

STATE OF VERMONT
PUBLIC SERVICE BOARD

Docket No. 7970

In Re: Petition of Vermont Gas Systems, Inc., requesting a certificate of public good, pursuant to 30 V.S.A. Section 248, authorizing the construction of the “Addison Natural Gas Project” consisting of approximately 43 miles of new natural gas transmission pipeline in Chittenden and Addison Counties, approximately 5 miles of new distribution mainlines in Addison County, together with three new gate stations in Williston, New Haven and Middlebury, Vermont

BRIEF OF VERMONT FUEL DEALERS ASSOCIATION

Introduction

The Vermont Fuel Dealers Association (“VFDA”), an association representing the Vermont companies and individuals who deliver and sell primarily heating oil and propane to customers throughout the State and who provide related services to those customers, were granted intervention in this docket to assist the Board in “developing a full record on the question of the environmental and practical implications of relying more on natural gas and less on fuel oil.” (Order 4/12/2013 at 12.) This brief will address those issues, which center on a comparison of likely environmental and price effects of granting the petition.

1. Petitioner Has Greatly Overstated the Environmental Benefits of Natural Gas as Compared to Current Heating Fuels

Petitioner started its case with highly misleading testimony from Eileen Simollardes that compared natural gas emissions at the burner tip with those of heating oil in its present form.

Her analysis was shown to be faulty and misleading by Petitioner's own witness Bluestein, by CLF witness Stanton and by VFDA witness Sweetser. Sweetser takes note of Simollardes' statement that if the pipeline is built, "Cumulatively, over 20 years, Vermont's greenhouse gas emissions will be reduced by 296,000 tons and the region's greenhouse gas emissions will be reduced by over 1,200,000 tons. ..." and observes that "This statement is so wide of the mark that it would not be treated as credible by experts who study the effects of various gases and other fuels on global warming." (Sweetser PFT at 5.)

As witness Sweetser showed, if one compares the 20-year GHG effects of natural gas and oil or biodiesel, blended as statutorily required by the State of Vermont, the use of natural gas will have a greater impact on global warming. (Sweetser PFT at 6 – 11; Exhibits VFDA RSS 4, 6 and 7.) Further, as Petitioner's witness Bluestein concedes (Transcript 9/20/2013, at 78), an estimated 85% of petitioner's gas supply would come from Canada and be under different regulation than that of the U.S. E.P.A. And Petitioner's case is virtually devoid of analysis that takes Canadian regulation of the environmental effects of natural gas extraction from shale, with the use of hydraulic fracturing.

2. The Board Should Delay Consideration of the Project Until the Environmental Effects of Increased Extraction and Use of Natural Gas Are Better Known

Petitioner is asking for approval of a project that will likely exist 50 to 100 years. It will use natural gas extracted from shale in Canada by means of hydraulic fracturing. Inevitably, there will be leaks of methane in the extraction process and in transport of the gas through the Canadian system. Against this background, the Vermont legislature has provided clear guidance that emissions outside the four corners of the State are relevant. 10 V.S.A. §578 provides: "It is the goal of the state to reduce emissions of greenhouse gases from

within the geographical boundaries of the state and those emissions outside the boundaries of the state that are caused by the use of energy in Vermont in order to make an appropriate contribution to achieving the regional goals of reducing emissions of greenhouse gases...”

When weighing whether the project is in the public good, the Board must take this into account.

It is clear that studies of global warming are rushing to catch up with the extraordinary increase in natural gas extraction in the United States and Canada. It is also clear that these studies have not yet pinpointed the environmental effects of the massive drilling and increased supply. It is expected that within a relatively short time – perhaps two or three years – these effects will be much better known. This was discussed by the Public Service Department’s witness Walter Poor (Transcript 9/19/2013 at 99 – 102):

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12 Q. Would you agree with me that since hydraulic
13 fracturing has expanded and new methods of bringing gas
14 out of shale have been applied the question of greenhouse
15 gases and studies of greenhouse gases and those processes
16 is a developing field and a dynamic field?

17 A. Yes. I would agree with that.

18 Q. And it is the focus of many organizations and
19 experts at this point, isn't it?

20 A. That is correct.

21 Q. Would you say that there are -- it's a
22 changing landscape to the point where there are wildly
23 differing reports on the subject within the last two or
24 three years?

