EXPANDING THE REACH OF NATURAL GAS INFRASTRUCTURE

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Before the House Committee on Energy & Technology

Good morning, Mr. Chairman 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, Mr. Chairman, for calling this hearing to discuss the important issue of natural gas infrastructure expansion. As you are probably aware, recognition is growing about the revolutionary change that has taken place in the U.S. natural gas industry. Technological development has unlocked vast amounts of previously unrecoverable or uneconomic natural gas resources at a much lower cost than was possible with conventional technologies. While the full implications of these changes are still being absorbed, we do know that for the first time in a generation, Americans are facing abundant supplies of natural gas at a moderate long term price-outlook. In fact, according to the EIA, the U.S. estimated future supply of natural gas stood at 2,170 trillion cubic feet at year end 2010—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 $4.00-$6.50 MMBtu—a level well below the peak market prices of the preceding decade.

Safety

Let me begin by stating that everything I will discuss today is predicated on one word: Safety. Indeed, safety is the top priority and core value for America's natural gas utilities. According to the U.S. Pipeline and Hazardous Materials Safety Administration, our domestic abundance of clean natural gas is delivered via the safest energy delivery system in the nation. I commend this committee for taking action last week and voting unanimously to enhance pipeline safety by updating the state's Miss Dig system. With the historically excellent performance of the nation's natural gas delivery system as a backdrop, natural gas utilities continue to be ever vigilant and committed to systematically upgrading this crucial infrastructure based on enhanced risk-based integrity management programs.

Furthermore, a growing effort is underway to accelerate the replacement of those pipelines that may no longer be fit for service. This work is being facilitated by regulatory and legislative policies that establish innovative rate mechanisms which allow for accelerated replacement and modernization of natural gas pipelines[1]. In fact, I want to commend the Michigan Public Service Commission for having approved a gas main replacement program (MRP) for one of the state's utilities earlier this year. Increasingly, these replacement efforts are being coupled with a growing emphasis on expanding the infrastructure to provide gas to more consumers—an effort that can best be described as ***Smart Modernization***. That is to say, 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.

Expansion

The demand for natural gas infrastructure expansion has proliferated within the last several years. Current and expected prices make it economically advantageous for consumers to switch to natural gas from other sources of energy. As well, switching to natural gas provides for broader public benefit including a cleaner environment, more reliable service and economic development opportunities.

We are finding that several states, like Michigan, are looking at natural gas infrastructure expansion as a key to driving economic development and reducing consumer energy costs. Governors, legislators and commissioners around the country are recognizing the economic and environmental benefits of this abundant fuel source and are exploring policies to expand its use.

[1] See attached "AGA State Infrastructure Replacement Activity" compendium

However, there are impediments to expansion that must be addressed. Some of these barriers include economic viability, permit streamlining, land access and workforce coordination.

For the purposes of this discussion, it is critical to understand the nuances associated with terms used in describing infrastructure expansion. When a utility defines an area as "underserved," it means that there is some level of 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, growth will occur through either increased gas sales to existing customers or through the connection of new customers. Increased sales to an existing customer generally depend on the customer converting to gas appliances. Connection of a new customer, on the other hand, usually requires not only a receptive customer but also the installation of new distribution facilities. 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, construction costs are often extremely high, making expansion cost-prohibitive. When that is the case, the key question becomes how best to facilitate infrastructure build-out to unserved 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, new and innovative approaches to funding expansion have been approved or are presently being considered by several legislatures and commissions around the country. In fact during a 2013 meeting, 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 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. Though I have

provided a comprehensive overview of the 16 states that have taken up infrastructure expansion in my written testimony[2], in the spirit of time, I will highlight a few examples.

Georgia

In 2009, the Georgia Public Service Commission approved the Strategic Infrastructure Development and Enhancement (STRIDE) Program for AGL Resources. STRIDE allows the utility to recover costs associated with traditional infrastructure replacement as well as infrastructure expansion relating to customer growth and economic development. AGL has also used the STRIDE program to fill in "donut holes," or areas previously defined as underserved in its service territory. This program was used as the basis for a model bill that has been adopted by the Council of State Governments in its Suggested State Legislation publication and has been, to some degree, replicated recently in Maryland and Indiana.

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.

Nebraska

In Nebraska, the absence of the pipe network in rural areas has been identified as an obstacle to economic development. Recent legislation encourages collaboration among stakeholders, including state and local governments, economic groups and natural gas utilities. It allows funding for new pipes to come from local sales tax revenues and surcharges to customers.

New York

New York is considering legislation that includes provisions for streamlining the permitting process for building distribution infrastructure, establishing a fund to provide loans to consumers converting to natural gas and providing taxpayer credits for the purchase and installation of natural gas service systems. As well, New York City has worked with consultants to look strategically at how to cluster buildings, school districts and neighborhoods in order to expand

[2] See attached "AGA State Infrastructure Expansion Activity" compendium

gas service. Converting to natural gas would allow for freed up tax revenue in order to aid cash strapped school and municipal budgets.

Tennessee

New legislation in Tennessee allows state regulators to authorize the recovery of infrastructure expansion costs if expansion is in the public interest. Expansion efforts may include alternative motor vehicle transportation fuel, combined heat and power installations in businesses or economic development efforts in the areas served by that infrastructure.

Virginia

Legislation passed in 2012 in Virginia facilitates the recovery of costs for gas-line extensions that promote economic development. It allows utilities to expand infrastructure when a developer commits to at least a 5-year contract for natural gas use, and then defer those costs to future rates.

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 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. Active promotion of gas at the expense of alternative sources of energy lies beyond the mandate of most public utility commissions, but state and local governments are entitled to make such policy choices and can promote gas system expansion as part of an overall energy strategy. 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.

