Pennsylvania
Public Utility Commission
Regulatory Update
May 4, 2011

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Public Utility Commission
Natural Gas Regulation

- Almost 3.5 million natural gas customers in PA
- Regulate 36 natural gas utilities, 14 intrastate pipelines, 1 hazardous liquid lines, 4 LNG facilities
- 47,000 miles of gas mains

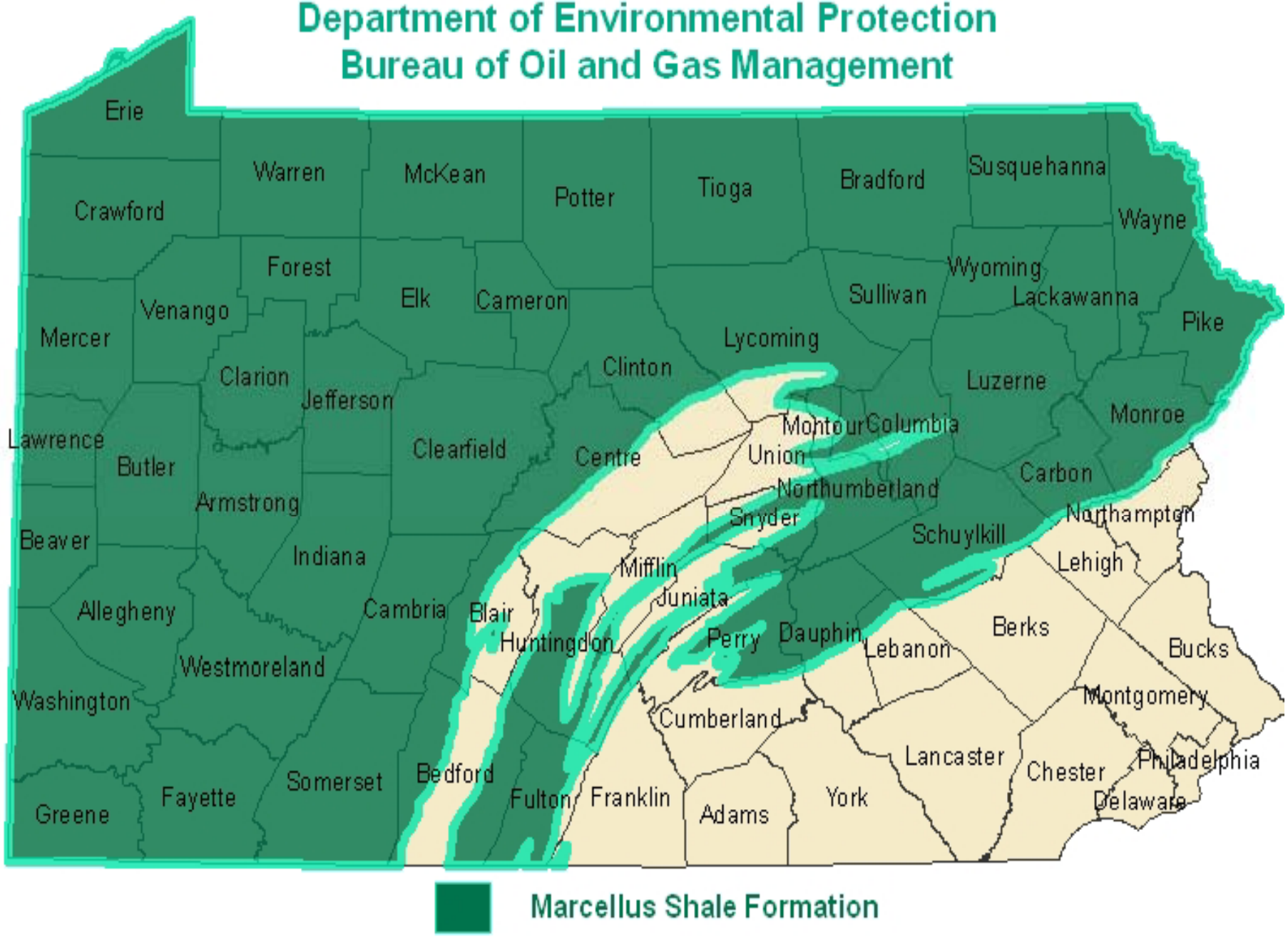
Current Issues

- Marcellus Shale
- Infrastucture Replacement

Marcellus Shale

- Pennsylvania – Largest proven reserve of natural gas in world
- Enough natural gas to supply the lower 48 for next 12 years for total gas and electric supply
- Production for the 12 months ending June, 2010 = **194,558,962 Mcf** (Pa. DEP)
- Geological shale formation requires hydrolic fracturing ("fracking")

Commonwealth of Pennsylvania
Department of Environmental Protection
Bureau of Oil and Gas Management



Jurisdictional Issues and Marcellus Shale

- Marcellus Shale gas wells and pipelines are at high pressure greater than 100 psig
- High BTU content
- Increased intra-state transmission pipeline construction
- Increased gathering line construction

Jurisdiction (Cont.)

- Pennsylvania and Alaska are the only states in the country that do not regulate gathering and non-utility intra-state transmission lines – 31 Gas Producing States

- USDOT has jurisdiction, but has stated that the pipelines are located within the state boundaries and thus are Pennsylvania's responsibility

- USDOT does not have the resources to provide inspections

Public Utility Commission Concerns

- PUC is the only state agency with certified Gas Safety Engineer Inspectors
- PUC already has jurisdiction over utility transmission lines
- The gathering and non-utility intra-state transmission lines are supplying our regulated transmission lines and our ratepayers are consuming the natural gas

Marcellus Shale

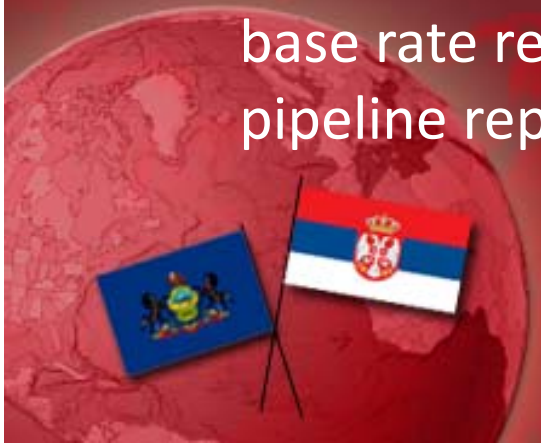
- Marcellus Shale jurisdiction will require legislation
- PUC and Governor's Office now working on possible legislative amendments
- Will require substantial PUC resources if enacted

Infrastructure Replacement

- Pennsylvania has 3,600 miles of cast iron and 9,000 miles of unprotected bare steel pipes
- Bare steel and cast iron pipes account for 5% of distribution pipe and 95% of leaks
- Reliability and safety issue
- Replacement Costs - $13 Billion over 20 Years

Infrastructure Replacement

- Current cost recovery mechanism for pipe replacement requires base rate case
- Base rate recovery involves lengthy process, used and useful requirements and regulatory lag between approval and collection
- Although there is some debate, it is generally thought that base rate recovery is inadequate to promote accelerated pipeline replacement



Infrastructure Replacement

- One possible mechanism is a distribution system improvement surcharge (DSIC)
- A DSIC avoids regulatory lag, used and useful requirements
- Tightly controlled
  - baseline set in base rate case
  - bandwidth around base line established
  - annual reporting of projects involved/amounts spent
  - reviewed in each base rate case