Across the East Coast, utilities are working with energy planners, regulators and policymakers to bring natural gas to new customers. **BY CLAIRE LEVINE**

**T**here’s no question that new shale gas supplies have created fundamental shifts in America’s energy axis. Natural gas has regained its competitive edge across all customer sectors. Americans are saving money while reducing the effect of their energy use on the environment. But barriers continue to stand between abundant gas supplies and potential gas customers, even in states near major shale basins.

The good news is that energy planners, regulators and policymakers across the East Coast see natural gas as a solution to issues ranging from environmental protection to economic development.

On the interstate transportation front, pipeline operators and utilities are planning new transmission capacity for underserved regions. At the state level, officials increasingly see the need to help natural gas utilities bring their product to new residential, commercial and industrial customers.

**The Atlantic Coast Pipeline: Serving an Underserved Region**

Shale gas has been the energy phenomenon of the 21st century, but the transmission system for that gas is based on decades-old production patterns.

States such as Mississippi are well-served by transmission pipelines that bring Texas and Gulf Coast gas to Eastern population centers. Yet North Carolina, situated near gas-producing Utica and Marcellus shale deposits, is still only served by a single pipeline. Utilities have limited buying options and are challenged to meet growing demand.

Virginia, too, needs more capacity. Constraints on gas availability mean that Virginia utilities “have had to curtail [natural gas] service, including to U.S. Navy facilities,” said Aaron Ruby, media relations manager at Dominion Energy.

Ruby said federal budget cutbacks have left highly educated and skilled members of the military without jobs. While a talented employee pool is an excellent basis for attracting new manufacturing, the state can’t welcome new industry without greater natural gas supplies.

These are some of the reasons regional leaders are welcoming the Atlantic Coast Pipeline, a project of Dominion, Duke Energy, Piedmont Natural Gas and Southern Company Gas. The 600-mile, $5 billion pipeline would transport gas from the Marcellus fields of northwest West Virginia. North Carolina would receive 70 percent of the gas, with the remainder going to Virginia.

Another major push for the ACP is the federal Clean Power Plan. Dominion Virginia Power and Duke Energy, two major subscribers, are in the process of replacing old coal-fired power plants with a new fleet of natural gas facilities to comply with the new regulations.

Five public utilities already have subscribed to about 92 percent of the proposed capacity—an amount that is testament to how greatly the area needs another interstate pipeline.

The coalition expects final Federal Energy Regulatory Commission approval in 2017, with operations beginning in 2019. “Large parts of Eastern North Carolina are struggling economically, partially because of lack of gas infrastructure. It’s been a real handicap,” Ruby said.

In Virginia, economic development officials have had to turn away manufacturers interested in locating in the area because there wasn’t enough natural gas to serve new large customers.

North Carolina’s State Senator Andrew Brock said that constituents in the poorest parts of his state frequently ask when they can expect to see new gas resources: “I hear it from farmers, from homeowners, from business people.”

“The ACP is a game changer,” added Ruby.
State Support Equals New Customers

States are looking for ways to reduce greenhouse gas production, serve residential customers in emerging communities and attract job-growing industry. Natural gas is an attractive solution.

But there’s an inevitable conflict: Most pipeline extensions can’t bring the payback that regulators require for the utility’s capital investment. In recent years, lawmakers on the East Coast and in other regions of the country have started to address this situation, creating strong partnerships and helping states meet a variety of policy goals. Here is a closer look at some of the steps being taken in three states.

**CONNECTICUT.** In most states, between 50 and 72 percent of homes use natural gas heat. In Connecticut, that figure is 31 percent. The primary competitor? Heating oil.

Connecticut lawmakers want to encourage homeowners and businesses to convert to natural gas. So, in 2013, they passed a variety of incentives to help customers and natural gas utilities make that happen. The stated goal was adding 300,000 residential and commercial natural gas customers, including more than 80,000 not already on main lines.

Those incentives include on-the-bill financing of upfront conversion costs, alternative financing for low-income homeowners and regulatory changes to support main extensions.

With incentives in place, Connecticut utility Eversource has set ambitious goals to bring natural gas to communities throughout its territory. Plans offer a geography lesson of Connecticut towns where the expansion work has already occurred or is now taking place: Groton; Ansonia; Putnam; Stamford; Bristol and more. The town of Bozrah has gas service for the first time, at the request of local businesses and community leaders.

Mitch Gross, Eversource spokesman, said the company is confident it will meet its 2016 goal of 7,067 new customers, following 2015’s success at converting 5,965 homes and businesses. By the 10-year sunset period, the company hopes to have added a total of 82,000 conversion customers. It serves about 226,000 today.

“The new policy helped bring natural gas to the forefront as a practical choice,” Gross said. “No more heating oil delivery worries. No heating system cleanings. No tank in the basement. And of course, the environmental benefits.”

Lawmakers also intended the incentives to help consumers save money.

Eversource has ramped up its marketing efforts to educate people about new natural gas benefits and opportunities. The company has enlisted its channel partners to offer additional conversion incentives.

The phones are always busy, Gross said, with people asking if natural gas is available in their neighborhoods.

**NORTH CAROLINA.** Economic development specialists have asked why automobile manufacturers choose neighboring states over North Carolina to build new facilities. Frequently, the answer is North Carolina’s lack of large-scale infrastructure in rural communities, and in particular, no natural gas transmission facilities.

George M. Baldwin, Piedmont’s managing director for government relations and sustainability, said, “We thought we should have a tool in place as the economic development community continues its recruiting of new energy-intensive industrial prospects.”