Likewise, public utility commissions might provide regulatory support for system expansion measures in the following ways:

- **Pre-approving system investments** where economic returns are supported by strong and credible growth projections in order to lower a natural gas utility's investment risk and make it more likely to explore and develop system expansion opportunities;
- **Endorsing economic tests** that account for revenues over the useful life of the investment;
- **Encouraging gas LDC financing** for customer contributions in aid of construction (CIACs) through such devices as the free-feet mechanism;
- **Permitting natural gas utility or gas utility-affiliate financing** of conversion to gas appliances;
- **Promulgating uniform standards** that provide natural gas utilities with a clear and predictable framework for planning and evaluating potential system expansions.

Overall, legislatures and commissions should review whether long standing rules are incompatible with current regulatory objectives and conditions in the natural gas sector and, if so, work to build partnerships between customers, builders, utilities and economic development agencies to work through those challenges.

Increasingly the question is becoming "if not now, when?"—and 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, reduction in consumer energy prices, environmental quality opportunities like GHG reductions and increased efficiencies and energy security.

American Gas Association

10/29/13

State Infrastructure Expansion Activity

State	Activity	Relevant Documents
Connecticut	• Governor Malloy's Comprehensive Energy Plan calls for regulatory changes to enable potential gas customers to have their connections financed by the state's utilities and repaid through added revenues of new customers • The plan also provides for the establishment of incentives for utilities to ramp up required infrastructure quickly • The Governor has submitted two pieces of enabling legislation to aid in the implementation of these policies which passed the legislature in late May 2013 • In response to that legislation, Connecticut Natural Gas, Southern Connecticut Natural Gas and Yankee Gas have filed a joint proposal with the Connecticut PURA outlining a new rate plan to finance the tens of millions of dollars they have proposed to spend to connect 280,000 customers to natural gas pipelines over the course of the next 10 years. Under the proposal, new rates would spread the costs of hookups over 25 years, eliminate a required contribution toward construction for customers connected to gas pipelines that are 150ft or closer to gas mains and make other rate changes to encourage a large-scale switch to natural gas • In addition, Spectra Energy is already pursuing plans to upgrade and expand its system in the state. At this point Spectra's plan includes replacing 33 miles of older transmission lines with newer pipe in various segments along the Algonquin transmission line. That upgrade will allow the pipeline to handle greater volumes of natural gas. In addition, the company plans to add 19 miles of new pipeline to the spurs that go into various parts of eastern Connecticut	• 2013 Comprehensive Energy Strategy for Connecticut • Governor's Bill No. 6360 (Enrolled as Public Act 13-298 on 06/21/2013) Governor's Bill No. 843 (Enrolled as Public Act 13-298 on 06/21/2013) • CT Utilities Joint Proposal (Connecticut Natural Gas, Southern Connecticut Gas, Yankee Gas)
Delaware	• Gas service expansion is included as part of the Governor's recommended state energy strategy • Chesapeake Utilities has proposed a hybrid cost recovery mechanism for line extensions before the Delaware PSC; The proposal also includes the utility providing services that facilitate customer conversion to natural gas and offers loans and other financial contributions over a number of years	• Delaware Energy Plan 2009-2014 (To be updated every 5 years)

Georgia	• In October 2009, the Georgia PSC approved the Strategic Infrastructure Development and Enhancement (STRIDE) Program for AGL Resources, Inc. • STRIDE provides for a rider on customer bills that will allow AGL to recover costs associated with traditional infrastructure replacement, as well as infrastructure expansion relating to customer growth and economic development	• Docket Nos. 8516 & 29950 Approving Georgia STRIDE Program
Indiana	• Earlier this year, the state legislature passed a bill that will allow a tracker for cost recovery of infrastructure upgrades and extensions; under the legislation, utilities may propose a 7 year infrastructure plan to the IURC, and, if considered reasonable, the utility may recover its investment in a timely manner through a tracker on the customer's bill; NIPSCO filed a plan with the IURC on 10/3/2013 that is presently still pending	• Indiana SB 560 (Became Public Law No. 133-2013 on 5/1/2013)
Maine	• Competition among gas companies to serve new areas and high demand for gas in remote and other un-served areas on the state; Summit Natural Gas poised to begin new pipeline project and hopes to serve 15,00 homes, using Sappi Fine Paper mill as an anchor customer • New law signed in 2012 authorizes the Finance Authority of Maine to issue bonds for the development of the state's natural gas infrastructure • Earlier in the 2013 session, legislators considered two bills relating to natural gas infrastructure expansion: o *HP 901, the Maine Energy Cost Reduction Act, gives the Finance Authority of Maine the authority to issue revenue obligation securities to finance an energy cost-reduction contract; It gives the Director of the Governor's Energy Office the authority to submit an energy cost-reduction contract to procure natural gas pipeline capacity that is reasonably likely to lead to the development or expansion of a natural gas transmission pipeline; It gives the PUC authority to direct an investor-owned transmission and distribution utility, a natural gas utility and a natural gas pipeline utility to assess ratepayers for the cost of an energy cost-reduction contract, the bonds associated with an energy cost-reduction contract and the administration of an energy-cost reduction contract* o *HP 831 establishes the Maine Energy Cost Reduction Authority for the purpose of entering into contracts to procure and resell natural gas pipeline capacity and electric energy and capacity, to identify and designate corridors for the construction of natural gas transmission pipelines to enter into long-term contracts for the use of natural gas pipeline corridors through the development of natural gas pipelines* • As of May 7, those bills have been incorporated into a larger, multifaceted energy bill (incorporating proposals from 13 pending bills, in total) that aims to expand the state's natural gas infrastructure as well as boost energy efficiency funding, directly lower	• Public Laws, Chapter 586- An Act to Expand The Availability of Natural Gas to Maine Residents • HP 1128 (Maine Comprehensive Energy legislation; Vetoed by Governor LePage on 06/20/2013; House Veto Override 121-11 on 06/20/2013; S)

