



A Growing Demand for **PIPELINE INFRASTRUCTURE**

To get natural gas supplies to market, a new network is imperative

BY DON SANTA

While the Polar Vortex sent shivers down the spines of many in the United States this winter, it also shined a spotlight on the need for more pipeline infrastructure to bring natural gas from new, prolific supply areas to growing markets. Much has been said about how the shale gas revolution has revitalized American manufacturing, created jobs and made home heating and electricity cheaper for American consumers, but far less attention has been given to the pipelines that transport that energy.

This winter certainly would have been far more troublesome without our new domestic natural gas abundance. But supply is only one side of the coin. The other side is infrastructure, and indeed, pipelines make the delivery of new shale gas supplies possible and keep Americans warm by bringing the supplies to the markets.

Despite their location on the doorstep of the Marcellus Shale — the single largest natural gas

deposit in the country — Northeastern consumers faced natural gas price spikes this past winter as an unprecedented surge in demand from power plants and homeowners overwhelmed limited pipeline infrastructure. As the temperature in New York City plummeted to 7 degrees Fahrenheit on January 22, the price to deliver natural gas into the city jumped to a record \$123 per thousand cubic feet on the spot market. On the same day, it cost less than \$5 to purchase the same volume of gas at the Henry Hub in Louisiana, the benchmark for U.S. natural gas prices.

Why the price disparity? Because capacity is limited on the last few miles of pipeline needed for delivering Marcellus Shale gas to consumers in New England and New York. The Arctic weather has revealed some critical bottlenecks in the region's pipeline infrastructure, underscoring the need to add more pipeline capacity so that all consumers can realize the full benefit of low-cost energy.

Benefits of and Challenges to Energy Access in the 21st Century



As many as ten pipeline projects are now in the works to deliver an extra two billion cubic feet of gas from the Marcellus Shale into the Northeast and Mid-Atlantic. With the current schedule, half that capacity won't be completed until late 2018, so lawmakers in Congress are trying to accelerate the process.

Generally speaking, the permitting process for interstate natural gas pipelines works well. The Federal Energy Regulatory Commission (FERC) grants pipeline companies authority to construct a pipeline only after the Commission determines that the pipeline is needed. In the terms used by the Natural Gas Act, FERC must find that the project meets the "public convenience and necessity." While this can be demonstrated in a number of ways, the most typical way is for the pipeline company to present service agreements in which shippers commit to paying for firm service over a term of multiple years. In other words, if enough customers are willing to pay reservation charges under a multi-year contract for firm pipeline service, the need for the proposed pipeline has been demonstrated.

Even though the interstate natural gas pipeline permitting process works better than many other forms of energy, it is still arduous. The federal regulatory approval process for constructing natural gas pipeline infrastructure can take three years or longer. The House has debated and approved legislation (H.R. 1900) authored by Rep. Mike Pompeo (Republican-Kansas) to bring some discipline and accountability to the pipeline permitting process. We support this legislation and hope the Senate will act soon to move it forward. It is one of the few areas where Congress can make a measurable improvement to allow Americans to take full advantage of new natural gas supplies by constructing the pipeline network that will be needed to keep pace with dynamic shifts in supply and demand.

We should not assume that the current natural gas pipeline and storage infrastructure will be sufficient to handle present and future supply development. Natural gas has given the U.S. a phenomenal advantage. But to realize this advantage fully, we need to build the infrastructure that will permit all Americans to benefit from the shale revolution. ✪



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Don Santa testified before House Subcommittee on Energy and Power Committee on Energy and Commerce on this topic on March 6, 2014. Following are excerpts from his testimony.

...One of the major challenges today, as we continue to develop and consume our natural gas resources, is building infrastructure that keeps pace with the evolving supply and demand realities. In connection with this, it is critically important to understand that this is not a "build it and they will come" business. Pipeline infrastructure is not built on speculation. Instead, natural gas transmission pipelines are built to meet the needs of firm shippers willing to sign long-term contracts for pipeline capacity utilization. Why is this?

First, natural gas transmission pipelines are capital intensive, long-lived, immobile assets. Compared with other modes of transportation—a ship, an airplane, a train or a truck—a pipeline cannot be relocated in response to shifts in the marketplace. While pipelines can be repurposed in some cases (for example, by changing the direction of product flows or converting a pipeline from natural gas to crude oil transportation), such opportunities typically do not exist. Generally speaking, once a pipeline is in the ground, the operator has made a long-term commitment.

...Let me address one question that has been raised in connection with H.R. 1900. Some have questioned the need for the legislation, because "the FERC approves pipeline certificates in one year or less." This is certainly true, and if FERC were the only entity from which the sponsor of a proposed pipeline needed approval, that would be terrific...Note, however, that when the time needed to participate in the FERC pre-filing process is included, the actual time needed to obtain a certificate of public convenience and necessity can approach 24 months. The deadline for FERC contained within H.R. 1900 only pertains to the formal application process, and does not include a deadline for pre-filing activities that take place before a formal application is filed.

But, in order to proceed to construction, a proposed pipeline also must obtain other permits from a myriad of federal and state agencies. It is with these permits that the real delays happen, and where real discipline and accountability are needed. INGAA's analysis demonstrates that these agency permits (and not the FERC certificate process) are being delayed for longer periods than in years past. This is not a positive trend, and it is precisely why H.R. 1900 is needed.

For the complete testimony, visit www.ingaa.org.