

CONTRACTING & TECHNICAL SERVICES, INC.

GAS INDUSTRY NEWS — DECEMBER 2006

Congress Departs for Thanksgiving Break—Lame Duck Session will Continue in December

Congress has departed for a two-week Thanksgiving break but will return the week of December 4th to continue work on unfinished business during the lame-duck session. Congress has yet to complete action on a number of spending bills that continue funding for the federal government. APGA also continues to push for final passage of a natural gas supply bill and a pipeline safety bill before Congress adjourns.

APGA has long maintained that increasing natural gas supply is a fundamental component of the solution to bring and maintain prices at an affordable level. Both the House and Senate have passed a natural gas supply bill but they have been unable to resolve differences between their two versions. The House has pushed for opening up other areas, such as the coast of Virginia, to production but the Senate has resisted efforts to go beyond their bill which primarily addresses Lease 181 in the Gulf of Mexico. Recently, 18 moderate House Republican members sent a letter to the House Majority Leader urging the House to pass the Senate OCS bill without any changes and therefore allowing a gas supply bill to be sent directly to the President.

Progress also continues to be made on efforts to reauthorize the Pipeline Safety Act. The Senate Commerce, Science and Transportation Committee held a hearing on the Pipeline Safety Act on November 16th. In addition, staff of the House Energy and Commerce Committee and Transportation and Infrastructure Committees continue to meet to resolve differences between the two bills that were reported out of their committees. At this point, it is unclear how late into December the lame-duck session will run.

American Public Gas Association, November 22, 2006



PG County Rehabilitation Project Ahead of Schedule

According to Washington Gas, the Prince George's County, Maryland, mechanically coupled pipe replacement project is ahead of schedule and will likely be finished a year ahead of its anticipated completion date. This is partially due to the effectiveness of the newly constructed hexane injection facility at the Gardiner Road Gate Station, which provides a large portion of the gas used in this part of the system, and partially because of the aggressive replacement schedule.

Washington Gas has determined that the injection of hexane into the mix of the LNG based gas that it purchases from Dominion is having the desired effect as projected. The hexane is reconditioning the seals in the mechanical couplings that had been identified as the main cause of the high number of leaks in this part of the system. With the improvements at the gate station and the replacement of approximately 65% of the pipe and services that were targeted, the number of leaks has been reduced significantly.

CTSi worked closely with Washington Gas on both ends of the solution to this problem. CTSi's instrument technicians assisted in the construction of the hexane injection unit at the Gardiner Road Gate Station and their design team was responsible for designing, planning and the permitting of the replacement of the affected gas main and services. Our aggressive efforts, coupled with as many as 80 crews working to replace the affected pipe over the last 15 months have been instrumental in making the system safe again. Washington Gas plans on installing hexane injection units at its Rockville and Dranesville gate stations in 2007 as a proactive measure. Washington Gas expects that the gas it is receiving at these two gate stations will have an increased mix of re-gasified LNG in the coming years.

*Ijaz Mahboob, CTSi
November 21, 2006*



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Integrity Management Guidance Moves Closer To Completion

The Gas Piping Technology Committee (GPTC) met this week to review and approve changes to the guidance that GPTC published to assist operators to comply with pipeline safety regulations. Perhaps the most significant change discussed was guidance for developing Distribution Integrity Management Programs (DIMP). This guidance is unique in that it has been written before a rule has been proposed, whereas most guidance is written well after the rule becomes final. The Pipeline and Hazardous Materials Safety Administration (PHMSA) had requested that the GPTC accelerate developing this guidance so that PHMSA could rely on the guidance and write a flexible rather than prescriptive rule. The GPTC approved the draft with two very minor word changes.

APGA is pleased that the GPTC guidance as approved this week is much improved over early drafts that were overly complicated and nearly impossible for small systems to implement. Steve Bateman of Long Beach, CA and APGA's John Erickson represented public gas on the task group that developed this guidance and argued for many of the improvements. The guidance document still needs to pass public review and approval. The GPTC plans to ballot this guidance at the time the final rule is issued to ensure nothing is inconsistent with the provisions of the final rule. The APGA Security and Integrity Foundation (SIF) is utilizing much of the GPTC guidance in its project to develop a model DIMP plan for small systems.

