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July 6, 2009

VIA ELECTRONIC FILINGJames J. McNulty, Secretary
Pennsylvania Public Utility Commission
400 North Street
P.O. Box 3265
Harrisburg, PA 17105-3265Re: Compliance of Commonwealth of Pennsylvania with Section 410(a) of the American Recovery and Reinvestment Act of 2009; Docket No. I-2009-2099881

Dear Secretary McNulty:

In accordance with the Order entered May 6, 2009, in the above-referenced docket, enclosed please find the Comments of the Independent Oil and Gas Association of Pennsylvania which are being filed electronically today. If you have any questions regarding this filing, please contact me at your convenience.

Very truly yours,


Kevin J. MoodyKJM/jls
Enclosurecc: Steven Bainbridge, Esq., Law Bureau w/enc (via email)
Ed Berzonsky, BFUS w/enc (via email)

BEFORE THE
PENNSYLVANIA PUBLIC UTILITY COMMISSION

Compliance of Commonwealth
of Pennsylvania with Section
410(a) of the American Recovery
and Reinvestment Act of 2009

Docket No. I-2009-2099881

Comments Of The Independent Oil And Gas Association Of Pennsylvania

In response to the Commission's order initiating this matter, the Independent Oil and Gas Association of Pennsylvania ("IOGA")¹ provides these comments to emphasize the significance of the natural gas industry to Pennsylvania's economy and the important role of natural gas in carrying out federal and state policies to increase energy conservation and efficiency. Increased use of natural gas is consistent with promoting energy conservation and more efficient energy use. In view of the demonstrable benefits that accrue to the Commonwealth from the use of Pennsylvania produced natural gas, the Commission should include specific steps to promote and enhance the use of Pennsylvania production in any policies to enhance energy conservation and efficiency in the Commonwealth.

I. Background

By order entered May 6, 2009, the Commission initiated an investigation and requested comments from interested parties concerning various policies and actions the

¹ IOGA is a non-profit trade association representing Pennsylvania independent oil and natural gas producers and marketers. IOGA's members include Pennsylvania natural gas producers that produce, transport and market their Pennsylvania Appalachian natural gas production to most Pennsylvania natural gas distribution companies and to Commission-licensed natural gas suppliers ("NGSs") for use by Pennsylvania retail customers. IOGA's members also include NGSs that transport and market their own Pennsylvania Appalachian production, as well as the production of other companies, to Pennsylvania retail customers.

Commission should implement to assure that appropriate incentives are in place to align utility financial incentives with the promotion of energy efficiency and conservation by consumers. In accordance with the American Recovery and Reinvestment Act of 2009 (“Recovery Act”),² the Governor must provide assurance to the United States Secretary of Energy that:

The applicable State regulatory authority will seek to implement, in appropriate proceedings for each electric and gas utility, with respect to which the State regulatory authority has ratemaking authority, a general policy that ensures that utility financial incentives are aligned with helping their customers use energy more efficiently and that provide timely cost recovery and a timely earnings opportunity for utilities associated with cost-effective measurable and verifiable efficiency savings, in a way that sustains or enhances utility customers’ incentives to use energy more efficiently.³

To provide this assurance, Governor Rendell requested that the Commission:

[C]onsider additional steps the Commonwealth can take to establish appropriate incentives in electric and natural gas utility rates for energy efficiency programs, consistent with State law, the attached statute [the Recovery Act], and relevant PURPA requirements. These include policies to align interests of utilities to support conservation without raising the cost of conservation and increasing the cost to ratepayers of measurable, verifiable efficiency savings.⁴

IOGA provides these comments to emphasize the significant effect of the natural gas industry on Pennsylvania’s economy and the importance of natural gas in carrying out federal and state policies to increase energy conservation and efficiency. IOGA suggests that the policies the Commission adopts as a result of this investigation should promote the production of Pennsylvania natural gas consistent with the goals of the

² American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5, 123 Stat. 115 (2009).

³ Pub. L. No. 111-5, § 410(a).

⁴ Docket No. I-2009-2099881, PUC Order entered May 6, 2009 at 3.

Recovery Act as well as the immediate and long term health, safety and general welfare of the citizens of Pennsylvania. Natural gas is the cleanest fossil fuel, more abundant and reliable than wind and solar power, and less controversial than nuclear power. Promoting the use of natural gas – and particularly locally produced natural gas – as a substitute for fuel for electric power generation, home heating, and transportation should be part of any Pennsylvania program of energy conservation and efficiency.