25 A. Yes. That's fair. That is a fair --

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1 Q. I think you said as much in your testimony?

2 A. Yes.

3 Q. Now this hasn't been around very long, has it,
4 this phenomenon of this expanded drilling and hydraulic
5 fracturing. It's been since you have been at the
6 Department?

7 A. The expansion of hydraulic fracturing as a
8 source for natural gas in this country has certainly
9 exponentially grown in recent years.

10 Q. In -- it's also being currently intensively

11 studied by the EPA, isn't it?

12 A. That's correct. They released the first of
13 their reports this week in fact.

14 Q. And do you expect there are more to come?

15 A. I think that this week's was the first of 16
16 reports that the EPA is going to issue.

17 Q. And over how long a time might that be?

18 A. I'm not sure exactly. 2013 and 2014. So the
19 next year or so.

20 Q. I see. So maybe within the next two or three
21 years anyway?

22 A. Yes.

23 Q. In the opinion of the Department of Public
24 Service is there such urgency to this project that it
25 can't be delayed say a couple of years until the science
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1 is more developed and precise in this area?

2 A. I don't know that there's reason to delay.

3 The analyses that have developed throughout the course of
4 this proceeding have shown a range of emissions under a
5 number of different assumptions, and that the benefits
6 from natural gas are -- from greenhouse gases are likely
7 to be positive, and so I'm not sure what the benefit of
8 waiting would be.

9 Q. Well on page 11 lines 11 and 12 you say that a
10 couple of reports, at least a couple, are intended to show
11 the uncertainty inherent in the current life cycle
12 greenhouse gas emissions analysis methodologies.

13 A. That's correct.

14 Q. And would you agree do you feel there's still
15 uncertainty about those?

16 A. Yes I do, and that's why I recommended looking
17 at a range of values in order to inform the decision at
18 hand.

19 Q. Well in fact in lines 18 to 20 you recommend
20 that the time and resources necessary to do these analyses
21 is not appropriate at this time because it would not
22 produce clear results, and what I want to know is, is the
23 Department prepared to go ahead when -- with this project
24 when the results are so uncertain as you so eloquently
25 suggest?

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1 A. I think the results are uncertain within a
2 range, and yes given the analysis before it we believe
3 that it is likely that the project will have greenhouse
4 gas benefits and I'll stop there.

Is this weak tea the best that the State of Vermont can do to assure its citizens that the project will result in environmental improvement? Is completion of the project so urgent that it can't wait a couple of years for science to catch up with, and measure, the damage being done by fracturing, drilling and transport of vast quantities of natural gas? In effect, the Petitioner and the Department are urging the Board to look the other way and to accept this new fossil source on faith, when a short delay could yield much more precise information on its environmental effects. One does not have to require one hundred percent certainty in the measurement of these effects, but given that the studies are expected in a very short time, it only makes sense to await a better understanding of their likely impact.¹

3. Market Forces Are Likely to Result in Little or No Savings to Customers from the Switch to Natural Gas

Witness Eugene Guilford comments on the dangers of projecting energy costs based on present-day conditions. Pointing to the historical swings in energy prices, he criticizes the Petitioner for doing so. (Guilford PFT at 7 and 8.)

Guilford cites a number of factors that he submits will produce upward pressure on the price of natural gas:

- In 2008 and 2009, natural gas wells proliferated as demand increased. About 80% of drilling rigs were drilling for gas, while the other 20% were seeking oil. (Guilford PFT at 8; Exhibit VFDA EAG-1)
- As gas prices – and returns to the drilling companies – fell, drilling for gas became less profitable until, by 2013, the rig deployment had reversed so that only about 22% of rigs were drilling for gas and 78% for oil. (Id.) Despite

¹To allow the project before the environmental effects are better known is a page out of “Alice in Wonderland”:

“Let the jury consider their verdict,” the King said, for about the twentieth time that day.

“No, no!” said the Queen. “*Sentence first - verdict afterwards.*”

“Stuff and nonsense!” said Alice loudly. “The idea of having the sentence first!”

“Hold your tongue!” said the Queen, turning purple.

“I won’t!” said Alice. ...

