

## **EXPANDING THE REACH OF NATURAL GAS INFRASTRUCTURE**

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**Before the North Dakota Interim Economic Impact Committee, Senator  
Connie Triplett, Chair**

Good morning, Chairman Triplett and members of the Committee. My name is Kyle Rogers and I am the Vice President of Government Relations at the American Gas Association. The American Gas Association, founded in 1918, represents more than 200 local energy companies that deliver clean natural gas throughout the United States. There are more than 71 million residential, commercial and industrial natural gas customers in the U.S., of which 92 percent — more than 65 million customers — receive their gas from AGA members. Today, natural gas meets almost one-fourth of the United States' energy needs.

I would like to commend you and your colleagues on the committee for studying the important issue of natural gas infrastructure expansion. Recognition is growing about the revolutionary change that has taken place in the U.S. natural gas industry. Key technology developments have unlocked vast amounts of previously unrecoverable or uneconomic natural gas resources at a much lower cost than was possible with conventional technologies. The full implications of these once-in-a-generation changes are becoming well understood and pointing to robust supplies of natural gas with a moderate long term price-outlook. In fact, the U.S. estimated future supply stands at more than 2,800 trillion cubic feet, according to assessments produced by the Energy Information Administration and Potential Gas Committee at year-end 2014 -- enough natural gas to meet America's energy needs for nearly 100 years. It is expected that residential and commercial customers will increase their natural gas consumption by adding new gas appliances and that new consumers who do not have access to natural gas at present will want to connect to the local distribution system. As well, industrial use of natural gas is expected to expand, particularly in those gas-intensive industries whose output is expanding. These strong natural gas supply fundamentals, along with a robust and reliable natural gas delivery infrastructure, suggest that over the next decade, a range of demand scenarios can be met by a diverse and responsive supply market within an

estimated price band of \$3.00-\$5.50 MMBtu -- a level well below the peak market prices of the preceding decade.

As a result of these facts, demand for natural gas infrastructure expansion has proliferated within the last several years. Expanding the use of natural gas provides not only tremendous economic development and job creation opportunities, but also provides for broader public benefit including a cleaner environment and more reliable service.

The AGA continually monitors and tracks expansion efforts and policy discussions, similar to the one you are having in North Dakota, and we are finding that an ever increasing number of states are looking at natural gas infrastructure expansion as a key to driving economic development, job creation and reducing consumer energy costs. Governors, legislators and public utility commissioners around the country are recognizing the economic and environmental benefits of this abundant fuel source and are exploring policies to expand its use. In fact, to date, 38 states have worked or are presently working to address this issue.

However, as you are discussing within this body, there are impediments to expansion. These barriers include such things as the economic viability of certain expansion projects, permit streamlining, land access and workforce coordination issues.

With respect to economic viability of expansion projects and using natural gas as an economic development tool, I think it is important to first to define the terms used in describing infrastructure expansion. When we define an area as “underserved,” it means that there is some level of natural gas service (and thus infrastructure) in the area, but that there are certain households and businesses which do not have access to natural gas. Within an underserved area, a certain level of growth may occur through either increased gas sales to existing customers or through the connection of new customers, be they industrial, commercial or residential because there is existing service in underserved areas, it is less expensive to incrementally add customers, and can often be done within a utility’s current tariff policy.

The term “unserved” refers to a remote area that has no existing natural gas infrastructure or service. Thus, for unserved areas with no existing main pipeline, construction costs are often extremely high, making expansion projects cost-prohibitive. When that is the case, the key question, as you all are looking at here

in North Dakota, becomes how best to facilitate or incentivize infrastructure build-out to those areas.

Main line costs vary depending on topological and environmental factors, but average about \$1 million per mile. In addition, substantial network expansions may require reinforcement of existing facilities through replacement of undersized main lines, increased pressure tolerances and strengthened control systems. A utility must determine whether the increased throughput from expansion will be sufficient to pay for the cost of expanding a line. Under traditional rate constructs, it is often not economical. Thus, a number of states have created new and innovative approaches to funding expansion that have been already approved or else are presently being considered by legislatures and public utility commissions. In fact, in 2013, the National Association of Regulatory Utility Commissioners passed a resolution that “encourages states to fully explore, examine and implement alternative rate recovery mechanisms that will accelerate the modernization, replacement and expansion of the nation’s natural gas pipeline systems,” demonstrating a willingness to review infrastructure expansion policies to ensure congruence with current regulatory objectives and conditions in the natural gas industry.

