

**STATEMENT
OF THE
INTERSTATE NATURAL GAS ASSOCIATION OF AMERICA

FOR THE
COMMITTEE ON ENERGY AND NATURAL RESOURCES
UNITED STATES SENATE

REGARDING
NATURAL GAS INFRASTRUCTURE

MAY 14, 2013**

Dear Chairman Wyden and Ranking Member Murkowski,

The Interstate Natural Gas Association of America (INGAA) would like to thank you for the opportunity to speak about natural gas infrastructure today. Much has been said about new domestic supplies of natural gas and about the opportunities for natural gas exports. There has been little discussion, however, about the need for associated domestic infrastructure development. Our message to the committee is this: pipeline development must go hand-in-hand with supply development if our nation is to realize the enormous potential that natural gas holds.

INGAA and the Pipeline Sector

INGAA represents interstate natural gas transmission operators in the U.S. and Canada. Our 26 member companies account for virtually all of the major interstate natural gas transmission pipelines in North America and operate the bulk of the approximately 220,000 miles of interstate natural gas pipelines in the U.S. (see Appendix I). This pipeline mileage has grown in recent years, driven in large part by new shale gas development and growing demand for natural gas due to its domestic abundance, cost effectiveness and clean-burning properties.

The attached graphic (see Appendix II) shows the magnitude of recent pipeline development. Transmission pipeline companies have built and placed into service over 12,000 miles of pipe certificated by the Federal Energy Regulatory Commission (FERC) since January 2003. While this record of success has gone mostly unreported, these pipelines nonetheless represent a vital investment in our nation's energy security and economic future.

Pipeline infrastructure development still has a distance to go. In June of 2011, the INGAA Foundation released an estimate of natural gas infrastructure needs through 2035. The report found that 1,400 miles of gas transmission pipeline in the U.S. and Canada will need to be constructed every year until 2035 to keep pace with new natural gas

supplies and demand. Together with associated gathering pipelines, processing facilities and gas storage facilities, this translates into an average of \$8.2 billion of investment per year to build needed midstream natural gas infrastructure in the United States and Canada.

Why Are Pipelines Important?

Sufficient midstream pipeline infrastructure, such as transmission pipelines, is crucial for efficient delivery of natural gas and well-functioning natural gas commodity markets. Insufficient infrastructure, on the other hand, can contribute to price volatility, a shrinking market, stranded natural gas supplies and reduced economic activity. Delivery bottlenecks upstream in the supply regions or downstream in the consuming markets can deny our economy the full benefits of abundant natural gas supplies.

A case in point is the New Jersey – New York Expansion project, a pipeline expansion sponsored by Spectra Energy that currently is under construction. The pipeline will relieve a capacity constraint into New York City. Last year, within days of FERC approval of the pipeline, forward prices for gas deliveries to New York City dropped by almost six percent on just the prospect that the pipeline bottleneck would soon be relieved. This occurred even though the pipeline will not be in service until late 2013.

While reducing constraints will lower prices, the reverse is just as true. Constrained natural gas markets, such as New England, often see natural gas prices spike significantly above prices in adjacent regions, especially during periods in peak demand. For example, during January 2013, natural gas prices in New England reached \$35 per MMBtu, while prices hovered around \$4 per MMBtu in much of the rest of the nation (see Appendix III). This illustrates how a lack of sufficient pipeline capacity results in a shortage of supply and far higher natural gas prices for consumers located on the other side of the bottleneck.

The U.S. is able to realize the benefits of the abundant shale gas because of the successful natural gas restructuring that began over 30 years ago. The decision by the Congress beginning in 1978 to decontrol natural gas at the wellhead and the FERC initiatives in the 1980s and 1990s to restructure wholesale natural gas markets provide the framework that makes this possible. An indispensable part of this successful framework is a pipeline industry that has the incentive and the ability to construct and operate the infrastructure necessary to connect natural gas supply with natural gas markets.