Earlier this year, the North Carolina Legislature passed SB 673, which encourages construction of natural gas infrastructure at sites the state Department of Commerce identifies as “job catalysts” and that would not otherwise meet economic feasibility requirements for pipeline extensions.

To be eligible, manufacturing operations must plan to invest at least $200 million in the site and expect to hire at least 1,500 employees.

Under SB 673, the Commerce secretary and state regulators can approve a utility request to roll costs above the projected payback into rates at slightly above the current return on equity. Approval includes assurance that favorable rate treatment will continue until the next general rate case.

Baldwin said the impact on existing residential customers should be less than $3 a year until changed in a general rate case. Benefits to the entire state—from new jobs and revenue—will be substantial.

Completion of the Atlantic Coast Pipeline will reinforce North Carolina’s ability to support job-creating industry throughout the state.

**MISSISSIPPI.** Locally owned Attala Steel Industries ships products from its Kosciusko manufacturing site to customers worldwide. But infrastructure constraints required the utility serving the plant to keep it on an interruptible schedule. At times, not enough gas could flow through the distribution system to meet both the industrial and residential needs of the community.

Reliability concerns threatened Attala’s future and its ability to grow in Mississippi.

Commissioner Brandon Presley of the Mississippi Public Service Commission
wanted to ensure Attala’s continued operations and find a way to attract new businesses to struggling areas of the state.

“We needed to bring energy resources to rural communities. It’s the way to compete for the jobs of tomorrow,” he said. “We’re on a mission.”

Under the state’s Supplemental Growth Rider, a utility will receive favorable rate treatment on up to $5 million in annual investment to cover the uneconomic portion of qualified investment—or that portion of the costs that will not be paid back by new customers in the time period required by regulators. Utilities are required to collaborate with the Mississippi Development Authority to identify appropriate sites with the necessary infrastructure expansion. The commission can also authorize rate treatments for higher levels of annual investment in the case of larger projects.

Over the last three years, the state estimates, gas infrastructure investment helped to secure an anticipated 5,000 direct jobs and nearly 7,000 secondary jobs in Mississippi. Two large tire manufacturing operations will account for a majority of these jobs.

Presley’s commitment to job growth doesn’t stop at big employers. He also initiated a discount program several years ago to help startup businesses connect to utilities. This program provides a lower cost of service for new small businesses during their first year of operation.

Bill Senter, Atmos Energy’s division vice president of rates and regulatory affairs, said the commissioner “has a big heart for helping out Main Street as much as he can. It provides a needed leg up for small businesses during their first year of business.”

It is clear that states are adopting creative tools to help the traditional regulatory model address 21st century priorities. The resulting partnerships allow local governments and states to set and manage goals for housing and job growth in concert with their natural gas distribution companies.

THE NEW ENGLAND DILEMMA

It would be logical to think that New England would already be benefiting from new natural gas resources in Pennsylvania, Ohio and West Virginia. But that’s not the case.

Lack of adequate transportation capacity means gas buyers—including power generators, local distribution companies and industrial users—compete for space on the interstate pipelines during cold, and sometimes hot, weather. This drives up the cost of both transportation and the gas itself.

As a result, New England has the nation’s highest electric rates and sometimes the highest natural gas rates.

Earlier this year, Marcy Reed, president of National Grid Massachusetts, told regional policymakers that transportation constraints have cost New England energy consumers about $7 billion in the last three to four years. She estimated future costs at $1 billion annually.

Both electric and gas utilities are urging development of new transmission capacity. So, what’s the problem? The nature of the electric industry in New England, according to Cathy Landry, vice president for communications of the Interstate Natural Gas Association of America.

In the 1990s, five of six New England states restructured their power generation and distribution systems, in essence separating power generation from the vertically integrated utilities that directly serve customers.

One unintended consequence of that restructuring has stalled regional pipeline expansion.

Unlike local utilities, which are required to ensure adequate supplies for their customers, independent power generators have no such obligation, Landry explained. They also have no assurance that they can recover transportation contracts in rates. Therefore, they lack incentive to subscribe to the long-term firm pipeline capacity needed to support a project before it is built.

Half of all New England’s electric generation is fueled by natural gas. But without the generators’ commitment, pipeline operators don’t have the financial guarantees needed to build the incremental capacity required to fuel that growing sector of the market.

In August, Massachusetts’ Supreme Judicial Court overturned a state proposal that would allow electric utilities to roll natural gas pipeline costs into customer rates.

The court based its decision on features of the original restructuring act, but the motivation behind the lawsuit was environmental concern. One plaintiff attorney referred to the state’s strategy as an “attempt to subsidize the dying fossil fuel industry.”

Landry said pipeline construction has always been constrained by the not-in-my-backyard—NIMBY—effect from residents concerned about safety and land use. But, “what we’ve seen recently is more general opposition from people outside affected communities. Some are protesting upstream practices like hydraulic fracturing. Others just want to stop fossil fuel use, and they see new pipelines as a deterrent to renewable energy development.”

State Sen. Andrew Brock of North Carolina said, “The environmentalists who oppose natural gas infrastructure are acting against their own interests. They are slowing down our ability to replace old, polluting coal plants with clean-burning natural gas generation.

“In the process, they are hurting their neighbors by slowing new industrial and job growth and turning away new tax revenues that can help everyone within the state.”

Landry said to expect continued—and often effective—opposition to natural gas and oil pipelines. Environmental activists “are well organized, they know how to use social media and they are emboldened by the success they had stopping the Keystone project,” she said.

Still, she said, natural gas projects will continue to get built; it’s just taking much longer than in the past. —C.L.