	electricity costs for homes and businesses and make fuel switching from oil more affordable for consumers	
Minnesota	• During the 1990s the MN PUC investigated the problems in funding new extension lines in remote areas • In 2012, the PUC approved a New Area Surcharge (NAS) rider for several of the state's utilities (Xcel, MERC, CenterPoint) which is designed to permit the utility to extend service into a new area that it would be uneconomic to serve at tariffed rates, by permitting that utility to collect the surcharge on top of the tariffed rate	• Minnesota PUC Order Approving New Area Surcharge (Minnesota Energy Resource Corporation) 7/26/2012
Mississippi	• Atmos Energy Corporation has proposed a Supplemental Growth Rider (SGR) to support economic development and job creation by providing the incentive to extend gas service to projects previously viewed as economically infeasible • Atmos has proposed that it will invest $5,000,000 annually in such projects in return for being allowed to earn a supplemental return on equity (ROE) of 3% on this investment, in addition to the ROE provided for in Atmos' annual Stable Rate Evaluation	• Atmos Proposal 2-pager (Approved by the Mississippi PSC in July 2013)
Nebraska	• In 2012, the Nebraska legislature passed legislation to provide for a streamlined process to implement a plan to construct rural natural gas infrastructure in order to provide natural gas to unserved or underserved areas in the state • The law streamlines the regulatory review process and allows utilities to spread costs to all ratepayers • It requires stakeholders (utilities, municipalities, local businesses, investors) to put together a plan for infrastructure expansion to be approved by the Nebraska PSC	• Slip Law Text of LB 1115 (As Approved by the Governor on 4/10/2012)
New Jersey	• Promoting the expansion of the natural gas pipeline system is included in Governor Chris Christie's 2011 Energy Master Plan; Specifically, the plan encourages New Jersey's gas utilities to evaluate the economic and environmental merit of distribution system expansions to areas where natural gas is not presently available or where there is a relatively high saturation of oil-fired hit; The plan also includes a recommendation to establish a Transportation Infrastructure Bank to explore the potential of establishing a funding source that can assist in financing the development of needed infrastructure to support the increased use of AFVs (including NGVs)	• 2011 Energy Master Plan

New York	• In early 2013, the New York PSC initiated a technical conference on policies pertaining to expansion of natural gas service pursuant to the recommendation for fuel switching to natural gas in Governor Andrew Cuomo's Energy Highway Blueprint • The New York legislature is currently considering legislation that will enact provisions to provide for and assist in the expansion of natural gas service in the state for environmental and economic benefit; Specifically the legislation attempts to do the following: o Streamlines the permitting process for distribution infrastructure by requiring the PSC to facilitate contacts with state agencies and local governments with respect to the review of permit applications o Require 25% of the revenue generated by the SEC surcharge (system benefit charge collected by utilities from heating customers) be dedicated to a revolving loan fund for conversions o Mandates the Commissioner of General Services undertake a study on conversion to natural gas heating when a public building requires installation or retrofit of a boiler for heating o Establishes a natural gas expansion mitigation fund to be comprised of RGGI monies to be used for a revolving loan fund for consumers converting to natural gas o Provides taxpayer credit for purchase and installation of a natural gas service system; Credit is 50% of the cost of purchase and installation, capped at $52,750	• New York Energy Highway Blueprint • New York Public Service Commission Natural Gas Expansion • New York SB 5536A (Passed Senate 06/10/2013, Referred to Assembly Committee on Energy)
North Carolina	• In 1998, the NC 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 • The General Assembly has also enacted legislation for the creation of expansion funds for uneconomic line extensions; Gas utilities may only apply those funds to economically infeasible expansions or to expansion estimated to produce a negative net present value. These funds can come from a surcharge imposed on existing ratepayers, supplier refunds and other sources approved by the NC PUC	• North Carolina Clean Water and Natural Gas Critical Needs Bond Act of 1998—SL 1998-132
Pennsylvania	• The state legislature has introduced a resolution directing the Center for Rural Pennsylvania to study the potential for increased residential, commercial and industrial natural gas distribution infrastructure by the state's public utilities to unserved and underserved areas in the state • The legislature is currently considering two bills which will foster the extension and expansion of natural gas distribution systems to un-served and under-served residential, commercial and industrial sites: o SB 738, the Natural Gas Consumer Access Act, will require every natural gas distribution utility operating in PA to submit a 3-year plan to the PUC outlining the utility's plans for extension/expansion projects; The first plan would be due by 01/01/2014, with additional plans required every two years thereafter; The PUC will	• Senate Resolution No. 29 (Adopted 03/11/2013) • Memo outlining expansion legislation to be introduced by Senators Gene Yaw and Dominic Pileggi • SB 738 (Passed Senate 06/12/203; Referred to House) • SB 739 (Passed Senate; Referred to House Committee on Environmental Resources and Energy 06/12/2013) • UGI GET Gas Proposal