II. The Natural Gas Industry Has A Significant Impact On Pennsylvania's Economy.

Natural gas has played a significant role in Pennsylvania's history and continues to have a significant effect on Pennsylvania's economy. It is well known that the oil and gas industry began with the Drake Well in Titusville in 1859. The natural gas boom began in 1885 following the 1860's oil boom. While oil industry activity has declined in Pennsylvania since the 1980's, Pennsylvania's natural gas industry has continued to grow after experiencing a dip in production in the early 1990's. A recent study by the Pennsylvania Economy League measured the total economic impact of the oil and gas industry in Pennsylvania at nearly \$11 billion.⁵ Recent advances in technology have

⁵ *The Economic Impact of the Oil and Gas Industry in Pennsylvania*, Pennsylvania Economy League of Southwestern Pennsylvania, LLC, November 2008. A copy of this study is available at <http://www.pamarcellus.com/PR08OilGasIndustryReport111708.pdf>. The Pennsylvania Economy League has been a force for positive change since its founding in 1936. It is widely recognized and well regarded as a nonpartisan research organization committed to sound public policy which enhances the competitiveness of the Commonwealth. The Pennsylvania Economy League of Southwestern Pennsylvania, LLC is the research affiliate of the Allegheny Conference on Community Development and provides research and analysis on specific public policy priorities for the 10-county Pittsburgh region. <http://www.alleghenyconference.org/PEL/Default.asp>. The Allegheny Conference on Community Development and its Affiliates — the Greater Pittsburgh Chamber of Commerce, Pennsylvania Economy League of Southwestern Pennsylvania, LLC and the Pittsburgh Regional Alliance — work in collaboration with public and private sector partners to stimulate economic growth and enhance the quality of life in southwestern Pennsylvania. The Conference is a private sector leadership organization with over 300 Regional Investors, which provide civic leadership to execute a focused agenda for regional improvement. <http://www.alleghenyconference.org/Default.asp>.

created new opportunities for the growth of Pennsylvania's natural gas industry through the Marcellus Shale play.

The Economy League Study measured the economic impact of the oil and gas industry in Pennsylvania, based on 2007 data, at about \$7 billion direct impact, \$1.8 billion indirect impact and \$2 billion induced impact, in the following areas: output, employment, employee compensation, proprietor's income, and other investor and property owner income.⁶ The Study reveals that Pennsylvania has the 13th largest proven dry onshore natural gas reserves in the United States and ranks in the top 16 states of producers of natural gas.⁷ In addition, Pennsylvania has the third highest total of oil and gas wells (approximately 79,000) in the United States.⁸ Depending upon the type, each new oil or natural gas represents an investment of \$150,000 – \$5 million.⁹ Moreover, the majority of oil and gas companies in Pennsylvania are small, as 75% have fewer than 10 employees.¹⁰

As the Economy League Study is based on 2007 data, it does not fully reflect the expected economic impact of the Marcellus Shale play, which has been tempered somewhat by the tightened credit markets and downturn in natural gas prices. Nonetheless, it is clear that Pennsylvania's natural gas industry supports small businesses and has a significant impact on Pennsylvania's economy.

⁶ PA Economy League Study, p. ii, Table I. Details of the impact measurement are set forth in pages 14-25 of the Study.

⁷ *Id.*, pp. 7,8.

⁸ *Id.*, pp. 8-9.

⁹ *Id.*, p. 19.

¹⁰ *Id.*, p. 13.

III. Natural Gas Has Important Roles in Energy Conservation & Efficiency.

Concern with being more environmentally friendly has fueled federal and state policies to conserve energy and to use energy more efficiently. The Recovery Act requires the Commission to implement policies and measures to align electric and gas utilities' interests with energy conservation and efficiency. Natural gas has important immediate and long term roles to play in carrying out these federal and state policies.

As the Commission is aware, electricity is generated primarily by coal, natural gas, oil, nuclear power, hydroelectric power, wind or solar energy. Unlike other fossil fuels used to generate electricity, natural gas is very efficient and clean burning. Natural gas emits lower levels of potentially harmful byproducts into the atmosphere¹¹ and loses only about 10% of its useable energy from wellhead to burner tip, whereas electricity generated from coal, natural gas or oil experiences about 70% energy loss from generation to the point of consumption. Indeed, natural gas is the cleanest-burning fossil fuel,¹² when used in the generation of electricity, industrial boilers and other applications, combustion of natural gas emits lower levels of NO_x, CO₂ and particular emissions, and virtually no SO₂ and mercury emissions.¹³

In addition to being a more efficient and cleaner fuel to generate electricity, natural gas provides benefits consistent with federal and state policies to conserve natural resources and reduce dependence on foreign oil when used in direct residential and commercial applications (space heating, water heating, cooking and clothes drying)

¹¹ See, e.g., *Overview of Natural Gas; Background*, <http://www.naturalgas.org/overview/background.asp>; *Environmental Benefits of Natural Gas*, <http://www.alagasco.com/fw/main/Environmental-Benefits-of-Natural-Gas-516.html>.