Ask yourself: Absent confidence that it could predictably and affordably get its supply to the market, would a producer have the same incentive to drill a natural gas well? And absent the infrastructure necessary to access such new natural gas supplies, would consumers have the same ability to benefit from the new abundance of natural gas? In both cases, pipelines make it possible.

Key to Success – Fair and Predictable Regulatory Environment

As you can see from the graphic in Appendix II, the current process for the review, approval, permitting and siting of natural gas pipelines generally works well. FERC has exclusive jurisdiction over both the authorization of new interstate natural gas pipelines (and storage facilities) and the economic regulation of the rates, terms and conditions of service rendered using those facilities.

While clearly the exclusive siting authority conferred by the Natural Gas Act is a major reason for the success of interstate natural gas pipelines, it is not the only reason. FERC's framework for regulating pipeline rates, which pipeline operators and investors view as fair, predictable and competitive, is another key contributor to this industry's success. FERC establishes maximum, cost-based rates for interstate pipelines under a "just and reasonable" standard. Still, FERC rules permit pipelines to discount rates to meet competition and to offer innovative new services to attract new or expanded business. The capital investments made by this industry suggest that the "natural gas model" of regulation has been an overwhelming success.

This success story is in sharp contrast to the experience of the electric transmission sector. While almost every energy analyst would agree that significant new electric transmission is needed, Appendix IV demonstrates that electric infrastructure development has not kept pace with need. Only about 1,100 miles of high-voltage electric transmission lines were constructed between January of 2000 and September of 2011. Fragmented jurisdiction over the authorization and siting of electric transmission has been a key impediment to further development in this sector, which stands in contrast to the exclusive federal jurisdiction over interstate natural gas pipelines.

Repurposing Pipelines

In addition to creating the demand for new natural gas pipeline infrastructure, the shale gas revolution has changed dramatically the location and direction of gas flow on certain pipelines and has left certain segments of gas pipelines, or entire systems, significantly under-utilized. This has created the need for pipeline companies to consider repurposing these natural gas pipelines. In some cases pipelines have reversed the direction of flows, while in other cases pipelines have proposed to repurpose their assets to transport natural gas liquids or crude oil.

Under the law, FERC must approve a request to remove an interstate pipeline from natural gas service. This process (called "abandonment") will take into account the unique circumstances of the particular pipeline. We point this out so that the committee is aware that while the shale revolution has created a huge win for the gas industry, it has not necessarily been a huge win for all pipelines and, in particular, for all pipeline segments. It will be important, consistent with the law, to permit pipeline operators to pursue other and better uses for such assets. From an economic and public policy perspective, it will make more sense in many cases to repurpose an underutilized natural

gas pipeline rather than to incur the cost and cause the environmental consequences of building duplicative infrastructure.

Incremental Improvements

While the process for authorizing new interstate natural gas pipelines works well, INGAA respectfully suggests some incremental improvements that would streamline permit approvals.

When Congress enacted the Energy Policy Act in 2005, it included several provisions intended to improve the permitting process by enabling coordination between the various federal and state agencies acting pursuant to federal law. FERC was designated as the “lead agency” for natural gas infrastructure engaged in interstate commerce. This designation included the authority to set timelines for other permitting agencies to act. Unfortunately, despite the intentions of EPCA 2005, pipeline permitting takes longer now than eight years ago.

The INGAA Foundation published a study in December 2012 that analyzed how long it now takes to permit pipeline projects compared with the total permit time prior to EPCA 2005.ⁱ The report found an increase in both the number of projects delayed due to permitting and the duration of such permitting delays. The conclusion was that the permitting deadlines authorized by EPCA 2005 carried little weight because the law did not give FERC an effective method for enforcing those deadlines on other agencies.

The principal recommendation in the INGAA Foundation report was:

Amending the Natural Gas Act to provide effective tools to enforce the federal authorization deadline, such as granting automatic approval if an agency does not respond by the deadline or allowing FERC to grant approval in the agency’s stead.