	have the option to reject, revise or order the utility to submit a revised plan for adequacy and completeness; The legislation would also create a system providing for expedited extension or expansion projects if an economic development agency or large number of residential, commercial or industrial entities want to obtain natural gas service. ○ SB 739 will amend the Alternative Energy Investment Act to provide for $15 million in grants to schools, hospitals and small businesses to obtain access to natural gas service; The funding will come from existing under-utilized programs, and grants made under the legislation may provide for up to half of the cost of a project. • UGI has proposed a Growth Extension Tariff (GET Gas) program that would allow it to spread the cost burden of new main extensions to the group of new customers connecting to a new main. The program allows for a payment surcharge over time for new customers, avoiding the significant upfront costs that often deter customers from connecting to a natural gas system. New customers would be able to use a portion of savings generated from converting to natural gas to offset the GET Gas surcharge amount. UGI will fund the program at $15 million per year for five years	
Ohio	• The Ohio General Assembly is presently considering legislation to make it easier for utilities to expand natural gas infrastructure in the state. Specifically, HB 319 would amend and enact certain sections of the Ohio Revised Code to allow natural gas companies to apply for an infrastructure development rider to cover the costs of certain economic projects. Under the bill, a natural gas company may file an application with the PUCO or approval of an infrastructure development rider to cover prudently incurred costs for economic development projects. The rider is to be a fixed monthly charge for all customers of the natural gas company as determined by the PUCO	• HB 319 (Introduced 10/29/13 and referred to House Committee on Public Utilities)
Tennessee	• In April 2013, Tennessee enacted legislation which provides for alternative regulatory methods to allow for public utility rate reviews and cost recovery for investments in infrastructure replacement and expansion in lieu of a general rate case. In particular, the bill allows the Tennessee Regulatory Authority (TRA) to authorize the recovery of costs related to infrastructure expansion for the purpose of economic development, if such costs are found to be in the public interest. Expansion of economic development infrastructure may include that associated with alternative motor vehicle transportation fuel, combined heat and power installations in industrial or commercial sites, or that which will provide opportunities for economic development benefits in the area to be directly served by that infrastructure	• Public Chapter No. 245 (HB 191)

Texas	• In 2003, the Texas Legislature passed SB 1271 which established the Texas Gas Reliability Infrastructure Program (GRIP) • GRIP allows a gas utility that has filed a rate case within the previous two years to file a tariff or rate schedule that provides for an interim adjustment in its monthly customer charge or initial block rate in order to recover the cost of investment changes, which could include the replacement of aging infrastructure or expansion of infrastructure	• Senate Bill 1271, Establishing the Gas Reliability Infrastructure Program
Vermont	• In September 2011, the Vermont Public Service Board allowed Vermont Gas Systems to use ratepayer monies to plan for future line extensions, reasoning that it will result in increased economic development and a reduction in greenhouse gas emissions	• Vermont Public Service Board Docket No. 7712—To establish a System Expansion and Reliability Fund with funds provided by reductions in the quarterly Purchase Gas Adjustment rate under the Alternative Regulation Plan
Virginia	• In 2012, Virginia's Governor signed legislation that will facilitate the recovery of costs for eligible gas-line extensions that promote economic development; The law creates a deferral that preserves the cost of service associated with the facility for recovery in a future rate proceeding	• Virginia Chapter 51

American Gas Association 8/27/2013

State Infrastructure Replacement Activity

State	Activity	Relevant Documents
Alabama	• In 1995, the Alabama PSC approved the Cast Iron Main Replacement Factor as part of Mobile Gas' general rate case. The program recovers the annual revenue requirement level of depreciation, taxes and return associated with cast iron main replacements. The tracking mechanism is applied to all rate classes and is updated annually for incremental investment in cast iron main replacements • Mobile Gas and Alabama Gas presently utilize a Rate Stabilization and Equalization Plan	• Docket No. 24794
Arkansas	• In 1988, CenterPoint received approval from the Arkansas PSC for the Gas Main Replacement Program (GMRP) which provided for a tracker to be applied to the replacement of bare steel and cast iron mains and associated service. In 1992, the program was modified to include recovery of capital investment (depreciation) and was expanded to include all cast iron gas main and related services. At that time it was also renamed the Cast Iron Main Replacement Program (CIGMRP). In 2002, the program was modified again to include bare steel and associated services, and was renamed the Main Replacement Program (MRP)	• Dockets 06-161-U and 10-108-U (CenterPoint)
Arizona	• In January 2012, the Arizona Corporation Commission granted Southwest Gas approval to implement a Customer Owner Yard Line (COYL) program as part of its general rate case settlement. The program is designed to facilitate leak surveying and, when required, replacement of customer yard lines. The program includes a cost recovery component whereby Southwest Gas defers the actual COYL capital costs and files an annual application requesting authority from the Arizona CC to implement a per therm surcharge rate to recover the revenue requirement on the deferred COYL costs	• Docket No. G-01551A-10-0458 (Southwest Gas)

California	• In December 2010, San Diego Gas & Electric filed a request with the California PUC for a gas base rate increase. In its filing, the utility also proposes a post-test-year ratemaking mechanism for the three-year period 2013 through 2015, under which the company's revenue requirement would be adjusted to reflect increases in capital-related and other expenses. The CPUC approved the mechanism in May 2013. • Also in December 2010, Southern California Gas filed a request with the CPUC for a gas base rate increase. As part of that filing, the utility proposes a post-test-year ratemaking mechanism for the three year period 2013-2015, which under the company's revenue requirement would be adjusted to reflect increases in capital-related and other expenses. The company did not request specific rate increases under the mechanism. The CPUC approved the mechanism in May 2013. • As part of its recent GRC in California, Southwest Gas proposed an Infrastructure Reliability and Replacement Adjustment Mechanism (IRRAM) that is designed to facilitate and complement projects involving the enhancement and replacement of gas infrastructure. This proceeding is still active.	• A1012005 (San Diego Gas & Electric) • A1012006 (Southern California Gas) • A1212024 (Southwest Gas)
Colorado	• In September 2011, Public Service Company of Colorado received approval from the Colorado PUC to implement a pipeline system integrity adjustment tracker to recover costs associated with reliability improvements and compliance with certain federal safety regulations	• Docket No. 10AL-963G
District of Columbia	• In February 2012, WGL filed a rate case with the DC PSC in which it proposed to expand its existing pipe replacement program (originally approved in 2007). In the filing, WGL proposes a 5-year accelerated pipeline replacement program and a surcharge recovery of $119 million to be invested in replacement infrastructure. The DC PSC ruled, in part, on this case in May 2013. It denied WGL's request to implement the initial 5 year phase of its Accelerated Pipeline Replacement Program. A decision on WGL's request to recover the costs of its Accelerated Pipeline Replacement Program in a Plant Recovery Adjustment is deferred until a later date.	• Case No. 1093
Florida	• On August 14, 2012, the Florida Public Service Commission approved a Gas Reliability Infrastructure Program (GRIP) for Florida Public Utilities Company (FPU) and its partner company, Central Florida Gas (CFG). Under the program, the two providers plan to replace more than 350 miles of pipeline over the next ten years; At that time the Commission approved the same program for Chesapeake Utilities • Also on August 14, 2012, the Florida PSC approved a GI Cast Iron/Bare Steel Replacement Rider for TECO Peoples Gas Systems. Under that program, TECO is expected to invest approximately $8 million and over the course of ten years will replace 150 miles of cast iron and 400 miles of bare steel pipeline, comprising about 4 percent of the company's system.	• Docket No. 120036-GU (GRIP for FPU/CFG and Chesapeake Utilities) • Docket No. 110320-GI (GI Replacement Rider for TECO) • Florida PSC News Release (8/14/2012)

