Virginia Department of Environmental Quality
and the
State Water Control Board

Thomas Hadwin Comments regarding
Water Protection Permits for Wetlands & Streams
Relating to the Mountain Valley Pipeline

Executive Summary

At the DEQ hearing on Monday September 27, 2021 a Roanoke Gas representative made misleading statements about the public benefit and need for the Mountain Valley Pipeline (MVP).

Mr. Schneider said existing pipelines that currently serve Roanoke Gas “have no more capacity.”

Mr. Nester, the President of Roanoke Gas testified to the Virginia State Corporation Commission (SCC) that the Company “could serve Franklin County without the MVP.”

EQT, the nation’s largest gas producer, is obligated to pay for 64.5% of the MVP’s capacity over a 20-year term. EQT’s CEO says that the MVP is unnecessary for it to deliver all of its intended production to market. Mr. Rice said that the MVP increases an existing surplus of pipeline capacity by 67% and makes the situation worse.

Expansions to existing pipelines in the region have been in operation for several years and provide more available capacity that what would have been provided by the MVP and the Atlantic Coast Pipeline combined. The MVP is simply unnecessary for residents and businesses in the Mid-Atlantic and Southeast to have the gas they need.

Roanoke Gas claims that the MVP is the cheaper alternative because the connector to East Tennessee is about $30 million more expensive than the connector to the MVP.

Mountain Valley Pipeline has failed from its inception to openly address how much more expensive transporting gas using the MVP will be compared to available alternatives. Gas, which is purchased separately, will be priced about the same whichever pipeline in the region delivers it, since the pipelines access similar production zones. The difference between pipelines is in the transportation costs.

Delegate Poindexter told the DEQ that he “can’t overstate the importance of the pipeline’s completion for the county’s economic success. This is a popular misconception based on the MVP’s failure to disclose the true cost of using the MVP.

For Roanoke Gas, a company that has reserved just 0.5% of the MVP’s capacity, using the MVP will likely cost customers over $100 million more than transporting the same amount of gas using the existing supplier East Tennessee Gas.

This is just for a 20-year contract; a similar excess payment might be required for a second 20-year contract.

Adding an extra $100 million - $200 million in costs from the MVP to residents and businesses in the Roanoke area for no added benefit isn't a formula for "economic success."

If a connection to East Tennessee had been selected, Summit Industrial Park and Franklin County likely could have been enjoying reasonably priced gas service and enhanced economic development for the past several years.

This severe price disadvantage applies to the entire MVP project. Who will want to pay a premium price for MVP transported gas? U.S. gas prices are currently at a seven-year high. Higher gas prices tend to reduce demand.

The U.S. Energy Information Administration expects gas usage in the Mid-Atlantic and Southeast (the region the MVP was intended to serve), to decline from 2019-2030.

Increasing gas prices, reduced demand over the long-term, and concerns over methane leaks in the supply chain causing significant increases in greenhouse gases have caused most MVP shippers and some owners to attempt to offload their positions to other buyers, except there are few buyers.

Former FERC Commissioner LaFleur said the MVP was unnecessary, a long series of events are showing that to be true.

With no need or public benefit to offset the environmental degradation that will occur from the stream crossings and construction in landslide-prone areas, there is no justification for awarding a water quality permit to complete construction of the pipeline.

If additional gas supplies are needed in the Roanoke area or elsewhere in the Mid-Atlantic or Southeast, ample capacity is available from existing pipelines at a far lower price than what is offered by the MVP.

The DEQ and the State Water Control Board have been presented with misleading information and must base their decision upon facts in the public record, not unsubstantiated declarations of support for a project that is intended for a private profit not a public benefit.

False Statements made by Company Representative regarding the MVP

I am dismayed about comments made during the DEQ hearing on Monday September 27, 2021 regarding water quality permits for the Mountain Valley Pipeline. Mr. Schneider, the representative from Roanoke Gas, was very misleading in his statements to the DEQ and the State Water Control Board about the public benefit and need for the Mountain Valley Pipeline.