Representative Mike Pompeo has introduced legislation (H.R. 1900) to accomplish this objective. We understand that the House Energy and Commerce Committee would like to move forward on this legislation later this summer. INGAA would appreciate this committee’s consideration of this proposal as well.

Another House bill also deserves mention. This bill deals with the approval of natural gas transmission pipeline rights-of-way across federal parklands. When the National Park Service statute was enacted in the early 20th century, it included a provision (16 U.S.C. 79) that granted the Secretary of the Interior the authority to approve rights-of-way across parklands for projects such as electric transmission and distribution lines, water canals and ditches (and flumes), facilities associated with mining, and telephone and telegraph lines. Natural gas pipelines did not exist when the statute was enacted, and thus were not included. Nonetheless, the Department of the Interior assumed for many years that it had such authority and approved natural gas pipeline rights-of-way.

In 1988, however, a solicitor for the Department of the Interior examined the statute and determined that it did not explicitly grant the secretary the authority to approve natural gas pipeline rights-of-way. As a result, in order either to build a natural gas pipeline across federal parklands, or even to modify an existing pipeline on such lands, an act of Congress is required, granting the Secretary of the Interior specific approval authority for a specific pipeline right-of-way. A recent example before this committee is section 3 of S. 157 (the Denali National Park Improvement Act), approved by the committee on April 22.

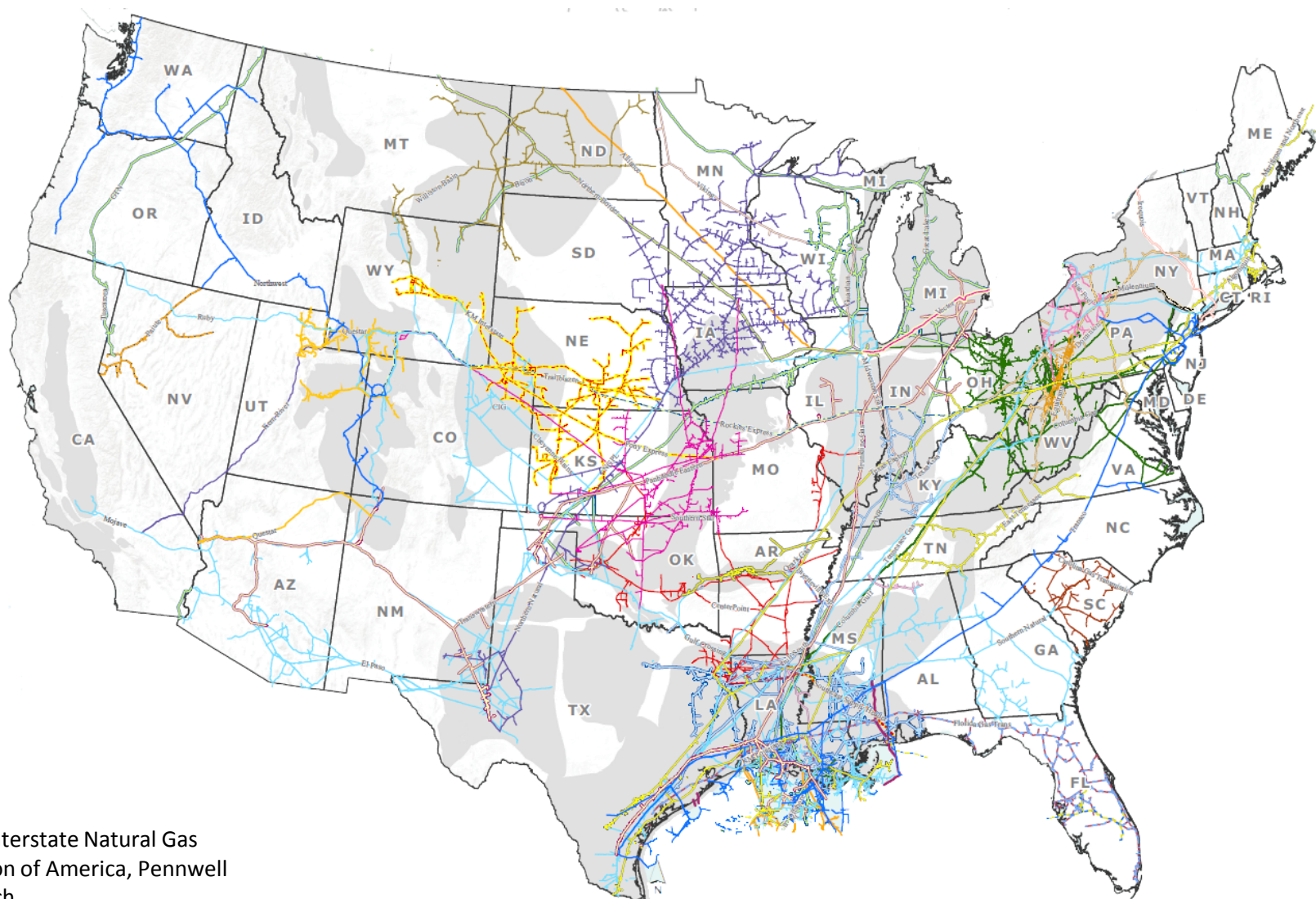
Please keep in mind that the Department of the Interior can approve other types of energy rights-of-way on federal parklands absent an act of Congress, just not natural gas pipeline rights-of-way. This is an anomaly created by the fact that a 1901 statute never has been updated to incorporate newer forms of infrastructure that might cross federal parkland. Representative Tom Marino has introduced legislation (H.R. 1587) in the House to address this issue. INGAA supports legislation that gives the secretary the authority to approve natural gas pipeline rights-of-way, consistent with existing authority to approve other types of rights-of-way.