Georgia	• In 1998, AGL Resources began a 15 year Pipeline Replacement Program (PRP), which, at the time, was reviewed annually by the Georgia PSC—the PSC reviewed the utility's infrastructure replacement expenses from the previous year and then approved a new surcharge amount. Later, the commission agreed to a fixed dollar amount of expense to be recovered in rates over the remaining 7 years of the program • In 2009, the Georgia PSC approved the expanding of the PRP to include investments for infrastructure expansion. PRP is now included as part of the Strategic Infrastructure Development and Enhancement (STRIDE) Program for AGL Resources. STRIDE provides for a rider on customer bills that will allow AGL to recover costs associated with both traditional infrastructure replacement, as well as infrastructure expansion relating to customer growth and economic development • In 2000, Atmos received approval to implement a pipe replacement surcharge for its Georgia customers.	• Docket Nos. 8516 & 29950 (Approving Georgia STRIDE Program) • Docket No. 12509-U (Atmos)
Illinois	• In May 2013, the Illinois General Assembly passed the Natural Gas Consumer, Safety and Reliability Act (SB 2266). The legislation will allow utilities to make incremental investments in infrastructure upgrades and recover those costs through a rider on customer bills. The rider/surcharge is to be regularly reviewed by the ICC. In addition, the measure requires utilities to file annual plans with the ICC detailing performance improvements and reporting on progress. Performance improvements may include decreases in time to respond to gas emergency calls and/or preventing damage caused by utility or contractor error	• Natural Gas Consumer, Safety and Reliability Act (Passed by legislature 5/28/13, Signed by Governor Quinn 7/5/13, Public Act 98-0057)
Indiana	• In April 2013, the legislature passed a bill that will allow for a tracker for cost recovery of infrastructure upgrades and extensions. If passed, the bill would allow utilities to propose a 7 year infrastructure plan to the IURC, and, if considered reasonable, the utility could recover its investment in a timely manner through a tracker on customer's bills • In 2008, Indiana Gas (Vectren Corp.) received approval to implement a tracking mechanism that allows the utility to defer expenses associated with investments in infrastructure and replacement projects • In 2006, Southern Indiana Gas and Electric Company (Vectren Corp.) received approval of a tracking mechanism for recovery of an accelerated bare steel and cast iron pipeline replacement program	• Indiana SB 560 (Became Public Law No. 133-2013 on 5/1/2013) • Case No. 43298 (Indiana Gas) • Case No. 43112 (Southern Indiana Gas and Electric Company)
Iowa	• In October 2011, the Iowa Utilities Board adopted a rule that allows the state's natural gas utilities to implement either of two types of automatic adjustment mechanisms for recovery of a limited number of capital infrastructure investments outside of a general rate case, including those that are required by government mandates or are required by state or federal pipeline safety mandates. To date no utility has implemented either of the two types of mechanisms for cost recovery	• Docket No. RMU-2011-0002 (October 2011) • Docket No. RPU 2002-0004 (April 2013)

	• Effective April 25, 2013, the Iowa Utilities Board has approved tariffs implementing a capital infrastructure investment automatic adjustment mechanism	
Kansas		
	• In 2006, the Kansas State Legislature passed the Gas Safety and Reliability Policy Act, which approved the implementation of a gas system reliability surcharge between 0.5% and 10% of revenues to recover new infrastructure replacement costs not already included in rates; Atmos, Black Hills, and Kansas Gas Service utilize the surcharge	• K.S.A 66-2201 through K.S.A 66-204 (Gas Safety Reliability Policy Act)
Kentucky		
	• In 2005, pursuant to passage of KY HB 440, Kentucky created a new section in the Kentucky Revised Code titled "Recovery of Costs for Investments in Natural Gas Pipeline Replacement Programs," which allows the commission to approve the recovery of costs for investment in natural gas pipeline replacement programs which are not recovered in the existing rates of a regulated utility; Atmos, Columbia Kentucky, Delta Natural Gas, and Duke Energy Kentucky utilize such programs	• KRS 278.509
Maine		
	• In 2011, the Maine Public Utilities Commission authorized Northern Utilities to implement a limited, one year, incremental step adjustment of $0.9 million effective 5/1/2012 to reflect investments made under the company's Cast Iron Replacement Program (CIRP); Initially the utility had sought a targeted infrastructure replacement adjustment (TIRA) tracker to reflect incremental CIRP investments; The commission did not approve a permanent tracker, instead opting for the more limited mechanism for one year	• Docket No. 2011-92
Maryland		
	• On February 22, 2013, the Maryland General Assembly passed SB 8, legislation that will allow a gas company to recover costs associated with infrastructure replacement projects through a gas infrastructure replacement surcharge on customer bills. The bill specifies how the pretax rate of return is calculated and adjusted and what it includes, and states that it is the intent of the General Assembly to accelerate infrastructure improvements by establishing this mechanism for gas companies to recover reasonable and prudent costs of infrastructure replacement	• Maryland SB 8 (Enrolled 5/2/2013, MD Chapter No. 161)

