

**OPENING STATEMENT FOR JOE HOLMES, COLORADO SPRINGS UTILITIES
JULY 28TH 2014 DOE QUADRENNIAL ENERGY REVIEW MEETING**

MY NAME IS JOE HOLMES AND I AM LEAD ENERGY TRADER FOR COLORADO SPRINGS UTILITIES (CSU). CSU IS A MUNICIPALLY-OWNED, FOUR-SERVICE UTILITY PROVIDING ELECTRICITY, NATURAL GAS, WATER AND WASTEWATER SERVICES TO BUSINESS AND RESIDENTIAL CUSTOMERS IN THE PIKES PEAK REGION. CSU IS THE SECOND LARGEST UTILITY IN THE STATE OF COLORADO. I VERY MUCH APPRECIATE THE OPPORTUNITY TO PARTICIPATE ON THIS PANEL TODAY.

I AM HERE TODAY AS A REPRESENTATIVE OF COLORADO SPRINGS UTILITIES AND THE AMERICAN PUBLIC GAS ASSOCIATION (APGA). APGA IS THE NATIONAL ASSOCIATION FOR PUBLICLY-OWNED NATURAL GAS DISTRIBUTION SYSTEMS. THERE ARE CURRENTLY APPROXIMATELY 1,000 PUBLIC GAS SYSTEMS LOCATED IN 37 STATES. PUBLICLY-OWNED GAS SYSTEMS ARE NOT-FOR-PROFIT, RETAIL DISTRIBUTION ENTITIES OWNED BY, AND ACCOUNTABLE TO, THE CITIZENS THEY SERVE. PUBLIC GAS SYSTEMS' PRIMARY FOCUS IS ON PROVIDING SAFE, RELIABLE, AND AFFORDABLE SERVICE TO THEIR OVER 12 MILLION CUSTOMERS.

THE ISSUE OF GAS-ELECTRIC INTERDEPENDENCY/COORDINATION IS IMPORTANT FOR PUBLIC GAS SYSTEMS SINCE IT WILL, AMONG OTHER THINGS, CHANGE

THE MANNER IN WHICH INTERSTATE NATURAL GAS PIPELINES PROVIDE THEIR SERVICES TO LOCAL GAS DISTRIBUTION COMPANIES AND POTENTIALLY RAISE THE COST OF THESE SERVICES. GIVEN THAT 95% OF PUBLIC GAS SYSTEMS, INCLUDING CSU, ARE CAPTIVE TO SINGLE NATURAL GAS PIPELINES, THE IMPORTANCE OF THIS ISSUE TO PUBLIC GAS SYSTEMS CAN NOT BE OVERSTATED.

THE CURRENT SYSTEM OF NOMINATION CYCLES HAS WORKED WELL FOR OUR PUBLIC UTILITIES. HOWEVER, APGA MEMBERS ARE VERY CONCERNED THAT EFFORTS TO IMPROVE GAS-ELECTRIC COORDINATION SHOULD NOT RESULT IN UNINTENDED ADVERSE CONSEQUENCES. THESE PROSPECTIVE CONSEQUENCES INCLUDE DAILY OPERATING DIFFICULTIES AND COST INCREASES. IN SHORT, THE CURRENT GAS TRANSPORTATION SYSTEM WORKS WELL FOR EXISTING LONG TERM CUSTOMERS AND ANY MANDATES TO SIGNIFICANTLY CHANGE THIS SYSTEM TO ACCOMMODATE SUBSTANTILLY DIFFERENT CUSTOMER REQUIREMENTS SHOULD ALSO INCLUDE PROTECTIONS FOR EXISTING CUSTOMER'S OPERATIONS AND COSTS.

AS IT CAME UP DURING THE FERC TECHNICAL CONFERENCES, A LACK OF ADEQUATE REGIONAL GAS PIPELINE INFRASTRUCTURE CAN CREATE MARKET CHALLENGES TO ACCOMMODATING THE NEEDS OF GAS-FIRED POWER GENERATORS AS WELL AS OTHER CUSTOMERS. MANY OF THE CONCERNS

EXPRESSED AT THE FERC CONFERENCES ARE DUE TO PROBLEMS ASSOCIATED WITH A GENERATOR'S INABILITY TO SECURE GAS PIPELINE CAPACITY IN A CONSTRAINED CAPACITY MARKET. IN OTHER WORDS, THERE IS INSUFFICIENT PIPE IN THE GROUND TO SERVE ALL WILLING CUSTOMERS. HOWEVER, WITH A ROBUST PHYSICAL INFRASTRUCTURE IN PLACE MANY OF THE OPERATIONAL SCHEDULING CONCERNS RAISED WOULD LIKELY BE RESOLVED. ONE PROBLEM, ESPECIALLY IN NEW ENGLAND, APPEARS TO BE A MISSING CAPABILITY FOR GENERATORS TO COLLECT THE COST OF FIRM PHYSICAL GAS PIPELINE CAPACITY IN THEIR SERVICE CHARGES.