According to a Roanoke Times article, Mr. Schneider said the existing pipelines that currently serve Roanoke Gas "have no more capacity." That is true only if access to East Tennessee Gas cannot be modified to provide more gas supply. In the past few years, East Tennessee's pipeline

has expanded in capacity by 36 times more than the amount Roanoke Gas would obtain from the MVP. Columbia Gas, the other existing supplier to Roanoke Gas, has recently added to its regional pipeline system 130 times the capacity that Roanoke Gas would receive from the MVP.

Roanoke Gas supplied information to the Virginia State Corporation Commission during its most recent rate case that showed it was possible to gain additional gas supply from East Tennessee. Mr. Nester, the President of Roanoke Gas, confirmed this by saying the VSCC "staff asked the Company if it could serve Franklin County without the MVP. The Company responded yes, operationally it could serve Franklin County."[1] Mr. Nester did qualify his response by saying "that doing so without the MVP would be considerably more expensive."[2]

According to the information provided by Roanoke Gas, it would cost $37 million to extend service to Summit View Industrial Park and Franklin County over a new pipeline supplied by additional capacity from East Tennessee.

Roanoke Gas is playing a semantic game with Virginia regulators to make the MVP appear essential and cost effective for Roanoke Gas to use instead of existing suppliers. In testimony to the SCC, Roanoke Gas said that East Tennessee "does not have any unsubscribed capacity." This is accurate, as far as it goes. To those unfamiliar with the industry, this sounds like East Tennessee is unable to transport more gas to Roanoke. But the "subscribers" of the recently added capacity are gas producers and gas marketing companies looking for customers like Roanoke Gas. They have reserved (subscribed) this capacity so that they have an available way to transport the gas they want to sell to customers like Roanoke Gas.

The gas utility supplied the SCC with an email from East Tennessee that said "[a]dditional volumes that Roanoke may require would necessitate the construction of new facilities on the current East Tennessee system." The correspondence ends with, "East Tennessee greatly values its relationship with Roanoke and is available at any time to discuss its natural gas needs."[3]

Such statements from an existing gas supplier do not lead to the conclusion that it has "no capacity" to offer Roanoke Gas. The gas company never asked East Tennessee to provide an official estimate for providing service equivalent to what the MVP would provide. At least there is no public evidence that they did.

This is the same ruse that was utilized by the Atlantic Coast Pipeline (ACP). The ACP claimed that capacity additions to existing pipelines in the region were all "fully subscribed" giving the impression that no gas pipeline capacity would be available to serve the new gas-fired power plants that were in the forecast for Virginia and North Carolina.

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[1] Virginia State Corporation Commission, Case No. PUR-2019-00013, Exhibit 55 (Nester Rebuttal) at 6
[2] Id.
[3] Rebuttal Testimony of Paul K. Schneider, Roanoke Gas Company, Before the Virginia State Corporation Commission, Case No. PUR-2018-00013

The capacity expansions to existing pipelines in the region were subscribed by gas producers and gas marketing companies looking for customers such as Dominion and Duke. New capacity in existing pipelines in the Mid-Atlantic and Southeast is now operating and provides more capacity than what the ACP and the MVP together were intended to provide. Just as with the ACP, the companies that reserved 100% of the capacity of the MVP were all affiliated with the companies that owned the pipeline. Agreements between affiliated companies are all that is required to convince the Federal Energy Regulatory Commission (FERC) that a pipeline is needed. However, recent federal court decisions and several cancelled major pipeline projects show that these “self-dealing” contracts are not an accurate indicator of whether a pipeline is truly needed.

For example, EQT, the nation’s leading gas producer, is no longer affiliated with Equitrans, the company that owns nearly 50% of the MVP. EQT is responsible to pay for 64.5% of MVP’s capacity over the next 20 years. The company told financial analysts that it can transport all of its expected gas production using existing pipelines. Toby Rice, EQT’s Chief Executive Officer, told analysts that the production zone used by the MVP currently has more pipeline capacity than it needs to get its gas to market.[4] Since Mr. Rice expects gas production in the nation’s largest shale gas production zone to decline over time, he noted that the MVP will make the current surplus of pipeline capacity worse by 67%.