Massachusetts	• The Massachusetts legislature is currently considering legislation that would provide for the recovery of costs associated with infrastructure replacement. Though the bill's main intent is to establish cast iron survey protocols relative to leaks, it also includes a replacement component. Specifically, beginning on line 36, the legislation authorizes natural gas utilities to file an annual leak-prone gas infrastructure replacement project plan with the MA Department of Public Utilities. If approved, the department may authorize a rate factor to collect any revenue requirement of the work plan • Several of the state's utilities already utilize a Targeted Infrastructure Reinvestment Factor (TIRF) for cost recovery of infrastructure replacement: o Columbia Gas of Massachusetts received approval for its TIRF in 2009. The TIRF allows for the recovery of the revenue requirement associated with bare steal capital additions for the previous calendar year o National Grid companies Boston Gas, Essex Gas and Colonial Gas received approval for a TIRF as part of a 2010 general rate case. The TIRFs provide for the recovery of costs associated with the accelerated replacement of gas mains and the companies are allowed to surcharge customers up to 1% of total revenue o New England Gas received authorization to implement a TIRF to provide recovery of incremental expenditures associated with reinforcing the system and meeting public safety goals	• Massachusetts H2950 (Introduced 1/22/13 and referred to the Committee on Telecommunication, Utilities and Energy) • Docket No. DPU 09-30 (Columbia Gas of Massachusetts) • Docket No. DPU 09-30 (National Grid) • Docket No. DPU-10-114 (New England Gas)
Michigan	• In January 2011, the Michigan PSC adopted a settlement that establishes a main replacement program rider. The mechanism will enable SEMCO Energy to recover the incremental capital-related costs associated with the accelerated removal and replacement of cast iron and unprotected steel service lines and mains. The program expires in 5 years unless extended by order or new rate case • On April 16, 2013, the Michigan PSC approved an expanded gas main replacement program (MRP) and a pipeline integrity program, and the recovery of the costs of those programs, as well as the ongoing meter move-out program, through an infrastructure recovery mechanism (IRM) for DTE Gas Company	• Docket No. U-16169 (SEMCO) • Docket No U-16999 (DTE)
Minnesota	• In May 2013, the Minnesota legislature passed an Omnibus jobs, economic development, housing, commerce and energy bill which included a rider for the recovery of gas utility infrastructure costs. Under the legislation, a gas utility may submit a gas infrastructure project plan report and a petition for cost recover. Upon receiving those items, the Minnesota Public Utilities Commission may approve a rider provided that the costs included for recovery through the rate schedule are prudently incurred and achieve gas facility improvements at the lowest reasonable and prudent cost to ratepayers.	• Minnesota H.F. 279 (As enrolled, 5/23/2013)

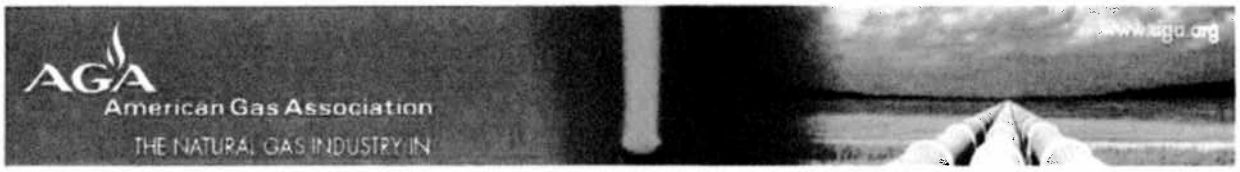
Missouri	• Missouri established an Infrastructure Replacement Surcharge (ISRS) mechanism as part of a revision to Missouri Statute 393.1009-105. The ISRS allows rates of a gas utility to be adjusted twice per year to provide for the recovery of costs of eligible infrastructure replacements. Companies that utilize the ISRS must file a rate case at least every 3 years; Ameren, Atmos, Laclede and Missouri Gas Energy use an ISRS mechanism • The Missouri Legislature is currently considering legislation that would modify the provisions outlined above. SB 240 requires the PSC to specify the annual amount of net write-off incurred by a gas corporation, after which the company shall be allowed to recover 90% of the increase in net write offs from customers. The legislation would also modify the provisions above by extending the amount of time in which a company must come in for a rate case to be eligible for the ISRS from three years to five years. It also increases the amount a utility may recover through ISRS from 10% of the company's base revenue level to 13%	• Missouri Statute 393.1009-1015 • Missouri SB 240 (Final Passage on 5/9/13; Governor Nixon vetoed this legislation on 7/9/13)
Nebraska	• In 2009, Nebraska established an Infrastructure System Replacement Surcharge (ISRS) as part of revisions to Nebraska Statutes 66-1865, 66-1866 and 66-1867. The ISRS allows the rates of a gas utility to be adjusted twice per year to provide for the recovery of costs of eligible infrastructure replacements. Companies that utilize the ISRS must file a rate case at least every 5 years.	• NRS 66-1865, 66-1866, 66-1867
Nevada	• As part of its most recent GRC in 2011, Southwest Gas proposed a Gas Infrastructure Recovery Mechanism (GIR) that would have allowed the utility to invest in incremental non-revenue producing projects and collect on an annual basis the revenue requirement associated therewith. The GIR was not approved as part of the rate case; however, the Commission opened a rulemaking to develop regulations to facilitate the implementation of a GIR-type of recovery mechanism. Pursuant to the rulemaking, Southwest Gas is proposing a mechanism to allow the capital cost of qualifying investments to be deferred, and the associated revenue requirement recovered on an interim basis until its next general rate case	• Docket No. 11-03029 (2011 GRC) • Docket Nos. 12-04005 and 12-02019 (Pending rulemaking)
New Hampshire	• After having had a Cast Iron Bare Steel (CIBS) Replacement Program for several years, in 2009 Energy North proposed to modify its annual CIBS rate adjustment mechanism to include public works projects and to eliminate the $0.5 million annual threshold required prior to cost recovery. In a March 2011 settlement, the New Hampshire PUC called for the CIBS rate adjustment mechanism, as it was originally structured, to remain in effect	• Docket No. DG 10-1017

