

**BEFORE THE COMMUNITY, ECONOMIC &
RECREATIONAL DEVELOPMENT COMMITTEE
AND THE ENVIRONMENTAL RESOURCES &
ENERGY COMMITTEE**

Testimony Of

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**Regarding the Impact of Changes in the Natural Gas Market
on Pennsylvania's Natural Gas Distribution Company Gas Cost Rates**

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**Chair Yudichak, Chair Yaw, Chair Cappelletti, Chair Comitta and
Members of the Committees**

My name is Christine Maloni Hoover. I am serving as the Interim Acting Consumer Advocate for the Office of Consumer Advocate since the retirement of Tanya McCloskey at the end of May of 2021. I have worked at the Office of Consumer Advocate since 1987 and have been a senior attorney there for more than 20 years. Thank you for having me here today to discuss the impact on natural gas prices paid by Pennsylvania consumers as a result of the recent PennEast pipeline suspension. The focus of my testimony today is on the impact of current market conditions on rates and the Office of Consumer Advocate's role in the review of natural gas cost rates before the Public Utility Commission.

Let me first introduce the Members of the Committees to the Pennsylvania Office of Consumer Advocate (OCA). The OCA was established by the General Assembly in 1976 to fill a gap that had long existed in the representation of utility consumers – particularly residential consumers – before the Pennsylvania Public Utility Commission (PUC) and other state and federal agencies and courts that regulate the activities of Pennsylvania's public utilities. Traditionally, utilities have always been well-represented at the PUC by lawyers and expert witnesses who could advocate for utility investors in matters such as rate increase requests for utility services. Our Office was created so that the consumers who have to pay those utility bills would be represented by professional attorneys and experts who could advocate for the consumer interest.

In addition to our litigation activities, the OCA helps to educate consumers on matters involving their utility services. The OCA staff help to plan and participate in consumer presentations, roundtables, and forums across the Commonwealth to help educate consumers about changes in the utility industry and to advise them about cases that affect them. The OCA has an

active social media presence to provide consumers with helpful information about their utility service and we have a small staff of consumer service representatives who can assist individual consumers with utility problems. The OCA also serves as a resource to members of the General Assembly by responding to constituent concerns and by providing our views on how proposed legislation would affect the interests of Pennsylvania consumers.

In representing Pennsylvania's utility consumers, my primary responsibility is to ensure that Pennsylvania consumers enjoy safe and reliable service at reasonable prices. For natural gas service, it is critical in my view that consumers have service that is reliable, efficient, economic, environmentally sustainable, and diverse. We have worked over the decades, at the state and federal levels, to achieve these goals in the most cost-effective manner for consumers. Today Pennsylvania's natural gas ratepayers receive diverse supply primarily through the Marcellus Shale region and traditional gulf region sources. Development of shale gas has resulted in significant changes in the usage of natural gas in Pennsylvania and surrounding states, primarily through the increase in demand for natural gas to power electric generation.

On an annual basis, our Office files a Formal Complaint in each large natural gas utility's annual "Purchased Gas Cost" (PGC) filing under Section 1307(f) of the Public Utility Code. The OCA reviews the natural gas procurement strategies and practices of each utility in an effort to ensure that the Company's portfolio results in "least cost procurement" in accordance with all statutory requirements. Under Pennsylvania law, each utility purchases natural gas and delivery services in the wholesale market necessary to meet its demand obligations, and passes on those costs, dollar for dollar, to ratepayers through the PGC mechanism.

The OCA participates in the annual natural gas review proceedings to ensure that these purchases are reasonably designed and timed to meet the least cost procurement standard,

competitively procured, and produce affordable rates.¹ This includes a review of the pipeline transportation contracts and storage contracts that are needed to ensure each company's natural gas system is adequately supplied throughout the year. Each year, our office hires expert witnesses to review the companies' filings. This review process involves extensive discovery and the development of expert testimony and recommendations, when needed, to ensure that ratepayer interests are protected. Included in the review is the purchase of all natural gas commodity, along with a review of the pipeline and storage contracts that are required to ensure that natural gas is delivered safely and reliably when needed – particularly through the winter heating season.

Prior to the development of shale gas extraction in Pennsylvania and neighboring states, our utilities were primarily dependent upon traditional natural gas resources in the Gulf of Mexico and Southwest states. The development of shale gas has had significant ratepayer benefits. The Public Utility Commission's most recent Gas Outlook Report, released in December 2020, notes that the average price paid for natural gas in 2009 across our large natural gas utilities was

¹ The OCA typically reviews the following issues for all Company PGC filings:

- (1) Reasonableness and prudence of historic period purchased gas costs and assessment of compliance with Commission Orders in previous 1307(f) cases;
- (2) Reasonableness and accuracy of estimating natural gas costs during the interim and prospective periods;
- (3) Reasonableness and prudence of the Company's natural gas supply mix;
- (4) Reasonableness and prudence of the Company's mix of demand entitlements, storage, and other supply sources and reasonableness of the Company's estimate of design day requirements;
- (5) Reasonableness and prudence of contracts with pipelines and suppliers;
- (6) Reasonableness of the Company's allocation of purchased gas costs between customer classes and assessment of any other subsidies or unreasonable discrimination between customer classes;
- (7) Reasonableness and prudence of the Company's use of capacity release, off-system sales, and interruptible sales and the crediting of such revenues to PGC ratepayers;
- (8) Assessment of the value of any purchased gas cost incentive mechanisms as components of a least cost fuel procurement policy;
- (9) Reasonableness of sales volumes projections;
- (10) Reasonableness of natural gas cost recovery mechanisms;
- (11) Reasonableness of hedging transactions and strategies entered into under the terms of previous PGC settlements and assessment of the Company's plan to evaluate and continue to incorporate Marcellus Shale production into its supply portfolio;
- (12) The Company's overall compliance with Section 1307(f) of the Public Utility Code; and
- (13) Assessment of the Company's high volume transportation program.

\$7.78/Mcf. Ten years later, in 2019, the average price paid was \$4.37/Mcf. Pennsylvania Natural Gas Outlook Report, www.puc.pa.gov/media/1295/gas_outlook_report2020.pdf.

To address price volatility, the OCA has advocated for the incorporation of a laddered approach to purchasing natural gas. Such purchasing is designed to hedge against rapid increases in prices by diversifying the timing of natural gas purchases. As shale gas became a more dominant feature, the use of hedging programs across the natural gas utilities has minimized. In recent weeks, however, natural gas pricing has increased and the OCA will further examine the need to re-institute and/or modify existing hedging programs for the benefit of customers. The most commonly utilized benchmark for pricing the sale of natural gas is the NYMEX Henry Hub price. Monthly spot market pricing for the pre-pandemic period through the present is as follows:

Henry Hub Natural Gas Spot Price (Dollars per Million Btu)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
2019	3.11	2.69	2.95	2.65	2.64	2.40	2.37	2.22	2.56	2.33	2.65	2.22
2020	2.02	1.91	1.79	1.74	1.75	1.63	1.77	2.30	1.92	2.39	2.61	2.59
2021	2.71	5.35	2.62	2.66	2.91	3.26	3.84	4.07				

Source: U.S. Energy Information Administration (www.eia.gov/dnav/ng/hist/rngwhhdM.htm)

As the above table illustrates, natural gas pricing has moved up considerably from pandemic-era lows. More recent pricing for September and October has shown continued price increases, moving above \$5 per Dth. These wholesale market price changes are or will be reflected in utility rates. While it is difficult to estimate the exact impact that residential customers will face, if current pricing holds upcoming winter bills can be expected to increase by approximately twenty percent, according to one of our expert witnesses.

For the Committees' consideration here, the OCA is not aware of any Pennsylvania natural gas utilities entering into contracts with PennEast for natural gas transportation service. In the PECO Gas Company's 2020 annual purchased natural gas cost proceeding, the Company

testified that it was conducting an ongoing investigation into whether PennEast could provide cost-effective firm pipeline transportation to PECO's natural gas distribution system. In its 2021 purchased gas proceeding filing, however, the Company did not provide any analysis indicating that PennEast was being considered for natural gas delivery.

From a rates perspective, the PennEast project was not anticipated to supply natural gas to a significant portion of Pennsylvania's residential ratepayers, but rather was designed to move supply further east. While the project would have reduced demand constraints for pipeline services and may have lowered costs in eastern Pennsylvania, PennEast likely would have increased out-of-state demand on shale gas supplies. The primary beneficiary from a natural gas utility rate perspective under PennEast would have been those areas supplied by the pipeline, i.e., those further east. The OCA has not retained consultants to provide a full cost benefit study to ratepayers, as the relative size of the project and its planned delivery to points east made it unlikely to have a material impact on Pennsylvania rates. The fact that no Pennsylvania utilities entered into contracts with PennEast that were submitted for review with the Commission under the annual purchased natural gas cost process further suggests it is anticipated that there will be little impact on rates.

It is further worth noting that the public suspension of the PennEast pipeline has not appeared to negatively impact natural gas pricing. On Monday, September 27, 2021, NYMEX Henry Hub futures (looking past this upcoming winter) for January 2023, opened at \$4.23 per Dth. On Wednesday, September 29, 2021, after PennEast announced the suspension of its project, NYMEX Henry Hub futures for January 2023 settled at \$4.13 per Dth. Natural gas futures pricing has remained stable (www.cmegroup.com/markets/energy/natural-gas/natural-gas.settlements.html).

The OCA will continue to examine the purchased gas cost proceedings to determine if any issues arise related to the PennEast project suspension. I stand ready to work with the Committees, staff, members of the General Assembly, and other stakeholders to advance our energy goals for reliable, efficient, economic, environmentally sustainable, and diverse natural gas supplies at reasonable prices.