

While we applaud DEP for its intentions regarding the adoption of this more rigorous test procedure to protect air quality in Pennsylvania, it has created unintended barriers related to the use of NGVs in the Commonwealth.

One of the barriers from the adoption of CARB is it adds a significant cost to a natural gas vehicle that is produced in small quantities. NGVs are already more costly than gasoline vehicles, but they are cleaner from an emission standpoint. Having the CARB standard in Pennsylvania for NGVs provides little to no environmental benefit because natural gas is already a much cleaner burning fuel compared to gasoline or diesel.

The second barrier from the adoption of CARB is on bi-fuel vehicles. As you know, bi-fuel vehicles use either gasoline or natural gas and CARB requires certification of the natural gas fuel system and recertification of the gasoline fuel system. Because of this, there is not a market for bi-fuel CARB certified vehicles. This is a problem for a state that has limited natural gas fueling infrastructure. In other words, you or I cannot purchase a sport utility vehicle with both a natural gas tank and a gasoline tank allowing us to drive across the Commonwealth without fear of running out of fuel because Pennsylvania has adopted the CARB standard. We strongly encourage the DEP to modify the CARB standard to assist with the growth of NGVs in Pennsylvania.

SUMMARY

Equitable Gas is very excited about natural gas vehicles and their potential for Pennsylvania business, government and residents. NGVs are cheaper and cleaner to operate and the fuel source is beneath our feet permitting Pennsylvania to move toward energy independence in our transportation fuel.

However, Equitable Gas or other private sector companies cannot grow NGVs without the partnership of state government in implementing public policy initiatives and enacting legislation that will help overcome the cost differential of purchasing NGVs and promote the construction of the infrastructure to refuel NGVs. We need the General Assembly to consider tax incentives and grants to purchase NGVs as well as infrastructure cost recovery through the ratemaking process. In addition, the CARB standard must be modified in Pennsylvania in order to increase the use of NGVs.

Let me close by thanking you Chairman Godshall and you Chairman Preston for the opportunity to discuss natural gas vehicles before the committee today. I am happy to answer any questions you may have.