New Jersey	• In 2009, the New Jersey Board of Public Utilities approved accelerated infrastructure programs for five of the seven major utilities that had filed such plans. In total, the plans provide that the utilities will invest $956 million in incremental infrastructure and energy efficiency programs over the following two years, and the costs of the various programs were to be recovered through various, separate adjustment mechanisms (see below). o New Jersey Natural Gas: In 2009, New Jersey Natural Gas received approval to invest $71 million in new infrastructure and system upgrades, which it completed in 2011. In 2011, the utility was granted approval for an additional $60 million. The recovery mechanism is not a traditional tracker or surcharge—the utility is recovering the costs through adjustments to base rates o Elizabethtown Gas: The utility implemented the Utilities Infrastructure Enhancement Program in 2009, which includes both the costs of replacing cast iron pipes and investments in specified new main extensions. The recovery mechanism was through a surcharge. In 2011, the utility was granted approval for the extension of the program through 2012, and the recovery mechanism continued to be a surcharge until October 2011 when the surcharge rolled into base rates o PSE&G: In 2009, the utility received approval for an infrastructure investment program. The recovery mechanism, the Capital Adjustment Charge (CAC), is a deferral account that is adjusted each January based on forecasted program expenditures. o South Jersey Gas: In 2009, South Jersey Gas received approval for its Capital Investment Recovery Tracker (CIRT) mechanism. The program has gone through several revisions in the last several years (CIRT-I, CIRT-II, CIRT-III) • In August 2013, AGL Resources received unanimous approval from the New Jersey BPU to implement its Accelerated Infrastructure Replacement (AIR) program. The agreement will enable AGL Resources' Elizabethtown Gas utility to invest up to $115 million over a four-year period to enhance the safety, reliability and integrity of the utility's distribution system. Under the terms, Elizabethtown Gas will file a rate case no later than September 1, 2016 at which time the AIR program costs will be subject to review. During the AIR program, Elizabethtown Gas will accrue Allowance for Funds Used During Construction (AFUDC) related to project expenditures during the construction period, and accrue associated carrying costs from the time the project is placed in service until the time its costs are recovered through base rates	• Docket No. GO09010052 (New Jersey Natural Gas) • Docket No. GO09010053 (Elizabethtown Gas) • Docket No. GO09010050 (PSE&G) • Docket Nos GR09110907, GR10100765, GO1100632 (South Jersey Gas)

New York	• Corning Natural Gas has had a limited pipeline replacement cost recovery mechanism since 2006 • National Grid Long Island has had a limited infrastructure replacement tracker program since 2008. The program allows the utility to track only the costs of new or replacement infrastructure that are necessitated by city and state construction projects; National Grid NYC has a similar infrastructure replacement tracker that covers only those costs that are necessitated by city and state construction projects • National Grid Niagara Mohawk has had a limited pipeline replacement cost recovery mechanism since 2008. The limited program is scheduled to run for 5 years	• Docket No. 08-G-1137 (Corning Natural Gas) • Docket No. 06-M-0878 (National Grid Long Island, National Grid NYC, National Grid Niagara Mohawk)
North Carolina	• In May 2013, the North Carolina General Assembly passed legislation that will authorize the NC PUC to adopt, implement, modify or eliminate a rate adjustment mechanism for natural gas local distribution company rates so that the utility can recover the prudently incurred costs associated with complying with federal gas pipeline safety requirements; Piedmont Natural Gas Company has applied for a tracker in accordance with this legislation as part of its recent rate filing	• NC H 119 (Signed by Governor 5/17/13)
Ohio	• In its 2008 base rate case, Columbia Gas of Ohio received approval for its Infrastructure Replacement Program (IRP) tracker. The IRP was authorized for an initial five year period, and no rate case is required • In its 2008 rate case, Dominion East Ohio received initial approval for its Pipeline Infrastructure Replacement (PIR) tracker program. In 2011, the utility filed a motion to modify the program due to an increase in the identified scope and in response to recent national concern about pipeline safety, which PUCO approved in August 2011 • Duke Energy has had an accelerated main replacement tracker in place since 2000. All customers, except interruptible transportation customers, are assessed a monthly charge in addition to the customer charge component of their applicable rate schedule • In 2009, PUCO approved the establishment of a tracking mechanism for Vectren Energy Delivery of Ohio that allows the recovery of costs associated with an accelerated bare steel and cast iron pipeline replacement program	• Case No. 08-72-GA-AIR (Columbia Gas of Ohio) • Case No. 09-458-GA-RDR (Dominion East Ohio) • Case No. 01-1228-GA-AIR (Duke Energy) • Case No. 07-1080-GA-AIR (Vectren Ohio)
Oregon	• In the settlement of Avista's 2010 rate case, the Oregon Public Utility Commission provided for deferred accounting treatment for two capital additions: the second phase of the Roseburg Reinforcement Project and the Medford Integrity Management Pipe Replacement Project. A subsequent incremental rate adjustment was made on June 1, 2012 to recover the costs of the projects • NW Natural has a program that provides for a tracker that recovers the cost of the acceleration of bare steel pipe replacement, transmission pipeline integrity costs	• Docket No. UG-201 (Avista) • Docket No. UG-177 (NW Natural)