Conclusion

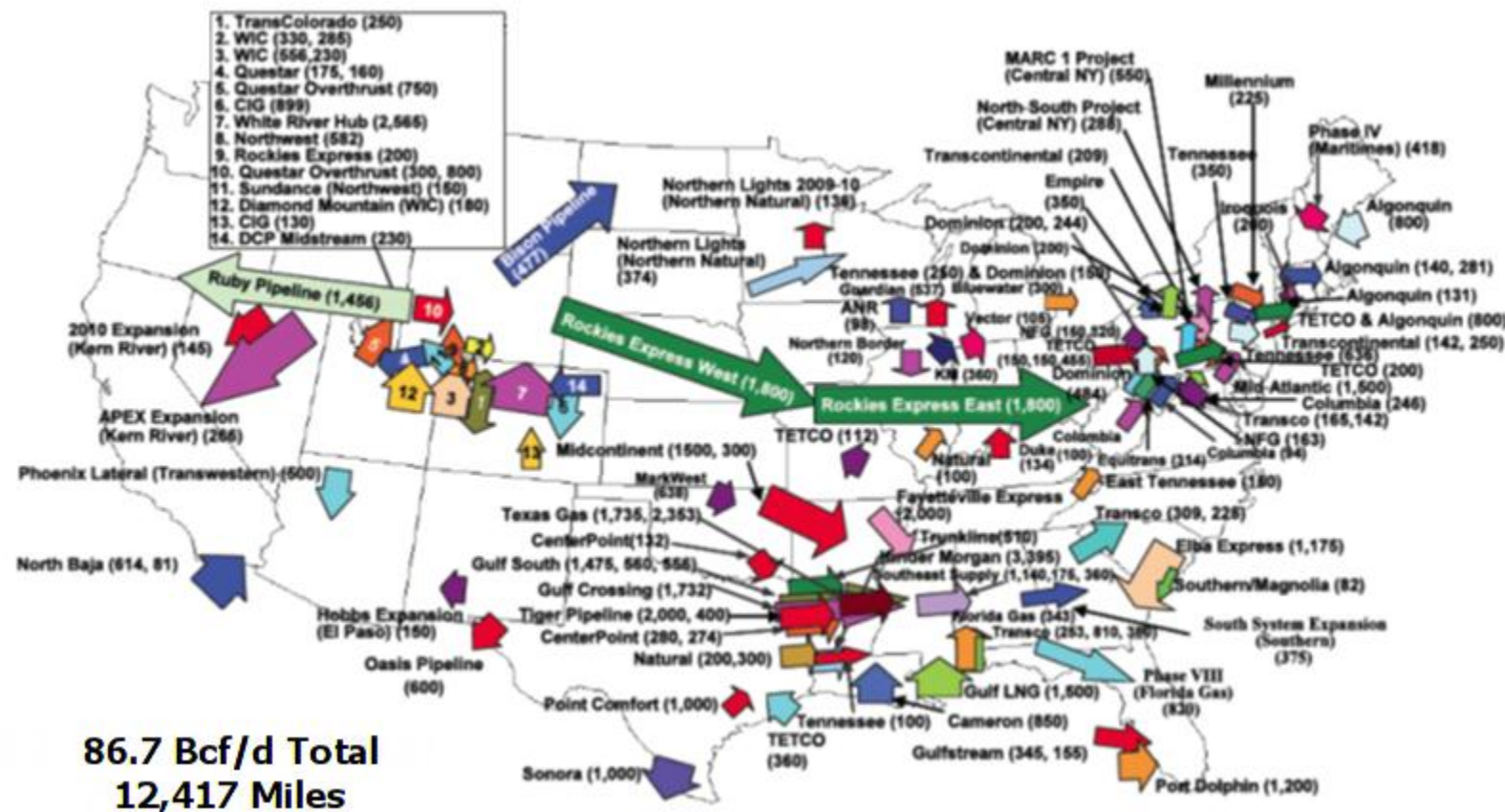
The U.S. is blessed with unprecedented natural gas resources, many of which have only become accessible in the past decade thanks to the technological innovations. These new energy supplies create opportunities to benefit the economy, create thousands of new jobs, and achieve national goals that did not exist just a few years ago. These opportunities include North American energy security, reduced emissions of greenhouse gases and criteria pollutants, lower consumer energy bills and job growth across the manufacturing spectrum. To realize these economic benefits fully, however, infrastructure expansion must go hand-in-hand with supply development. The key imperative for Congress is to maintain this successful legal framework for pipeline approval and regulation, look for opportunities to make incremental improvements, and avoid changes that would undermine the balance and stability that has attracted investment in this critical segment of the U.S. energy economy.

ⁱ *Expedited Federal Authorization of Interstate Natural Gas Pipelines: Are Agencies Complying with EPCA?*, INGAA Foundation, December 2012 (see ingaa.org).