You will note in reviewing the attached AGA Infrastructure Expansion Compendium that there are a variety of ways to address this issue. Because legislation and rate design policy reflect current political and social ideals—and economic realities—they do in fact change over time, as reflected in the myriad ways in which states have sought to facilitate expansion.

I have included a comprehensive overview of the 38 states that have taken up infrastructure expansion in my written testimony. In the spirit of time, I will highlight a few examples I think worth your attention and review:

### **Alaska**

Established by the state legislature in the late 1960s, the Alaska Industrial Development and Export Authority (AIDEA) is a state-owned public corporation that provides various means of financing to promote economic growth and diversity in the state. The investment and loan program originally received state funding in the form of a \$189 million cash and loan portfolio in the 1980s, and now funds numerous investments across Alaska. Several natural gas utilities in the state have sought AIDEA support in the form of low-interest financing for projects including infrastructure build out in Fairbanks, Juneau and the North Pole.

### **Maine**

In 2012, Maine enacted legislation that authorizes the Finance Authority of Maine to issue bonds for the development of the state's natural gas infrastructure. This program has enabled some of Maine's natural gas utilities to connect to new customers including paper mills in the central part of the state.

### **Mississippi**

Mississippi has adopted an explicit policy of encouraging expansion of the state's natural gas infrastructure in order to draw industry investment and promote economic development. The state's Public Service Commission recently approved a Supplemental Growth Rider permitting one of its natural gas utilities to spend up to \$5 million annually on system expansion to support industrial projects. These funds can be used to fill the gap between the actual expansion costs and "economic" costs. The cost of this supplemental investment is spread across all natural gas utility customers.

### **North Carolina**

In 1998, the North Carolina legislature passed the North Carolina Clean Water and Natural Gas Critical Needs Bond Act of 1998, which authorizes natural gas bonds for uneconomic line extensions. Specifically, the statute authorized \$200,000,000 in funding to provide grants, loans or other financing to natural gas local distribution companies in order to facilitate the expansion of natural gas facilities to unserved areas of the state. The statute notes that the General Assembly finds that the extension of natural gas facilities to unserved areas of the state will aid and encourage the location of manufacturing enterprises and industrial facilities.

These examples show some of the innovative ways that legislatures and commissions have approached infrastructure expansion. Since traditional tests and policies relating to expanding the gas distribution system often pose unnecessary and uneconomic obstacles, natural gas utilities need to take a leading role in promoting a more receptive environment for system expansion. But they cannot accomplish that task on their own. Regulatory and legislative support is also sometimes required.

The public benefits of using natural gas justify measures that go beyond simply removing economic barriers to those that actually promote the use of natural gas. . In pursuit of such a strategy, state and local governments might consider the following:

- Authorizing public utility commissions to allow system expansion costs to be recovered through general tariffs applied to existing as well as new customers;
- Providing explicit subsidies for expansion of gas networks to unserved areas that meet established density criteria—these subsidies could take the form of economic development grants or state-backed bonds;
- Promoting fuel conversion through information dissemination;
- Adopting policies that promote site energy efficiency and the use of full fuel cycle energy efficiency, full fuel cycle emissions standards and full cycle costs and analyses.

Legislatures might also work with utilities toward measures that will increase and make more certain customer load growth, as those efforts improve infrastructure expansion projects' viability. Such measures may fall into several categories including:

- **Securing commitments from large anchor customers**, such as an industrial enterprise, housing development or subdivision, hospital or power plant to secure base load;
- **Mitigating initial customer charges** by, for example, providing new customers a specified number of “free” main-line feet to be absorbed into an LDC's rate base;
- **Amortizing consumer conversion** costs to natural gas appliances by offering prospective new customers the option to spread costs over several years;
- **Educating potential customers** to raise awareness of the benefits of gas use and inform them about the long-term prospects for stable gas price;
- **Gathering bundled customer commitments** by adopting an “open season” approach which would allow a utility to assess the level of interest from potential distribution customers to determine if it is able to proceed with reasonable assurance of cost recover.

Overall, this committee is to be commended for beginning to explore this important issue. The low price of natural gas has attracted investment by utilities. In the past decade, natural gas utilities have added 300,000 miles of distribution mains to serve 17 million additional customers, a 30 percent increase overall. Yet, there still remain unserved areas and low prices continue to generate consumer interest – residential, commercial and industrial – in switching or obtaining natural gas service. The goal should be to craft policy that allows for smart modernization and growth, and to provide access to the myriad of benefits that natural gas offers, including economic development opportunity, job creation, and reduction in consumer energy prices, environmental quality opportunities like GHG reductions and increased efficiencies and energy security.