	and distribution pipeline integrity costs	
Pennsylvania	• In February 2012, the Pennsylvania General Assembly passed HB 1244, legislation that amended Title 66 (Public Utilities) of the Pennsylvania Consolidated Statutes to provide an additional mechanism for distribution systems (gas, electric, water, wastewater) to recover costs related to the repair, improvement and replacement of eligible property. Under the amended law, the PA PUC may approve the establishment of a distribution system improvement charge (DSIC) to provide for the timely recovery of reasonable and prudent costs incurred by a utility to repair, improve or replace eligible infrastructure	• Pennsylvania HB 1294 (Original legislation) • Pennsylvania Consolidated Statute: Title 66, Chapter 13B, Section 1353
Rhode Island	• In 2010, the Rhode Island General Assembly passed legislation to amend Chapter 39-1 of the Rhode Island General Laws to allow the Rhode Island PUC to approve revenue decoupling and infrastructure investment tracking mechanisms	• Rhode Island General Laws: Title 39, Chapter 39-1, Section 39-1-27.7.1
Tennessee	• In April 2013, Tennessee enacted legislation which provides for alternative regulatory methods to allow for public utility rate reviews and cost recovery for investments in infrastructure replacement and expansion in lieu of a general rate case. In particular, the measure allows the Tennessee Regulatory Authority (TRA) to approve cost recovery mechanisms to recoup operational expenses and/or capital costs associated with infrastructure replacement that is necessary to comply with federal and state safety requirements and/or ensuring reliability	• Public Chapter No. 245 (HB 191)
Texas	• In 2003, the Texas Legislature passed SB 1271 which established the Texas Gas Reliability Infrastructure Program (GRIP) • GRIP allows a gas utility that has filed a rate case within the previous two years to file a tariff or rate schedule that provides for an interim adjustment in its monthly customer charge or initial block rate in order to recover the cost of investment changes, which could include the replacement of aging infrastructure or expansion of infrastructure • In 2011, the Texas Railroad Commission adopted a comprehensive pipeline safety rule that requires all state natural gas distribution companies to survey their pipeline distribution systems for the greatest potential threats for failure and make replacements. The rule allows for the recovery of costs of such programs via a deferral mechanism	• Senate Bill 1271, Establishing the Gas Reliability Infrastructure Program • 16 TAC Chapter 8-Pipeline Safety Regulations (2011)

Utah	• In 2010, the Utah Public Service Commission authorized Questar Gas to implement a three-year pilot Infrastructure Replacement Adjustment (IRA) mechanism to track and recover the costs associated with the replacement of high pressure natural gas feeder lines between rate cases	• Docket No. 09-057-16
Virginia	• In 2011, Virginia enacted the SAVE (Steps to Advance Virginia's Energy Plan) Act. The law allows utilities to petition the Virginia State Corporation Commission for a separate rider to recover a return on certain investments, including natural gas facility replacement projects that enhance safety and reliability, or have the potential to reduce greenhouse gas emissions by reducing system integrity risks; Columbia Virginia and Washington Gas utilize the rider	• Code of Virginia: 56-603, 56-604 (Implementation of SAVE Act)
Washington	• In December 2012, the Washington UTC issued a policy statement aiming to enhance safety and modernize and update the state's pipeline system. Under the policy, the UTC is requiring each of the state's four natural gas utilities to file a pipe replacement plan by June 1, 2012 for all pipes that pose an elevated risk for failure, a two year pipeline replacement plan and a plan to identify the location of high risk pipelines. All subsequent plans are to be filed by June 1 every two years thereafter. Companies with existing pipeline replacement plans in place may need only to revise them. • As part of the plans, the commission may create a special cost recovery mechanism (CRM) for companies to accelerate pipe replacement via faster cost recovery in customer rates.	• Docket No. PG-120715 (12/31/2012)



MICHIGAN

State Profile

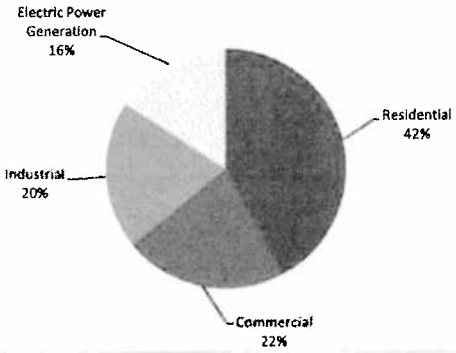
POPULATION	**9,876,801**
NUMBER OF GAS UTILITIES	**15**

Annual Natural Gas Industry Facts (2011 Data)

UTILITY SALES REVENUES (MILLIONS)	**$4,294.1**
Residential (households)	$3,153.9
Commercial (businesses)	$911.6
Industrial (manufacturing, factories)	$204.7
Electric Power Generation	$24.0

CONSUMPTION (Billion cubic feet or Bcf)

Consumption by Sector In-State



U.S. CONSUMPTION	**20,181**
STATE CONSUMPTION	**752.5**
Residential	318.0
Commercial	163.6
Industrial	151.1
Electric Power Generation	119.8

CUSTOMERS	**3,412,439**
Residential	3,153,895
Commercial	249,456
Industrial	9,088

INDUSTRY INFASTRUCTURE	
Proven Gas Reserves (Bcf) (Note: 2010 Data)	**2,919**
Natural Gas Production (Bcf)	**136**
Gas Pipeline and Main (miles)	**61,698**

UTILITY GAS EFFICIENCY PROGRAM FUNDING (000)	**$73,363**
Residential	$38,555
Low Income	$14,872
Commercial & Industrial	$11,467
Other	$8,469

NATURAL GAS INDUSTRY JOBS	
Direct Jobs	**5,781**
Indirect Jobs	**17,286**

Sources : AGA Gas Utility Statistics System (GUS System)
AGA-CEE Natural Gas Efficiency Programs Survey : Utility expenditures for gas effficiency programs exclude data that have not been released by participating companies at the state level.
US Energy Information Administration
US Department of Transportation

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.