Natural Gas Infrastructure Replacement and Expansion Efforts

National Conference of State Legislatures
Energy Supply Task Force
December 3, 2013
Washington, D.C.
The American Gas Association (AGA), founded in 1918, represents more than 200 local natural gas utilities that deliver natural gas to 177 million Americans nationwide. In addition, AGA’s broader membership includes natural gas pipelines, Canadian local distribution companies, natural gas gatherers, marketers and storage companies and more than 350 associate members who provide critical products and services to the natural gas industry.
The U.S. estimated future supply of natural gas (reserves plus resources) stood at 2,689 trillion cubic feet (Tcf) at year end 2012 — enough natural gas to meet America’s diverse energy needs for decades.
Pipeline Safety
Natural Gas Distribution System

- Safe, reliable natural gas delivery is a top priority and core value
- AGA Board of Directors has designated pipeline safety as AGA's number one priority
- Repair, Replacement, Reconditioning
Pipeline Safety Regulations

- DOT Pipeline Safety & Hazardous Materials Administration (PHMSA)
  
  Regulates gas utilities under 49 C.F.R. Part 192

- Significant number of new requirements on the way

  More than 80 mandates from Congress and recommendations from NTSB, GAO, and the OIG

PHMSA’s Other Initiatives:

- Transmission Integrity Management Program (TRIMP)
- Distribution Integrity Management Program (DIMP)
- Control Room Management
- Damage Prevention
- Land Use Planning
- Public Awareness
- Emergency Preparedness
## PHMSA Rulemaking Procedures

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*Source: VanNess Feldman’s Pipeline Safety Update Issue No. 64 – September 27, 2013*
DOT Pipeline Safety Action Plan

- Raises the bar on pipeline safety
- Accelerates rehabilitation, repair and replacement programs for high risk pipelines
- *Focuses on cast iron, bare steel, older plastic*

In Section 7 of the Pipeline Safety, Regulatory Certainty, and Job Creation Act of 2011, Congress directed the Secretary of Transportation to develop a report on the national cast iron inventory

- Reports to the Nation on Pipeline Safety
- **AGA Supports the Action Plan and “Smart Modernization” of infrastructure that is no longer fit for service**
The overall trend is positive—four states in the last 8 months have approved programs.

States address this issue differently.

The basis for these decisions is always just and reasonable rates for consumers.
RESOLVED, That the Board of Directors of the National Association of Regulatory Utility Commissioners... 

encourages regulators and industry to consider sensible programs aimed at replacing the most vulnerable pipelines as quickly as possible along with the adoption of rate recovery mechanisms that reflect the financial realities of the particular utility in question; and be it further

RESOLVED, That State commissions should explore, examine, and consider adopting alternative rate recovery mechanisms as necessary to accelerate the modernization, replacement and expansion of the nation’s natural gas pipeline systems...
Smart Modernization

• Infrastructure replacement programs, if designed and coupled properly, provide the opportunity to put new technology in the ground which could allow for greater pipeline capacity and pressure in a given area.

• With greater capacity, utilities are better positioned to expand to serve more customers.
Pipeline Expansion
Drivers for Expansion

• Economic development
• Reductions in consumer energy prices
• Environmental quality (GHG reduction, efficiency)
• Energy security

The low price of natural gas has attracted investment by utilities

Where natural gas is available, a builder will put it in 84 percent of the time.

Natural gas will have 80 - 90 percent of the market where lines reach, but there is a significant amount of construction and/or area beyond reach of utility lines.
Expansion Impediments

- **Economic viability**
  - Main line costs vary depending on topological and environmental factors
  - The average cost is approximately $1 million per mile
  - A utility must determine whether increased throughput from expansion will be sufficient to cover the costs of expanding a line
  - Under traditional rate constructs, it is often not economical

- **Other issues**
  - Permit streamlining
  - Land access
  - Workforce coordination
16 states presently have an innovative infrastructure expansion program or policy

Recent Examples:
Georgia
Mississippi
Connecticut
Nebraska
Pennsylvania
Role of State & Local Governments

- Authorize PUCs to allow system expansion costs to be recovered through general tariffs
- Provide subsidies for expansion of gas networks to unserved areas that meet established density criteria (via economic development grants or state-backed bonds)
- Promote fuel conversion through information dissemination
- Adopt policies that promote site energy efficiency and the use of full fuel cycle energy efficiency
Working Together With Utilities

- Secure commitments from large anchor customers
- Mitigate initial customer charges
- Amortize consumer conversion costs
- Educate potential customers
- Gather bundled customer commitments
If not now, when?

- 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 customers, a 30% increase overall

- Yet there are still unserved areas interested in switching to 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.
Natural Gas Distribution

Shrinking Emissions by the Numbers

• **1000s** – miles of cast iron & bare steel pipe replaced with PE plastic pipe
• **300,000** – added miles of distribution mains
• **17 million** – number of new customers served (**30% increase**)
• **16%** - emissions shrinkage since 1990
• **0.3%** - EPA estimated emissions of produced natural gas from distribution systems in 2011
Conclusion

1. Safe, reliable gas delivery is core to our business

2. Pipeline replacement and expansion initiatives are increasing safety and driving down natural gas emissions
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