“*Off with her head!*” the Queen shouted at the top of her voice. Nobody moved.

higher productivity per gas rig, Guilford concludes that over time these dynamics will radically change the ratio of gas-to-oil prices. (Guilford PFT at 8.)

- An illustration of gas price volatility is shown by comparing the wholesale (Henry Hub) price of \$1.80 per mcf in the spring of 2012 with the price of \$4.25 a year later – an increase of 136%. (Guilford PFT at 8-9.)
- The U.S. oil supply is growing and the U.S. may soon become the world's biggest producer of crude. This should put downward pressure on oil prices (Guilford PFT at 9-11.)
- A rush to construct new gas-fired power plants will further stimulate demand for natural gas (Guilford PFT at 11-12.)
- Shortages of natural gas caused by a combination of its use for heating homes and for power generation (Guilford PFT at 15.)
- A large anticipated increase in exported natural gas (Guilford PFT at 15.)

Guilford concludes that the Petitioner has not shown that Vermont consumers will benefit materially by switching from their current fuels to natural gas.

4. The Project Would Lessen the Chance that Vermont Will Meet Its Renewable Energy Goals

The Comprehensive Energy Plan for the State has one goal that overshadows all the rest: That energy use in Vermont will be 90% renewables by the year 2050. That goal is to be achieved by a combination of increased conservation and efficiency and drastic reduction in Vermonters' reliance on fossil fuel. However, buried in a few places in the Plan (notably, not referred to in the executive summary or anywhere on the first page) are brief references to a natural gas line. These brief references have resulted in the Department of Public Service's endorsement of the project as being consistent with the Plan.

Mr. Poor seems unconcerned that the project will add fossil fuel to the Vermont energy mix, noting that it would result in an increase in the percentage of natural gas in the Vermont energy mix to 6.6 percent. (Transcript 9/19/2013 at 98, line 11.) Apparently, the Department considers that if renewables comprise 90 percent and natural gas is 6.6 percent, all other fossil use can be squeezed down to 3.4 percent.

This, of course, is implausible. It illustrates the inconsistency of the Department's endorsement of the project and the renewables goal it has set. When asked whether the Department had studied the question, Mr. Poor responded: "I think that we looked at the potential expansion of natural gas and I can't point to where the numbers are, but we were comfortable that -- and when I say we I mean the Department was comfortable that the expansion of natural gas would not threaten meeting the goal." (Transcript 9/19/2013 at 99, lines 6 – 11.)

So unconcerned were the Petitioner and the Department with meeting the aggressive renewable energy goals in the Comprehensive Energy Plan that they didn't conduct cost or emissions comparisons with renewables – only with oil and biofuel. (Transcript 9/19/2013 at 94, lines 1 – 5.)

Jeffery Wolfe, a witness with considerable experience in the marketing, installation and use of renewable energy facilities in Vermont, pointed out that the project will necessarily discourage Vermonters from investing in renewables. For instance, he points to the fact that the Petitioner's existing customers would pay for the project, thereby saving the financing costs that are often incurred when people invest in renewable projects. (Wolfe PFT at 8.)

Furthermore, Wolfe notes that the Petitioner's analysis of jobs created and lost is suspect and not substantiated (Id. at 9) and that "there will be fewer solar and renewable energy jobs in Addison County," especially given that renewable energy is more labor-intensive. (Id. at 10.)

In light of the paucity of testimony and analysis on the central issue in the Comprehensive Energy Plan, the Board cannot decide that the project is consistent with the Plan's overriding goal.

5. Conclusion

As noted at the outset, the participation of the VFDA is limited to issues of environment and economics. On these issues alone, the petition to build the pipeline should be denied. The Petitioner has failed to show convincingly that the project is likely to bring net economic benefits to Vermont; it has failed to demonstrate convincingly that the overall goals of the Comprehensive Energy Plan can coexist with the operation of the pipeline; and it has failed woefully in making a convincing case that the project will meet the goals articulated by the legislature in 10 V.S.A. §578.

This is one of the most significant energy projects undertaken in Vermont in recent decades. It will define the course of energy sources and use for thousand of Vermonters for well past 2050. Its advocates should be held to a higher standard of proof on critical issues than they have met.

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Respectfully submitted,

Vermont Fuel Dealers Association

By


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