Good morning, Commissioners. My name is Mike McMahon. I am Senior Vice President and General Counsel of Boardwalk GP, LLC. Boardwalk owns three interstate pipelines, Gulf South, Texas Gas and Gulf Crossing, which operate in the Gulf Coast area and extend into Kentucky, Indiana and Ohio. The Boardwalk pipelines serve generators in both organized wholesale electric markets and bilateral markets.

I am here today to discuss potential infrastructure needs that may arise from compliance with the Environmental Protection Agency’s (EPA’s) Clean Power Plan proposed rule and the pre-requisites for this infrastructure to be built. The EPA’s front-loaded compliance timeline for generators, beginning in 2020, raises practical concerns whether the pipeline industry can physically construct needed pipeline infrastructure in a timely manner if electric utilities and generators likely will not know until 2017 or 2018, at the earliest, whether they will contract for pipeline capacity and, importantly, for how much.

1. INGAA is confident that the electric utility sector and natural gas pipeline sector can work together to meet the Clean Power Plan’s 2030 final deadline given that natural gas is a reliable and abundant fuel source.
2. Moreover, the pipeline industry has a successful track record of building infrastructure in a timely manner to bring this gas to market as demonstrated by the fact that interstate pipelines have built over 10,500 miles of pipeline over the last decade.

3. The interstate pipeline industry does not follow the “build it and they will come” model. Pipelines are built based on signed long-term firm transportation agreements.

4. Unlike the electric power industry model, pipelines typically do not socialize the costs of a new project that benefits only some shippers. Pipeline laterals or facilities that are designed to serve a single or limited number of customers typically are priced so that only the customers using the new pipeline capacity pay the full cost of the new facilities.

5. As a rule of thumb, on average, it takes interstate pipelines about four years to build major facilities. In certain areas such as the Northeast, this time period may be much longer. The time span includes the time between when the pipeline markets the project and when the pipeline is in the ground and can begin service. This timeline can vary due to a number of factors including project size, location and permitting challenges.

6. The EPA’s proposed rule provides generators a very tight time period between the certainty of EPA approving their state’s compliance plan in 2017 or 2018, at the earliest, and having to meet EPA’s interim compliance timeline beginning in 2020, which requires annual reductions through 2030.

7. Even with the pipeline industry’s successful track record for building, the pipeline industry is concerned that if a generator, or electric utility, does not contract for new pipeline capacity until after EPA approves the state’s plan, it is unrealistic to believe that substantial additional pipeline capacity will be in place by 2020.
8. Unlike the electric industry, the gas industry does not have, or need, regional or centralized planning because pipelines are built based upon signed contracts which support the new capacity. Interstate pipelines actively search for new market opportunities to build/expand pipelines and to market services, and as part of that, pipelines are available to consult with generators and state and federal regulators to discuss these opportunities.

9. The pipeline industry is very competitive. For example, in the Gulf Coast region, Boardwalk’s interstate pipelines compete heavily with both intrastate and interstate pipelines to build pipeline infrastructure for new or increased load.

10. Yet, because decisions about how to comply with the Clean Power Plan rest with generators and state and federal regulators, pipeline companies must await those choices before a pipeline can ascertain the amount and location of pipeline capacity that may be needed. The pipeline industry in not in the position to predict future market need for the electric industry. Pipeline companies will not embark seriously on advancing any resulting pipeline projects until shippers sign long-term contracts to support the development of such facilities.

11. Compliance with the Clean Power Plan and the issue of whether the needed infrastructure will be in place in time is another facet of the ongoing gas-electric integration discussions. And to the extent that the Clean Power Plan has created uncertainty regarding future needs for electric generation, it is yet another complication in resolving gas-electric integration issues.

12. Unlike the previous discussions concerning gas-electric integration, the need for pipeline infrastructure, and who will pay for it to ensure electric reliability given the tight time constraints in which such decisions must be made, is not just limited to the organized
wholesale electric markets. The issue also confronts electric utilities (and generators) in bilateral markets.

13. The issue still comes down to how much pipeline capacity is available during peak gas demand periods for the electric industry to ensure reliability.

14. As reflected in INGAA’s December 2014 comments on the Clean Power Plan filed with EPA, pipelines have identified concerns with several of EPA’s high level assumptions regarding the load factor of existing gas-fired generation and the amount of additional pipeline capacity needed to support generation. EPA assumes that existing gas-fired generation will be used at a higher load factor in off-peak pipeline periods, which EPA claims would not require as much pipeline expansion. EPA then looked at the amount of additional pipeline capacity that would be needed to support the increased use of combined cycle generators and determined that the pipeline industry would be able to construct that amount of incremental infrastructure. EPA needs to perform a more detailed analysis of its assumptions regarding the ability to achieve compliance with the goals of the Clean Power Plan by dispatching combined cycle generators at higher levels during off peak periods.

While it is true that pipelines’ traditional anchor shippers, the local distribution companies (LDCs), typically do not fully utilize their capacity in the off-peak periods (Summer months May-September), and it may be available for use by others, including gas-fired generations, that may not always be the case. There are several factors that will affect the availability of off-peak capacity, such as whether customers are using capacity for storage refill needs, whether pipelines are performing maintenance, whether the capacity of an LDC is being placed in the hands of asset managers that are utilizing the capacity, and a variety of other market factors that affect the availability of pipeline capacity.
INGAA is concerned with some scenarios under which demand for natural gas attributable to compliance with the Clean Power Plan will ramp up quickly in the early 2020s and then decline almost as quickly in the latter part of the decade. The EPA assumes natural gas demand will decrease in later years as energy efficiency will reduce the overall demand for electricity and as renewable sources of energy achieve greater market penetration. Such scenarios are driven by assumptions, which could prove wrong. Still, these scenarios introduce an element of uncertainty that could affect pipeline shippers’ willingness to commit to the long-term contracts necessary to support the construction of new natural gas pipeline infrastructure and the willingness of pipeline companies to make capital investments in facilities that could be stranded upon the expiration of the initial contracts. Pipelines are long-life assets. Prior to making an investment in such infrastructure, a pipeline company must be confident that it can subscribe the pipeline’s capacity not only for the initial term of the anchor contracts but for the life of the asset. EPA’s assessment gives the industry and investors pause about investing in these capital-intensive assets if there is significant risk for under-recovery. In addition, it is understandable why a shipper would not sign a 15-year contract (2020-2035) for pipeline transportation, if the demand for the gas will disappear by 2030.

Finally, depending on how much pipeline capacity is needed beginning in 2020 for entities to comply with the Clean Power Plan, INGAA is concerned that there may be challenges for the pipeline industry to acquire necessary pipe materials, skilled workers and other resources if there are requests to construct a significant amount of pipeline infrastructure in a tight period.

INGAA is confident that the electric utility sector and natural gas pipeline sector can work together to meet the Clean Power Plan’s 2030 final compliance deadline. Consistent with
concerns expressed by others, INGAA also is concerned that the time between EPA’s approval of a state’s compliance plan and the interim timelines for generators to meet carbon dioxide reductions beginning in 2020 may not provide the pipeline industry sufficient time to build needed infrastructure.