U.S. Natural Gas Transmission Pipelines: A Robust Infrastructure

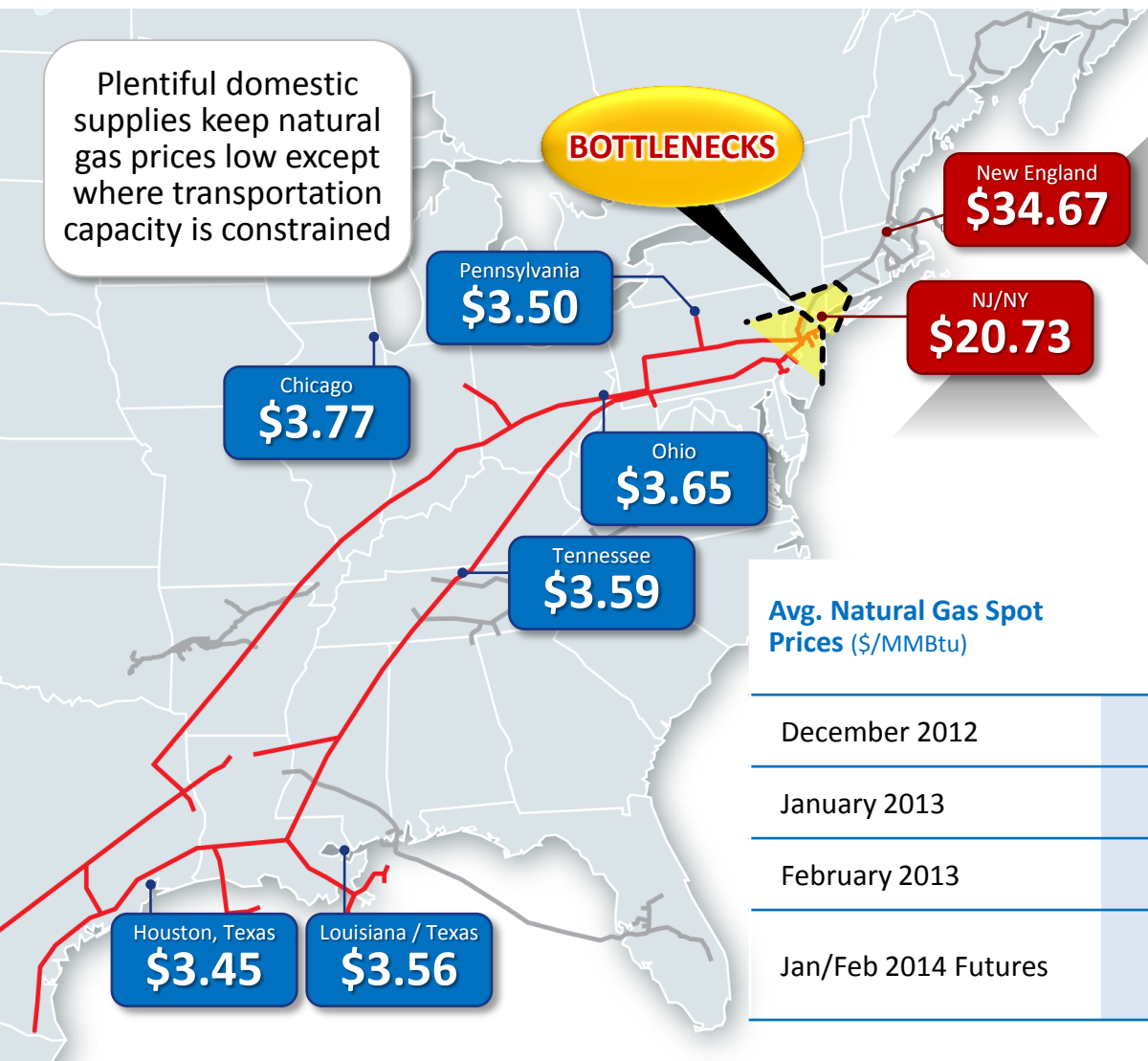


Proven Track Record of Building Pipeline Infrastructure: 12,400 Miles Added Between January 2003 and March 2013



Source: FERC, Office of Energy Projects

Investment in Pipelines Helps Natural Gas & Power Prices Remain Low



Spectra Energy's NJ/NY Project

Under Construction; in-service 4Q13

- Upon FERC approval – 20% drop in basis; 6.7% price savings
- Once in-service, est. energy cost savings to region of **\$700MM/yr**
- Over 5,200 jobs generated; Over \$500 MM in GDP; Over \$32 MM in state/local taxes (excluding property taxes)
- Eliminates 6MM tons of CO₂/yr

