Two Pieces of the Puzzle

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If you've been following the evolution of the Marcellus Shale Play over the past seven years, you've no doubt heard of many of the large Exploration & Production companies, and how they've extracted billions of cubic feet of gas, but unless you live in Steuben County, New York, you may never have heard of Corning Natural Gas, in Corning, New York. Corning Natural Gas Corporation, a Local Distribution Company (LDC) was founded in 1904, and has over one hundred years of history providing residential, business, and industrial customers reliable natural gas service. CNGC is the smallest of thirteen public utilities in New York, and it does not provide electrical service. The parent corporation is Corning Natural Gas Holdings Corporation, with its two subsidiaries Corning Natural Gas Corporation (CNGC) and the newly formed Leatherstocking Gas Corporation (LGC), which is a 50-50 partnership with Mirabito Holdings Corporation.

CNGC experienced a change in leadership in 2006 when Mike German, former President of NYSEG, took over as CEO of the company. Under German's direction, and with a dedicated team of employees, in almost10 years the company has grown from a total market capitalization of approximately $7 million to just over $62 million in value by expanding and improving its distribution network and issuing more stock. For a gas utility to grow, it has to keep expanding both its piping network in the ground and its markets by connecting more customers. This process is capital intensive and requires the company to maintain financial discipline so it can attract both investors and lenders. To date, the company has been very successful with this strategy.

CNGC, as a public utility, is unique in that it is the only LDC in NYS with a Federal Energy Regulatory Commission (FERC) certificate that allows it to run pipe into Pennsylvania and connect directly to the Marcellus shale. Seventy percent of its annual gas supply purchases are from local production in Pennsylvania Marcellus wells and New York Trenton Black River wells. Historically, interstate capacity brought gas supplies from the Gulf of Mexico and West Virginia to Corning Natural Gas. Now that the company is directly connected to local production, it has access to lower cost gas and can economically support additional customer growth. CNGC is obligated to serve its firm customers first, by law, and must prove to the New York Public Service Commission on an annual basis that it has adequate pipeline capacity and supply to meet anticipated peak winter and normal annual demands. If the company has excess pipeline capacity, or gas supply, it can resell this excess supply and capacity into the market, retaining a small margin for its shareholders while passing the majority of the revenue on to the customer as lower gas costs. The company no longer needs to utilize 100% of its interstate pipeline capacity to serve its customers since its gas supply is now primarily from local sources. Of course, these benefits to the customers and shareholders would not be possible to such a degree without access to the abundant supply in the Marcellus Shale Play.

A further component of expansion into new locations is applying for a "Certificate of Public Convenience," this increases the franchise area of the utility. It is a procedural legal process wherein the company must first apply with a municipality for a franchise, and once granted, must then apply with the state Public Service Commission (NYSPSC) for the final franchise approval. While deregulation has allowed consumers to choose their electric or gas supplier from an Energy Supply Company (ESCO), the distribution component is still highly regulated to ensure the safety and integrity of the delivery system, and to prevent excessive cost due to redundant systems. Typically, only one LDC can be granted a franchise within a given area. In effect, the LDC is a regulated monopoly. While CNGC has franchises in Steuben, Chemung, and Cortland Counties in New York, Leatherstocking Gas has begun building infrastructure in Susquehanna County, Pennsylvania, and has 201 customers in the Montrose area with plans to expand into New Milford.

Furthermore, assuming the approval of the Constitution Pipeline goes through, LGC plans to expand into many areas in upstate NY along Interstate 88 by tapping into the Constitution and building pipeline systems to their new franchise areas. The company currently has municipal utility franchises in the Town and Village of Windsor, Unadilla, Bainbridge and Delhi. LGC has filed for a Certificate of Public Convenience for the Town and Village of Windsor. In all these locations, LGC plans to provide natural gas service for major energy users such as industries, schools, and hospitals, as well as residents that live in those areas. Customers of LGC/CNGC can expect to enjoy a cleaner burning, abundant, economical, and local supply of gas for decades to come.

For most residential customers, converting to natural gas saves them money, and while other types of fuel costs may be down now, they are more subject to price fluctuations and varying availability, especially since they aren't produced locally. Consider the spike in oil prices that occurred in 2007-2008 and the more recent propane shortage in the 2013-2014 heating season that not only left many people without any propane in the coldest part of winter, but also caused huge price increases. Basic laws of supply and demand dictate that when supply is low and demand is high, prices go up. (And incidentally, so do food prices due to increased transportation costs). Who wants to go through that again when a clean, economical, local, and stable fuel source is becoming more widely available?

As this abundant and stable fuel becomes more available- this is the exciting part- watching the puzzle fit together knowing that there are real benefits to everyone, ordinary people just like you and me. Having an economical fuel source and being geographically near it plays a huge role in whether or not companies like CNGC and LGC expand, or even exist. Costs associated with pricing one hundred cubic feet, or a therm of gas are largely dependent on how far the gas has to travel in the pipeline before it arrives at your home if you are fortunate enough to have or to get natural gas service. So as the distance has decreased, the costs go down. How can you argue against putting more money in your wallet, especially if you're feeling fed up with your finances?

Saving money using natural gas has been achieved only from advances in technology using techniques like HVHF. High Volume Hydraulic Fracturing, a cornerstone of the puzzle, has allowed gas to be extracted from the ground under immense pressure from microscopic fissures in gas-laden rocks in previously unreachable areas, bringing gas to the surface to eventually be sold to both private and public entities. This increasing extraction has allowed local delivery companies to cut energy costs for consumers, non-profits, businesses, and manufacturers while fostering job creation and business growth. It represents capitalism at its finest. Corning Natural Gas Corporation and Leatherstocking Gas, local delivery companies, are just two pieces of that puzzle, fitting nicely into the American energy picture of economic rejuvenation grabbing this nation and world by surprise.