Before the
House Consumer Affairs Committee

Hearing on House Bill 107
Legislation Authorizing a Gas Service Extension Charge

April 26, 2017

Testimony of

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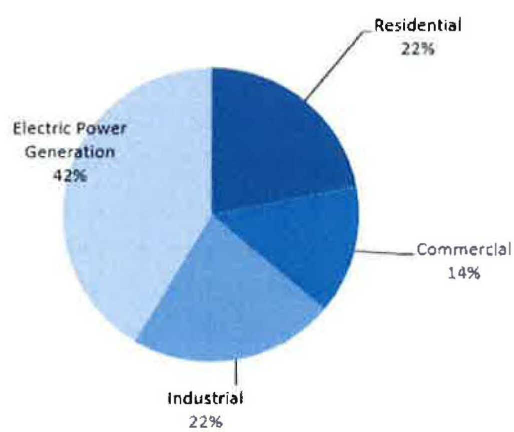
Good morning Chairman Godshall, Chairman Caltagirone and members of the House Consumer Affairs Committee. I am Terry Fitzpatrick, President and CEO of the Energy Association of Pennsylvania ("EAP" or "Association"), a trade association comprised of electric and natural gas utilities operating in Pennsylvania. Thank you for this opportunity to appear before you today to testify on behalf of EAP's gas utility members[1] regarding House Bill 107, which would authorize gas utilities to seek approval from the Public Utility Commission to implement a "distribution system extension charge."

As you know, the energy outlook in Pennsylvania has changed dramatically in the past decade due to the development of gas supplies from Marcellus Shale. Pennsylvania is now second only to Texas in natural gas production in the United States. With the influx of these new supplies, prices have dropped and wholesale natural gas prices in the region are less than half of what they were a decade ago. The impact of these new supplies has rippled across our economy since gas has multiple uses: home heating and cooking, commercial and industrial uses, and—increasingly— generating electricity.

Consumption (Billion Cubic feet or Bcf)

Consumption by Sector In-State



U.S. Consumption	25,072
State Consumption	1,074.6
Residential	235.6
Commercial	152.1
Industrial	241.3
Electric Power Generation	445.6

Source: American Gas Association (AGA) Natural Gas State Profile for Pennsylvania "Industry Facts" https://www.aga.org/knowledgecenter/facts-and-data/state-profiles-natural-gas?state=PA

[1] Columbia Gas of PA; National Fuel Gas Distribution Corp.; PECO Energy Company; Peoples TWP; Peoples Natural Gas Company; Philadelphia Gas Works; UGI Utilities, Inc.; UGI Penn Natural Gas, Inc.; UGI Central Penn Gas, Inc.; Valley Energy

The influx of relatively inexpensive natural gas has stimulated interest in extending gas service to areas that did not previously have access to service. Natural gas competes with alternatives such as heating oil, electricity, propane, coal, and other fuels to serve the needs of customers. Because there are alternatives to gas service, public policy has not supported the notion that gas service must be universally available—in contrast to some other utility services such as electricity and telephone. Extending gas lines and related infrastructure is expensive, costing from $500,000 to $1 million per mile, and as a result gas service is more likely to be available in urban and suburban areas, which have a higher concentration of customers.

Extensions of gas lines are addressed in PUC regulations and in the PUC-approved tariffs of each gas utility. The policy goal of the regulations and tariffs is to make gas service available to as many people as possible without unduly burdening existing customers with the costs of uneconomic extensions. Gas utilities evaluate the economics of each situation—the cost of extending facilities and the expected additional revenue from serving customers through the facilities. Where the additional revenues are sufficient to pay for the line extension over a reasonable payback period, the utility will make the extension assuming reasonable conditions are met. However, where the additional revenues are not sufficient for this purpose, the utility may seek an upfront capital contribution from those requesting the extension in order to protect the interest of existing customers.

Over the past several years, some gas utilities have obtained PUC approval of new programs to facilitate additional line extensions. While these programs differ based upon circumstances in each service territory, there are a couple of common themes. When the economics of the extension require a capital contribution by the new customer, the programs allow that contribution to be paid over time rather than up front. In addition, some NGDCs have established a special tariff rate for a new service area that reflects the cost of extending service within the new area.

These new programs have had some success in making gas service available to thousands of potential customers. However, difficult challenges remain—the cost of extensions, low population densities in rural areas, and inconsistent and increasingly stringent municipal requirements, to name a few. While there is no single answer to all these obstacles, gas utilities continue to seek reasonable, balanced solutions that will make additional extensions possible.

EAP supports House Bill 107. The bill would authorize gas utilities to seek approval from the PUC to institute a "distribution system extension charge." This charge would provide full and current recovery of the cost to extend facilities to unserved and underserved areas. These costs may include rebates and expenditures to reduce the up-front costs to customers for in-house piping and gas equipment. In support of its petition to establish an extension charge, the gas utility would be required to demonstrate that the charge will be in the public interest and facilitate economically feasible extensions without unduly burdening existing customers. In addition, the extension charge may not exceed 2.5% of the total amount billed to customers.

The standards in the legislation establish a reasonable balance between the interests of those requesting service extensions and existing customers. The extension charge would provide a vehicle for limited subsidization of new service extensions, but would require consideration of the interests of existing customers in evaluating project costs that could be recovered through the charge. The legislation is also consistent with the approach followed in some other states and with the recommendations of the Governor's Pipeline Infrastructure Task Force Report.[2]

The solutions offered by House Bill 107 may not be a panacea and may not be the right approach for every situation or every utility service territory. But the bill provides an additional

[2] Report issued February 2016, Natural Gas End Use Workgroup Recommendation #4, available at www.dep.state.pa.us

tool that can be used to accomplish extensions on reasonable terms, and for that reason EAP is happy to support it.

Thank you for the opportunity to testify and I would be happy to answer questions.