*American Public Gas Association,
November 10, 2006*

Mergers are Off

In the last month, two major utilities mergers have been scuttled. Florida Power & Light's takeover of Constellation Energy and Exelon's purchase of PSEG were both shelved, according to company officials. In both cases, major disagreements with the public service commissions were cited as the main cause.

FPL's \$12.5 billion offer would have created the nation's largest competitive energy supplier and the second largest electric utility with combined total assets of \$57 billion.

Exelon was proposing a \$12.8 billion buyout of PSEG that would have created the nation's largest power generation company with seven million electric and 2 million gas customers.

Ijaz Mahboob, CTSi, November 30, 2006

This Little Honda is a Natural Gas



People in Central New York will soon be able to see and test-drive the cleanest car on the road.

It's a Honda Civic that burns compressed natural gas.

The cars rather, the car, because only one is allocated to a dealer in the Syracuse area will carry the natural gas equivalent of eight gallons of gas and go up to 200 miles on one tank.

Homeland Energy Resources Development Inc., which has an office in Liverpool, has a contract to introduce the car to auto dealers in the eastern United States. Barry Carr, vice president of alternative fuels for Homeland Energy, said the vehicle should be available in dealerships by mid-November.

He said the car is coming to town at the National Alternative Fuel Vehicle Day Odyssey event at Onondaga Community College. Odyssey events occurred Thursday across the country.

Carr said the Honda will sell for \$24,590. It will look like any other Civic sedan.

Carr said every dealer chosen to sell the car will be required to have one car in inventory. That's for customers to look at and drive. Most customers will order a car, not drive one off the lot.

In the Syracuse area, the only dealership chosen to sell the car is Honda City, in Liverpool.

Of course, there's a hitch: There has to be a natural gas supply to fuel the car.

Honda has that covered. Carr said a home natural gas delivery system that hooks into a house's natural gas supply will be available. It will sell for \$3,555.

State and federal tax credits for driving a clean vehicle will be available for the car and the gas delivery system. Carr said the tax credits on the price of the car are about \$8,000. When all is said and done, the home delivery system will cost about \$775.

"At-home fueling will work out to about \$1.20 a gallon," he said. The natural gas Civic delivers about 29 miles per gallon in the city and 39 on the highway, he said.

While the mileage isn't remarkable by today's hybrid standards, a natural gas vehicle is as clean as a vehicle as you can drive until hydrogen-powered vehicles come along. And hydrogen-powered vehicles aren't expected to be available for years.

A person who buys a natural gas Civic but doesn't want to install a home fuel system can open an account to refuel at the state Department of Transportation site on Airport Road, North Syracuse, or at the Centro natural gas delivery station, which is open 24 hours a day.

Carr answered safety concerns by pointing out that public buses run on natural gas. He said the car's gas tank will be built to withstand an impact. "Natural gas is safer than gasoline, which is one of the most volatile liquids we know," he said.

Carr recently drove a natural-gas Civic to Washington, D.C., and back. He planned his route to at natural gas stations in Binghamton and near Harrisburg, Pa.

The Post-Standard, October 13, 2006



Liquefied Natural Gas (LNG)

Cooling natural gas to about -260°F at normal pressure results in the condensation of the gas into liquid form, known as Liquefied Natural Gas (LNG). LNG can be very useful, particularly for the transportation of natural gas, since LNG takes up about one six hundredth the volume of gaseous natural gas. While LNG is reasonably costly to produce, advances in technology are reducing the costs associated with the liquification and regasification of LNG. Because it is easy to transport, LNG can serve to make economical those stranded natural gas deposits for which the construction of pipelines is uneconomical.

LNG, when vaporized to gaseous form, will only burn in concentrations of between 5 and 15 percent mixed with air. In addition, LNG, or any vapor associated with LNG, will not explode in an unconfined environment. Thus, in the unlikely event of an LNG spill, the natural gas has little chance of igniting an explosion. Liquification also has the advantage of removing oxygen, carbon dioxide, sulfur, and water from the natural gas, resulting in LNG that is almost pure methane.

