BEFORE THE
PUBLIC SERVICE COMMISSION
STATE OF NEW YORK

Proceeding on Motion of the Commission To Examine Policies Regarding the Expansion of Natural Gas Service.	)	**Case 12-G-0297**

COMMENTS OF
AMERICA'S NATURAL GAS ALLIANCE

America's Natural Gas Alliance (ANGA) is an educational and advocacy organization dedicated to increasing appreciation for the environmental, economic, and national security benefits of North American natural gas. ANGA's members include the leading North American independent natural gas exploration and production companies. The collective natural gas production of the ANGA member companies is approximately nine trillion cubic feet per year, which represents about 40 percent of the total annual U.S. natural gas supply.

ANGA appreciates the opportunity to submit these Comments to the Public Service Commission of New York (Commission) in the above captioned proceeding. The Commission instituted this docket to examine existing barriers to the expanded use of natural gas in New York State. This examination is being undertaken as part of the Governor's Energy Highway Initiative, which seeks to increase access to cheap and clean sources of energy across the state. ANGA believes that this proceeding is timely, given the increasing interest that customers are showing in low-priced and environmentally friendly natural gas. A primary role that ANGA is able to play for policymakers and consumers is to help confirm the necessary confidence that growing use of natural gas will be supported by abundant and reasonably priced supply, far into the future.

In the case of the Commission's inquiry, ANGA believes that there must be confidence in the answers to three basic questions:

(1) Is there a natural gas resource base sufficient to support expanded natural gas consumption for the long term, including all such expanded use in the United States and potentially for exports?
(2) Is there a capability and willingness for that natural gas to be brought to market, such that wellhead supplies can remain abundant and reasonably priced? and
(3) Will or can the infrastructure be in place to allow delivery of the necessary natural gas supplies into the New York market, to allow reliability and reasonable/stable pricing?

As explained in these comments, the answer to all three questions is a resounding yes. The Commission can have all necessary confidence in the ability for expanded use to be served reliably and economically. As is explained in Section 4, below, the last question—regarding infrastructure—will require further progress in areas outside the ambit of ANGA's members, the pipeline infrastructure serving the state.

1. The National Resource

Estimates of the recoverable natural gas resource base in the United States have varied from year to year as more experience is gained with production in the shale plays. Nonetheless, these estimates have remained consistently high since the recognition of the abundance afforded by shale gas began making its way into the estimation process. The U.S. Energy Information Administration (EIA) began recognizing this abundance subsequent to its 2008 Annual Energy Outlook (AEO2008), which had estimated the total resource base at only 1,530 trillion cubic feet (Tcf). The estimates have stepped up until, in AEO 2012, the resource base is estimated at over 2,203 Tcf, of technically recoverable natural gas resources (as of January 1, 2010).[1] Very simply, both the industry and EIA recognize a very large resource base.

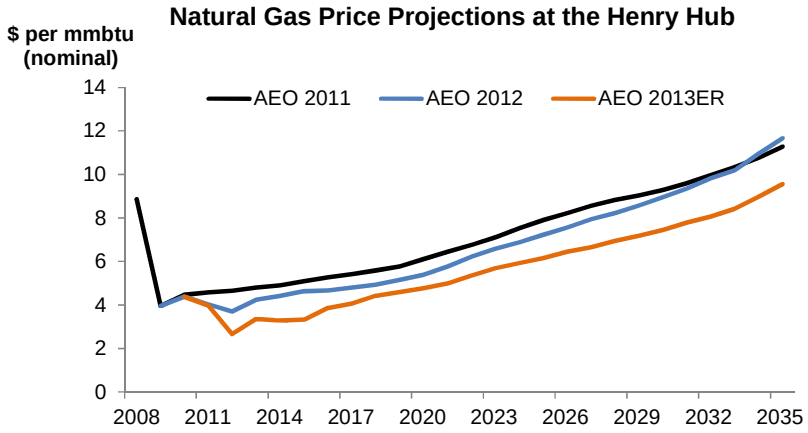
Additionally, other independent analysts suggest that EIA is still significantly understating the U.S. natural gas resource. ICF International has conducted its own "bottom-up" assessment of detailed geological data, development feasibility factors, and well recovery and

[1]U.S. EIA. Annual Energy Outlook 2011. Oil and Gas Supply Module. Table 9.2. Technically recoverable U.S. natural gas resources as of January 1, 2010.

production profiles. The result is an estimate of 3,105 Tcf of natural gas resource, 41 percent higher than EIA's 2012 estimate.[2] ICF also estimates an additional 869 Tcf of natural gas resources in Canada.[3] And both EIA and ICF (and all other major forecasters) base their estimates on current technology, in an industry where continuous technological advances have steadily increased the quantity of gas that can be economically recovered—in short, the ultimate numbers are bound to be larger, not smaller.