FERC Commissioner LaFleur said the MVP was unnecessary, a long series of events are showing that to be true.

None of the other companies that are obligated to 20-year contracts with the MVP have contracts with actual end-users of the gas, except for Roanoke Gas. With a reservation for just 0.5% of MVP’s capacity, Roanoke Gas is an actual end-user of gas, but using the MVP will add at least $100 million in unnecessary costs to customers for no added benefit.

The cost to connect the MVP to Summit View is $6.5 million. It is only the comparative cost of the two connector pipelines that allowed Roanoke Gas to say the MVP was the lowest cost option. The cost of using the MVP compared to existing alternatives was entirely ignored.

<u>The MVP harms the Economic Interests of the Region</u>

According to the Roanoke Times, Virginia Delegate Charles Poindexter, R-Rocky Mount, said that he “can’t overstate the importance of the pipeline’s completion for the county’s economic success.”

Perhaps a politician can be forgiven for making an inaccurate statement based on misleading information from an energy project predicated on private profit rather than public benefit or

[4] EQT Corp (EQT) Q2 2020 Earnings Call Transcript, July 27, 2020

necessity. From the outset, the MVP has ignored telling the whole story about how expensive its pipeline will be to transport gas compared to existing alternatives.

Based on the current projected cost of the MVP, the total cost of Roanoke Gas's 20-year contract with the MVP would be about $122 million.[5] The amount due must be paid in full, even during periods when only some or none of the pipeline reservation is used. The utility expects all of this amount will be repaid by its ratepayers. Roanoke Gas has declared that the MVP will not cause an increase in rates. But the company failed to explain that this enormous extra charge is a pass-through in fuel cost adjustments and not included in rates.

The price of the gas, purchased separately, will probably be about the same from existing pipelines and the MVP, since the gas transported by the various pipelines would be produced in the same general production zone in West Virginia. The difference in cost between pipelines is primarily due to differences in transportation charges.

The current cost of using East Tennessee to transport the same amount of gas to Roanoke as the MVP would be $15.8 million over 20 years.[6]

Assume that the connector to East Tennessee costs $37 million and the connector to the MVP costs $6.5 million.[7] These costs likely would be put in the Roanoke Gas ratebase and amortized over about 40 years. This would give the MVP option about a $30 million advantage spread over 40 years.

For just 20 years of service, the MVP would cost ratepayers $122 million, while using East Tennessee would cost about $15.8 million. This is more than a $106 million disadvantage for using the MVP in the first 20 years. We cannot know exactly what rates might apply for a second twenty-year contract, but it is probably safe to say using the MVP would continue to be considerably more expensive than using East Tennessee, perhaps in the neighborhood of another $100 million more.

Adding an extra $100 million - $200 million in costs to residents and businesses in the Roanoke area for no added benefit isn't a formula for "economic success."

If a connection to East Tennessee had been selected, Summit Industrial Park and Franklin County likely could have been enjoying reasonably priced gas service and enhanced economic development for the past several years. The cost of the gas would be about the same, only the transportation costs would be much higher with the MVP with its still uncertain completion schedule and final cost.

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[5] FERC's published tariff for the MVP of $0.97 /Dth was based on an estimated cost of $3.6 billion. With a current estimate of $6.2 billion (72% more) the cost of using the MVP is estimated to be $1.67 /Dth (.97 x 1.72). A final tariff will be established three years after commercial operation based on actual costs.

[6] East Tennessee tariff of $.217 /Dth x 10,000 Dth/d x 365 days x 20 years = $15.84 million

[7] These are numbers provided by Roanoke Gas to the SCC

It is puzzling why politicians and business leaders would show up to the DEQ hearing to advocate for a project that is economically harmful to residents and businesses in the region. It is possible that they are unaware of the true cost of the MVP.

What is true in microcosm for Roanoke is true in macrocosm for the entire MVP pipeline. The markets for MVP transported gas are somewhere along the Transco corridor. However, gas delivered by the MVP to Transco in Pittsylvania County, Virginia will be priced substantially higher (because of the MVP's high transportation costs) than the ample supplies of gas currently available in Transco Zone 5 (Virginia and the Carolinas).

