

**April 26, 2017 House Consumer Affairs Committee Hearing  
Testimony of Ron Bradley**

Thank you, Chairman Godshall, Chairman Caltigirone and members of the Committee for the opportunity to testify today regarding HB 107, legislation to provide Pennsylvania consumers with new options for obtaining natural gas distribution service. My name is Ron Bradley, and I serve as Vice President of Gas Operations at PECO Energy Company, the utility serving approximately 516,000 natural gas customers in Bucks, Chester, Delaware and Montgomery Counties. Because of the increasing interest among residents in the regions we serve in gaining access to gas service, we've experienced significant customer growth in recent years.

We strongly support the legislation that you have developed that will provide Pennsylvania energy customers and communities with new opportunities to benefit from the Commonwealth's natural gas resources. This legislation is consistent with PECO's interest in offering our customers innovative solutions to meet their energy needs.

The key driver in the growing level of customer interest in natural gas in our region and across Pennsylvania is the availability of clean, affordable, reliable and local natural gas supplies from the Marcellus Shale. In the last decade, the price of natural gas for PECO's Purchased Gas Cost customers has declined dramatically from over \$10 per Mcf in 2007 to under \$5 per Mcf currently. At the same time, the Pennsylvania-based share of natural gas supply in PECO's default service procurements has grown from approximately ten percent to almost ninety percent.

Nonetheless, because of the high capital costs of expanding natural gas distribution infrastructure, many Pennsylvanians who are interested in receiving gas service are still finding it to be cost-prohibitive. In areas where there is low population density and significant distance from any existing mains, it is very difficult to make the economics of distribution system expansion work. However, in some cases, we can find ways to serve communities that are unserved or underserved today through new regulatory and tariff models that help remove economic barriers.

*Pipeline Infrastructure Task Force Recommendations*

In 2016, the Pipeline Infrastructure Task Force convened by Governor Wolf recognized this challenge and made authorizing distribution system expansion programs one of its key recommendations. Forty-eight Task Force members representing diverse interests across the Commonwealth, and hundreds more individuals who participated in Working Groups, agreed that authorizing new tools to increase access to natural gas is in the public interest for our Pennsylvania consumers, communities and environment.

The key barriers to expanding gas service are:

- 1) "first mover" costs that are disincentives to gas system expansion
- 2) upfront payment requirements for customer contributions, and
- 3) lack of appropriate credit for new customers' contributions to supporting the existing network

*The PECO Neighborhood Gas Pilot*

Working within the current regulatory construct, gas distribution companies have stepped forward with innovative programs to address this challenge. At PECO, we launched our Neighborhood Gas Pilot Program in 2016. Under this Public Utility Commission-approved 3-year, \$10 million pilot program, PECO has offered residents in communities interested in receiving new gas service the option of paying their customer contribution over a 20-year period. Customer contributions are also adjusted to reflect future customer additions on these main expansions.

Roughly one year into this pilot program, the results have been encouraging. For a project to move forward to construction, 20 percent of customers in the neighborhood must sign contracts committing to either pay their customer costs upfront or over the 20 years. PECO teams have drafted almost 900 potential system expansions, completed 22 projects and provided 325 new customers with access to natural gas mains. Projects have been completed in each of the counties that PECO serves, and new proposals continue to be reviewed.

We also have seen some patterns emerge that demonstrate the limitations of what can be achieved without broader cost-sharing. These patterns are informing our plans in the event that legislation is enacted to authorize the establishment of system expansion charges.

First, under current market conditions, our experience has shown that there is a limit to the amount that customers will commit to paying for a main extension that begins at \$50 per month and declines as costs exceed that amount. This is not surprising since customers not only have to pay these main expansion costs, but also the costs of replacing appliances and in-home systems.

Second, we know that there are some projects that might otherwise be feasible that are made unattractive because of costs that are largely outside of the control of the interested communities. Pavement, hard rock and stream valley crossings are some of the naturally-occurring factors that can increase costs on a project-specific basis. Also, in some cases, adding new customers onto an existing system creates a “tipping point” where capacity must be expanded to ensure that all customers continue to receive reliable service. These costs are assigned solely to the new customers, even though both existing and future customers on the main benefit from this capacity expansion.

#### *Support for HB 107*

With this experience as background, PECO believes HB 107 represents an innovative, well-structured approach to expanding service to new customers under terms that are fair to them and our existing customers. This is a win-win for Pennsylvania. From a public health and environmental perspective, everyone benefits when more customers have the option to switch to cleaner-burning natural gas. And, in the long-term, more customers share the cost of maintaining and improving our gas distribution network, making the system more sustainable.

HB 107’s two specifically authorized use cases, the “cap-and-share” model and the “greenfield rate” directly address the barriers we have seen in the Neighborhood Gas Pilot. “Cap-and-share” sets a maximum cost that a customer is required to solely assume, with costs above that amount shared between the customer and the overall system on a percentage basis as approved by the Commission. The “greenfield” model involves setting a standard per mile rate for main expansions that is based on the cost of a standard project that does not include any additional environmental or system costs. New customers would have responsibility for the “greenfield” portion of costs, but incremental, project-specific costs would be treated as system costs.

Under both cases, the model focuses on what is needed to help new, marginal projects achieve critical mass to move forward without subsidizing projects that are likely to be built absent this mechanism. These models also recognize that every main expansion project brings benefits not only to customers along that route, but also to the next adjacent community on the map.

I also commend you for setting this mechanism up separately from the existing Distribution System Improvement Charge and placing a cap on the size of authorized expansion programs. This will ensure the focus on system improvement programs is maintained and that existing customers are treated fairly under these new models.

#### Conclusion

PECO strongly supports HB 107 and commends the authors for the thoughtful, balanced approach to expanding access to natural gas service for Pennsylvanians. The bill will provide new tools to deliver the energy solutions our customers are seeking. Thank you again for the opportunity to testify today and I'll be pleased to answer any questions.