

Honorable Edwin B. Erickson
Chairman of the Senate Policy Committee
State of Pennsylvania

May 11, 2010

Re: Public Hearing on Pipelines – Testimony of Mr. Mark Casaday, Vice President of Penn Virginia Resource Partners, L.P.

TESTIMONY OF MR. MARK CASADAY

INTRODUCTION:

Good morning Chairman Erikson and Members of the Committee. My name is Mark Casaday and I am Vice President Eastern Region of Penn Virginia Resources Partners, L.P.

On behalf of my fellow employees and team members at Penn Virginia, I would like to thank the Chairman and Members of the Committee for giving Penn Virginia the opportunity to participate in these hearings.

Penn Virginia is a Delaware company, and has committed considerable financial resources, personnel and assets to building gathering infrastructure in Pennsylvania in the Marcellus Shale area.

GENERAL OVERVIEW OF GATHERING OPERATIONS:

Gathering in the natural gas industry is broadly defined as the business of amalgamating and transporting natural gas from completed wells within a producing gas field and between producing gas fields to transmission pipelines, that in turn transport the gas to local distribution companies and other points of commercial and industrial consumption. Gas that is produced at the wellhead is often raw and contains water, inerts, condensate, and other constituents that make unfit for delivery to transmission pipeline and the marketplace – referred to in industry parlance as “pipeline quality” or “merchantable”. Gathering companies often provide the services to treat, dehydrate and render the gas into pipeline quality gas and merchantable gas. Gathering companies also often provide compression services that typically falls into two major categories – field compression and delivery compression. Field compression is performed when the pressures of the collective wells in a field are not enough to push the gas through a lengthy pipeline. Field compression can be further broken down into suction compression and boost compression. Delivery compression is where the gathering company provides compression of gas to a high pressure to force the gas into high-pressure transmission lines.

Gathering companies typically “tailor” their services to the particular needs of a field and the collective needs of a group of fields on a case-by-case basis. The producers have invested heavily in their wells and have taken considerable economic risks to drill them, and when they are ready to produce gas, the producers want the gatherers to quickly and efficiently connect their wells to gathering systems. Often larger producers own and build their own gathering systems and will sometimes offer transportation to third party producers. The whole key to gathering is quickly and efficiently getting the producers’ gas to transmission pipelines so it can get to the marketplace for the benefit of the consumers, who are ultimately paying the costs related to all of the steps of this process. Gathering companies have to have the ability to serve unique conditions in a field or fields, and be highly adaptable to the ever changing needs of producing companies, downstream pipeline transmission companies and the market place. Gathering should be distinguished from “Intrastate Transmission Pipelines”, “Interstate Pipelines” and “Local Distribution Companies” because of their need for flexibility to adapt to the rapidly changing market that they serve.

SAFETY:

Our view on safety is that it is a “core value” to our company. People make our company – without people, the company would have a lot of pipe and facilities sitting around – rusting. The people in our company are our friends, neighbors and sometimes family members. We all want our friends and team members working in a safe and comfortable environment. We, as individuals working in an energy company want our energy (natural gas) delivered to our homes and the homes of our neighbors and consumers in a safe and economical manner. And therefore we strive to meet safety standards that typically meet and often exceed gathering industry accepted standards – it just makes general and economic sense to take the necessary reasonable steps to try to avoid accidents. This involves the repeated and intense training of our personnel, and the construction, operation and maintenance of safe physical facilities. At Penn Virginia, we have elected to adopt the requirements of Part 192 for “transmission” lines in our construction of new gathering facilities. As noted in the testimony above, it is not only good business for us, it keeps our friends, employees and customers working and living in good and safe operating environment.

REGULATIONS:

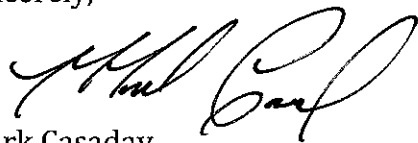
Natural gas pipeline safety has been addressed and regulated in general by the federal government with the adoption and enforcement of the federal safety standard for natural gas transmission in 49 CFR Parts 186 to 199. As defined in Part 192, some gathering falls outside of the regulations, particularly in what is defined as a “Class 1 location”.

If the State of Pennsylvania finds as a result of this hearing and other inquiries into this issue that it is in the best interest of its citizens, businesses, and communities to institute pipeline safety regulation of gas pipelines – particularly the lines falling into the “Class 1 location” exception cited above, we would encourage the State to take the following general path to safety regulation:

1. There is no need to duplicate or add degrees of complication to what the federal government already regulates – 49CFR 186-199 has been in effect for years, and its and effective, tried and true mechanism for the construction, operation and maintenance of gas pipelines.
2. If our State adopts regulations for gathering lines, we encourage the adoption of a form that mirrors Part 192, which would provide a consistent “baseline” for regulations for both the industry and the government – particularly the pipeline inspectors.
3. If our State decides to move forward with regulation, the State needs to have and maintain the exclusive power and control over the regulation of this segment of the industry, because if the power to regulate is allowed to matriculate into the various local and community governments, a totally unworkable and highly inconsistent patchwork of regulatory dominions would evolve that would eventually lead to the industry pulling its investments out of the State, or render the cost of the commodity so artificially high that the marketplace will stop buying gas produced from the State. The Pennsylvania Public Utility Commission could establish a “Gas Pipeline Safety Division” to manage the filings and inspections related to any laws, rules or regulations enacted.

This concludes my testimony today, and again I would like to say how much we appreciate this Committee allowing Penn Virginia to participate and contribute to this process, and we always stand ready to help when we are asked. With that I would like to invite the Chairman and Members of the Committee to ask any questions you might have – Thank you.

Sincerely,



Mark Casaday
Vice President