¹² Pennsylvania Economy League Study, p. 2.

¹³ *Natural Gas and the Environment*, <http://www.naturalgas.org/environment/naturalgas.asp#industrial>.

instead of electricity. Studies show that switching from electricity to gas for direct use applications will promote conservation of electricity and more efficient use of electricity.

For example, an April 2008 study prepared by Black & Veatch for the American Gas Foundation concluded that “[i]ncreased direct use of natural gas in residential and commercial applications can improve the productivity of available energy supplies and reduce overall energy cost.”¹⁴ Similarly, a June 2009 report issued by the Gas Research Institute reached the following conclusions:

- Increasing the direct use of natural gas will reduce primary energy consumption, consumer energy costs, and national CO₂ emissions compared to “business-as-usual.”
- Providing subsidies to increase the direct use of natural gas will provide greater benefits than providing comparable subsidies to electric end-use technologies with respect to reducing primary energy consumption, consumer energy costs and national CO₂ emissions.
- While subsidizing natural gas end use equipment will increase the amount of natural gas used in the commercial and residential end use market, it will also result in reduced fossil fuel production and a net reduction in CO₂ emissions due to the better full cycle efficiency of natural gas end use equipment coupled with the resultant power generation fuel mix. Also, the per capita consumption of natural gas will decline.¹⁵

Accordingly, it is clear that in the short term natural gas can serve as a bridge to energy conservation and more efficient energy use, and in the long term as a vital component of measures to promote environmentally friendly energy production and use.

¹⁴ *Direct Use of Natural Gas - Implications for Power Generation, Energy Efficiency, and Carbon Emissions*, <http://www.gasfoundation.org/ResearchStudies/AGFDirectUseStudy.pdf>. The study used a variety of modeling scenarios based on Department of Energy and Energy Information Agency data to examine the impact of increasing the direct use of natural gas for residential and commercial end uses that can be powered by either gas or electricity.

¹⁵ *Validation of Direct Natural Gas Use to Reduce CO₂ Emissions*, http://media.godashboard.com/gti/GTI-09-0007_20760_2009-06-26_FinalReport.pdf.

IV. Specific Steps to Increase Production and Use of Pennsylvania Natural Gas

IOGA suggests that the Commission include the following specific steps in any policies adopted as a result of this investigation.

First, the Commission should conduct an examination of the tariffs of natural gas distribution companies (NGDCs) that use Pennsylvania natural gas production to make certain that there are no unreasonable barriers to producers' access to and use of the utilities' facilities. To facilitate this examination, the Commission should require these NGDCs to identify their tariff provisions and non-tariffed operational rules (such as meter tap request procedures and rules) and contract provisions that affect producers' delivery of their Pennsylvania production to the utilities' facilities and to end-use customers, and require the utilities to show that these provisions are consistent with increasing the production and use of Pennsylvania produced natural gas. The examination should also include a review of the ability of NGDCs with little or no competitive supply on their systems to have "open access" seasons for marketers for commercial and industrial customers.

Second, the Commission should review the electric distribution companies' Act 129 energy efficiency and conservation plans for electricity-to-gas fuel switching programs to determine the extent to which the programs target Pennsylvania production, and adjust the programs as appropriate to do so to benefit end Pennsylvania use customers.

Third, the Commission should investigate the extent to which funds are available under Act 129, the Recovery Act or other sources for capital projects to improve the facilities for gathering and transporting Pennsylvania produced natural gas to end users.

Finally, the Commission should establish incentives and mandates for the use of clean burning natural gas fired vehicles for use by the regulated fixed utilities as well as common and contract carriers, such as taxis, commercial truck fleets and bus lines.

CONCLUSION

IOGA suggests that the policies adopted by the Commission to promote energy conservation and more efficient use of energy must also promote increased, not decreased, production and use of Pennsylvania's cleanest fossil fuel – natural gas. Moreover, given the demonstrable benefits that accrue to the Commonwealth from the use of Pennsylvania produced natural gas, the Commission's policies should include steps, such as those identified above, to affirmatively promote and enhance the use of Pennsylvania produced natural gas.

Respectfully submitted,



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