Who will want to pay a premium price for MVP transported gas? U.S. gas prices are currently at a seven-year high.[8] Higher gas prices tend to reduce demand. The U.S. Energy Information Administration expects gas usage in the Mid-Atlantic and Southeast (the region the MVP was intended to serve), to decline from 2019-2030.[9] Recent concerns about the major contribution to greenhouse gases from methane leaks in gas production zones, storage areas, and transmission pipelines are also decreasing interest in using more gas.

These trends are causing most MVP shippers and some owners to offload their positions to other buyers, except there are few buyers. EQT wants to get rid of its entire 64.5% capacity obligation. NextEra has an interested party that might take more than half of their position. They are shuttering some of their gas-fired generators in Florida and replacing them with solar facilities with battery storage, which can produce reliable energy at a lower cost than gas-fired units. Consolidated Edison wants to sell its ownership and shipper position. The MVP has no value to its customers. Con Ed intends to sell its entire portfolio of gas transmission pipelines and gas marketing companies. Alta Gas is swamped with capacity obligations on existing pipelines.

RGC Resources is clinging to its ownership position that is twice the amount of its capacity reservation, in hopes of making millions in added profits from the MVP by burdening the customers of its gas utility with over $100 million in unnecessary costs.

Dominion has expressed interest in almost 19% of the capacity of the MVP, which would be obtained from existing shippers looking to reduce their financial exposure. On its own, this would not be enough to make the project a going concern, and would only be feasible if state regulators approved the pass-through to ratepayers of transportation costs far higher than what is currently paid for service from existing pipelines. This is the same profit-extraction from ratepayers scheme that is intended to be used by Roanoke Gas, but on a much larger scale. Dominion's utilities in North and South Carolina can continue to be served with adequate supplies of gas at a much lower cost from their existing suppliers. This appears to be an attempt to replicate the ACP using the MVP.

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[8] U.S. nat gas surges 11% to seven-year high on global shortage shock, Seeking Alpha, September 27, 2021
[9] U.S. Energy Information Administration, Annual Energy Outlook 2021, February 2021, Tables 2.2, 2.5 and 2.6

There is no Justification for MVP’s Environmental Disruption

The promotion of the MVP isn’t about having the gas we need – there is more than enough capacity in expanded existing pipelines currently in operation in the region. The MVP isn’t about delivering cheaper gas and promoting economic prosperity – its high costs will be a burden on residential, commercial and industrial energy customers.

It is a project designed to take advantage of the 15.77% overall rate of return authorized by FERC for the project. Considering nothing other than precedent agreements between affiliated parties (self-dealing) FERC authorized multiple pipeline projects to serve the same potential need – that of serving potential gas-fired generators in Virginia and North Carolina. The MVP and the ACP allocated exactly the same amount of capacity (1.2 million Dth/d) to serve the same potential demand for new gas-fired generation. The new generating stations that the ACP, the MVP, and the existing pipeline expansions were expected to serve were never proposed to regulators and might never be built. If additional gas supply is needed, the capacity expansions to existing pipelines currently in service is greater than what the MVP and the ACP would have provided. There is no public benefit and no need for the MVP.

Permitting decisions are not based on the situation that might have existed six years ago. Permits must be approved based on the conditions that exist today.

The necessity for a project is always a central consideration in a permit application. The degradation to the waters of Virginia that will occur from the over 1,000 water crossings, whether drilled or trenched, and the erosion from the most landslide prone areas that are yet to be constructed upon, cannot be offset by a public benefit that does not exist.

The DEQ and the State Water Control Board have been presented with misleading information. The DEQ and the Board must base their decision upon facts in the public record, not unsubstantiated declarations of support for a project that should never have been approved at the federal level. The people of Virginia expect our regulators to take a balanced view to protect the citizenry, our businesses, and the precious resources of the state.

Follow the lead of environmental departments in other states that have seen fit to do their duty and refuse to authorize projects that do not serve the people or preserve our air, land and waters.

Respectfully submitted,

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