2. Updated EIA Assumptions Demonstrate Expanded Potential for Gas

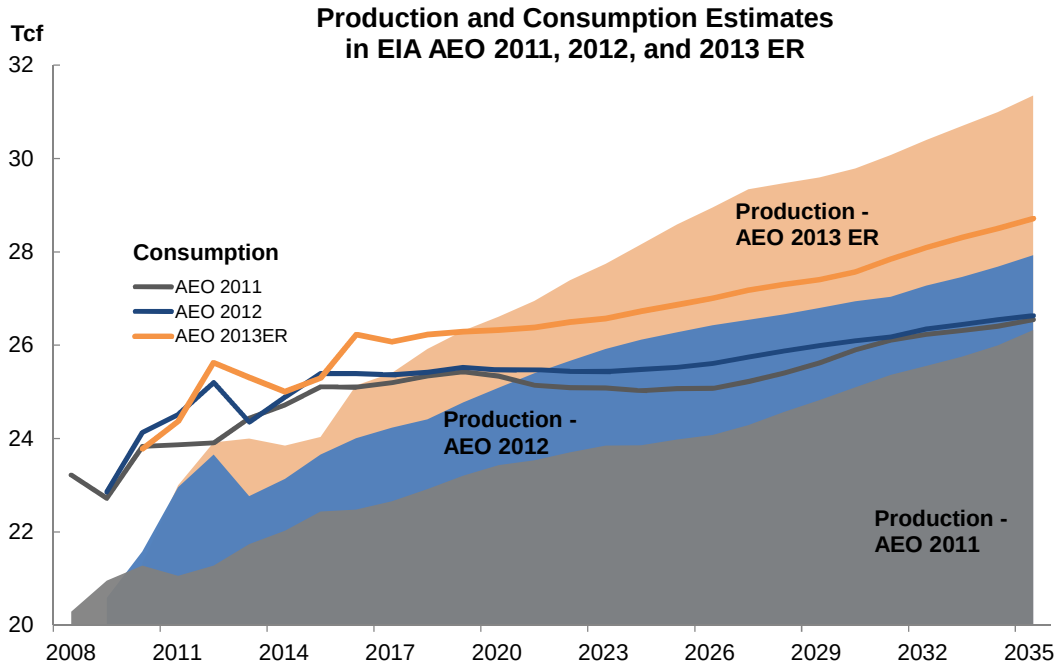
In addition to the "gas in the ground," of course, the expansion of natural gas use requires confidence that the natural gas is coming to market, and can respond to growth in market demand. That has certainly been the experience with the nation's shale-enhanced natural gas production. Year after year, the production forecasts in each AEO have increased and price forecasts have decreased. Comparing AEO 2011 with the two most recent outlooks (AEO 2012 and AEO 2013 Early Release) suggests that, even with higher than forecasted demand, domestic natural gas prices can stay within a reasonable range a range that has dropped lower with each estimate. As shown in the figure below, EIA has consistently reduced its price projections for natural gas since issuing AEO2011—the later the estimate, the lower the price. Why? Because more natural gas is recognized as coming forth.



[2] ICF International. Assessment of New York City Natural Gas Market Fundamentals and Life Cycle Fuel Emissions.

[3] Ibid.

To demonstrate this growth in production estimates and change in the supply-demand balance, the figure below compares the EIA forecasts of natural gas production and consumption, as reported in the AEO 2011, 2012, and 2013 Early Release. The AEO 2013 Early Release projects consumption in 2035 that is 8% higher than the AEO 2011 forecast, but the 2035 production levels are projected to be 19% higher than in the AEO 2011. There is no indication of a coming reversal of this trend. Robust domestic production has the potential to support much greater consumption.



3. National Wellhead Prices Can Remain Reasonable and Stable

In the past, until the recognition of shale-driven abundance in 2008, natural gas prices often exhibited a tendency toward high volatility. However, in the period subsequent to that recognition, the experience, at least at the wellhead, demonstrates that price volatility can be an artifact of the past.

Because of the history and resulting concern over price volatility among natural gas consuming sectors, in 2010 a broad group of industry stakeholders—power generators, regulators, industrial consumers, producers, pipelines, strategic advisors, and trade associations—was assembled to consider the prospects for price stability going forward in light of shale-driven abundance.