APGA RECOGNIZES THAT SOME ELECTRICITY GENERATORS COULD BENEFIT DURING THEIR MORNING RAMP UP PERIOD BY AN EARLIER START TO THE GAS DAY. HOWEVER, CHANGING THE GAS DAY FROM 9 AM CENTRAL TIME TO 4 AM CENTRAL TIME, ALL ELSE BEING EQUAL, WILL HAVE ADVERSE IMPACTS ON MANY GAS SYSTEMS. THESE IMPACTS INCLUDE HIRING ADDITIONAL EMPLOYEES AND POTENTIAL PIPELINE IMBALANCE PENALTIES, AS WELL AS ONE-TIME COSTS RELATED TO IT SYSTEMS, FIELD EQUIPMENT, REPROGRAMMING GATE-STATIONS, METERS, SCADA, AND EVEN CONTRACT RENEGOTIATIONS. THESE IMPACTS NEED TO BE FAIRLY CONSIDERED.

ULTIMATELY, GAS SYSTEM CUSTOMERS CAN BE BURDENED WITH THESE COSTS WHILE RECEIVING NO BENEFIT FROM THE CHANGES IF THE CHANGES

ARE SIMPLY IMPLEMENTED TO BENEFIT ONE CUSTOMER CLASS AT THE EXPENSE OF ANOTHER.

PUBLIC GAS SYSTEMS HAVE MAINTAINED THAT SOLELY FOCUSING ON NATURAL GAS INDUSTRY CHANGES WILL NOT SOLVE THE OPERATIONAL AND COST RECOVERY PROBLEMS IN REGIONAL POWER MARKETS AND ULTIMATELY STANDS TO DEFLECT FROM THE CENTRAL ISSUES THAT COULD BE ADDRESSED IN THOSE MARKETS. THAT SAID, IT DOES APPEAR THAT FERC, VIA THEIR DOCKETS EL14-22-27 (INITIATING INVESTIGATION INTO ISO AND RTO SCHEDULING PRACTICES) IS ATTEMPTING TO FOLLOW UP ON THEIR CHANGES TO GAS MARKET REGULATIONS WITH CONFORMING CHANGES BY RTOs AND ISOs. FOR EXAMPLE, REGIONAL ELECTRIC TRANSMISSION ORGANIZATIONS CURRENTLY HAVE A WIDE DISPARITY IN THEIR ELECTRIC SCHEDULING DEADLINES AND APPEAR TO HAVE MADE NO UNIFORM EFFORT TO SYNCHRONIZE WITH EXISTING NATURAL GAS PIPELINE SCHEDULES. HOWEVER, FERC ORDER EL-14 APPEARS TO BE DESIGNED TO PROMOTE SCHEDULING CONFORMITY SUBSEQUENT TO THE GAS PIPELINE CHANGES CURRENTLY UNDER DISCUSSION IN FERC's MARCH NOPR (RMI 14-2). THIS WOULD BE MOST HELPFUL.

THE APGA AND ITS LARGE MEMBERSHIP OF PUBLIC GAS SYSTEMS RECOGNIZES THE NEED TO PREPARE OUR NATURAL GAS PIPELINE SYSTEMS

TO MEET THE NEEDS OF ALL CUSTOMERS. WE ARE PREPARED TO BE FLEXIBLE. HOWEVER, WE ALSO ARE COMPELLED TO AGRESSIVELY REPRESENT OUR CUSTOMERS WITH RESPECT TO CHALLENGES TO SYSTEM OPERATIONS AND COST INCREASES NOT FAIRLY ALLOCATED TO THE BENEFITTING CUSTOMERS.

I AGAIN THANK YOU FOR THE OPPORTUNITY TO PARTIICPATE ON THIS PANEL TODAY AND LOOK FORWARD TO THE UPCOMING DISCUSSION.