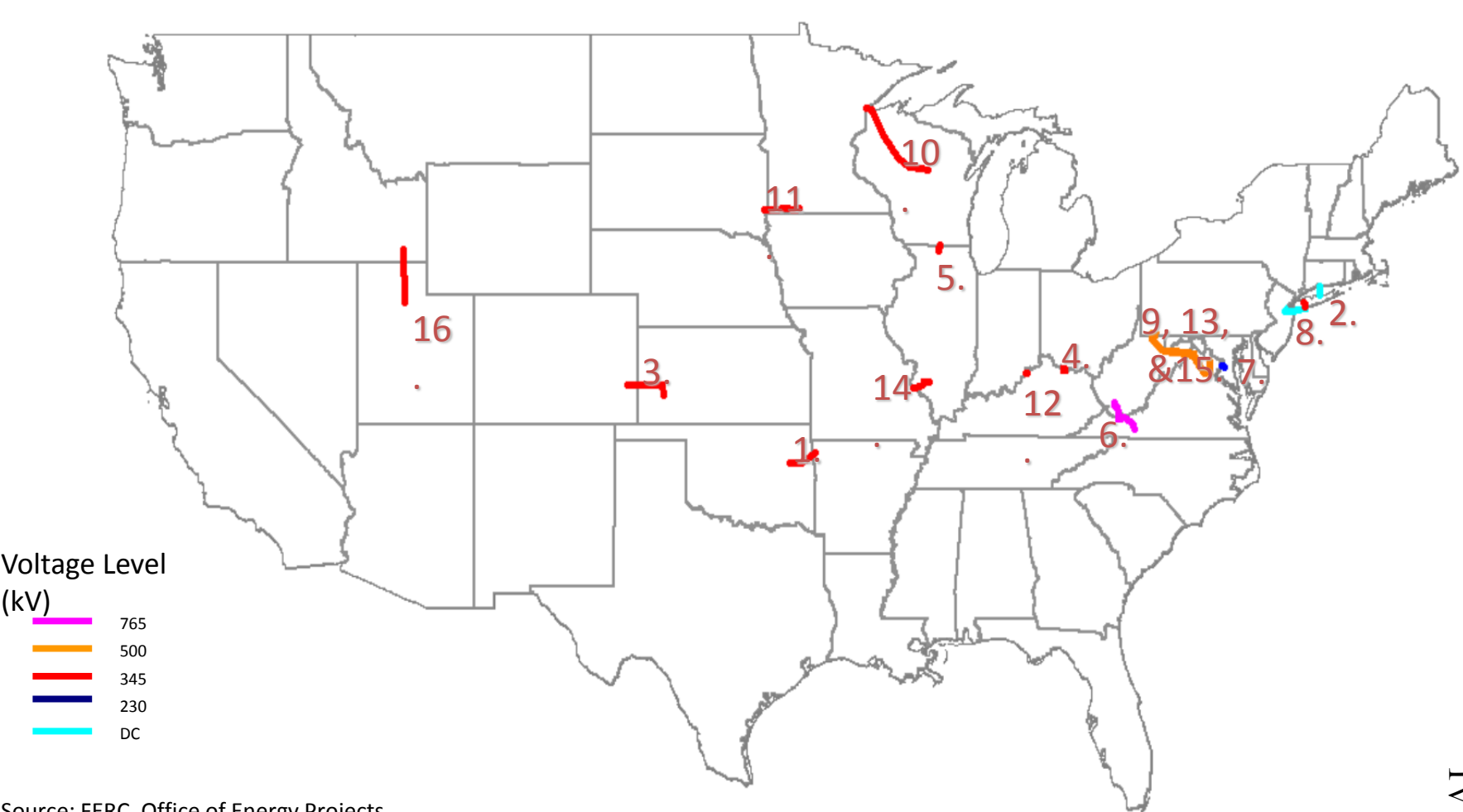
Avg. Natural Gas Spot Prices (\$/MMBtu)

	PA	NJ/NY	New England
December 2012	\$3.32	\$3.87	\$5.44
January 2013	\$3.33	\$6.59	\$10.41
February 2013	\$3.38	\$5.80	\$14.05
Jan/Feb 2014 Futures	\$3.95	\$5.17	\$10.04

January 25, 2013 spot gas prices from ICE

High Voltage Interstate Transmission Lines Built

1,113 Miles Added Between January 2000 and September 2011



Source: FERC, Office of Energy Projects