The effort, convened and managed by the Bipartisan Policy Center and the American Clean Skies Foundation, resulted in a series of multi-discipline white papers, extensive group discussions and deliberations, and, ultimately, a master report, released in 2011.[4] As noted, the task force included a very broad base of representation from across the market, representing chemical manufacturing, car manufacturing, natural gas pipelines, environmental organizations, natural gas distributors, integrated utilities, consumer advocates, major natural gas producers, and state regulators. In fact, there was active representation on the task force from a major chemical manufacturer that had long been a critic of the natural gas industry because of perceived price volatility.

The task force concluded, from the many expert reports presented to it and from its own wide-ranging roundtable discussions, that the fundamentals of the natural gas market have changed to the point that the longstanding reasons for historic natural gas price volatility have been overcome. In ANGA's view, the breadth of interests in this task force, coupled with the time and effort that went into its report, should confer a great deal of credibility. Natural gas abundance is here to stay, and the nature of its development should offer stable, reliable pricing in the future.

The bottom line to the EIA assessments and the broad industry consensus of the price stability task force is simply that the U.S. gas producing industry has done its job and that vast quantities of affordable natural gas supply have been and are being brought to market from a resource that may be virtually inexhaustible.

4. Infrastructure Growth is Robust and Can Be Available as Needed

The remaining piece of the puzzle for New York in expanding natural gas use is the sufficiency of the pipeline and storage infrastructure that actually delivers the natural gas to consumers. New York has often experienced a degree of pipeline constraints, as consuming markets including power generation "pull" harder on supplies than the capacity of the pipelines can support. To the extent high prices have been observed in New York in recent winters, it is critical to recognize that these prices result from delivery pipeline constraints, not from any

[4] **Final Report of Task Force on Ensuring Stable Natural Gas Markets** 03/22/2011, http://www.cleanskies.org/pricestabilitytaskforce/.

shortage or constraint of natural gas supplies themselves. The significance of this recognition is that any such constraint may be remedied, simply by expanding pipe.

Shale gas also offers a characteristic never before seen in the United States—much of the production is within, or contiguous to, the consuming markets. This means that long-line pipeline constraints, which in the past could have caused temporarily high prices in the Northeast, will no longer be relevant. Of course, the potential production closest to New York markets—the shale gas actually accessible in New York—must await final decisions and approvals for development to begin. But even without that production, the extensive development in Pennsylvania, Ohio, and West Virginia has forever altered the access situation into the Northeast. While our colleagues in the pipeline industry, represented by the Interstate Natural Gas Association of America (INGAA), are the ultimate experts and the ultimate developers of new capacity, it is apparent from ANGA's perspective that any local issues are more readily resolved now, with the availability of local supply, than they might have been a few years ago. Additionally, INGAA has repeatedly expressed the pipeline industry's success in adding capacity throughout the nation over the last decade, and the industry's willingness and ability to make needed expansions in the Northeast. In short, any pipe-driven constraints should be a short-term phenomenon.

The interstate pipeline industry has certainly maintained a strong pace of development. From 2005 through 2010, INGAA's research group, the INGAA Foundation, indicates that annual investment averaged $8.8 billion 2010 per year. The projected investments through 2035 have been estimated to be as much as $13 billion per year.[5] So it is clear that the pipeline industry stands ready to serve as customer requirements lead to the need for expansions.

[5] "North American Midstream Infrastructure Through 2035 –A Secure Energy Future," the INGAA Foundation, 2011.

CONCLUSION

The abundance of accessible natural gas is providing consumers in all sectors – electricity generation, manufacturing, commercial and residential heating and cooling, and transportation – with the confidence to expand their domestic operations and purchase natural gas fueled equipment. The Commission can enjoy the same confidence in formulating policies to encourage expanded access to natural gas in New York State. This is an opportunity to share with many more consumers the massive savings that are already accruing to New York's existing natural gas consumers and consumers of natural gas-generated electricity. Based upon a 2012 study by Navigant Consulting Inc., New York consumers are conservatively saving over $2.8 billion per year, 17 percent of the bill for natural gas customers and 5 percent of the bill for all power customers.[6] These economic benefits of abundant, affordable supply could be extended to much more of New York's population.

Respectfully submitted,

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[6] The Impact of Natural Gas Abundance on New York Consumers, A Study by Navigant Consulting Inc., March 2012. The study compared actual retail costs for 2011 with the same natural gas repriced at an average of the retail prices for 2007-2009. This study is conservative in that prices have since dropped below the 2011 level, and the level against which they are compared includes both high and modest price periods rather than simply the very high prices experienced in 2008.