LNG is typically transported by specialized tanker with insulated walls, and is kept in liquid form by autorefrigeration, a process in which the LNG is kept at its boiling point, so that any heat additions are countered by the energy lost from LNG vapor that is vented out of storage and used to power the vessel.

The increased use of LNG is allowing for the production and marketing of natural gas deposits that were previously economically unrecoverable. Although it currently accounts for only about 1 percent of natural gas used in the United States, it is expected that LNG imports will provide a steady, dependable source of natural gas for U.S. consumption. According to the EIA, the U.S. imported 0.17 Tcf of natural gas in the form of LNG in 2002. LNG imports are expected to increase at an average annual rate of 15.8 percent, to levels of 4.80 Tcf of natural gas by 2025.

Liquefied natural gas (LNG) imports represent an increasingly important part of the natural gas supply picture in the United States. LNG takes up much less space than gaseous natural gas, allowing it to be shipped much more efficiently.

LNG that is imported to the United States comes via ocean tanker. The U.S. gets a majority of its LNG from Trinidad and Tobago, Qatar, and Algeria, and also receives shipments from Nigeria, Oman, Australia, Indonesia, and the United Arab Emirates.

naturalgas.com

The Energy Information Administration (EIA) projects deliveries of roughly 650 Bcf in 2006 and a year-over-year LNG import growth of more than 40% to 920 Bcf in 2007.

More Natural Gas Drilling



WASHINGTON, DC, United States (UPI) -- The American Chemical Society, an industry group, Tuesday warned Congress that without more natural gas, diesel fuel costs could soar.

Because ultra-low sulfur diesel fuel has become mandatory, more and more natural gas is being required to produce the higher-priced motor fuel. Specifically, natural gas supplies the methane, which, in turn, provides the hydrogen used by most refiners to cut sulfur levels in their diesel fuel to legally acceptable levels.

But since drilling for much of the nation's substantial natural gas reserves is prohibited, the switch to ultra-low sulfur diesel fuel will drive up the price of available natural gas supplies.

'If the nation is to be successful in our pursuit of cleaner diesel fuel, then Congress needs to change energy policies to help bring about reliable, affordable access to natural gas,' the ACS said in a statement.

'The same goes for cleaner electricity generation, ethanol production, and solar and wind power materials -- all of which require natural gas.'

UPI, October 17, 2006

Iowa Project will Sell Gas from Manure to Northern Natural Gas

DES MOINES, Iowa — A Minnesota company that says it can turn hog, chicken and cow manure into natural gas pure enough to heat homes and run appliances has been given a state loan on Thursday to build a \$25.5 million plant in Iowa.

Bison Renewable Energy's project, to be located near Hull in the northwest corner of the state, will create 74 jobs.

The Iowa Economic Development Board approved tax benefits and a \$200,000 loan for the project. The remaining financing to build the plant will come from local government assistance, private financing, and the U.S. Department of Agriculture.

The plant will use a technology developed in Europe, which uses bacteria to break down the manure into commercially usable gas.

The company expects to use the waste from about 1.6 million hogs a year and will produce 5.3 billion cubic feet of natural gas in its second year — enough gas to heat about 70,000 homes for an entire heating season.

The company has a contract to sell its gas to Northern Natural Gas Co. of Omaha, a division of MidAmerican Energy that owns 16,500 miles of gas pipeline extending from the Permian Basin in Texas to the upper Midwest.

journalstar.com, October 20, 2006



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Celebrities Protest Natural Gas Facility Proposed for Malibu



MALIBU, California Former James Bond actor Pierce Brosnan and other celebrity residents gathered at Surfrider Beach Sunday to protest a natural gas facility proposed for a site 14 miles (22 kilometers) off the coast.

"We have to use our voices and ban together and stop this," said Oscar winner Halle Berry.

The gathering — also attended by Cindy Crawford, Jane Seymour, Dick Van Dyke and Tea Leoni — was intended to raise awareness about how the energy industry has invested billions to liquefy and ship natural gas across oceans.

There are five facilities proposed for California, with three along the Southern California coastline. One of the world's largest energy companies, Australian-based BHP Billiton, is seeking to build the terminal off the coast of Malibu and Oxnard. A decision is expected next year.

BHP officials say the terminals would provide a reliable source of low-polluting energy. Opponents, however, say the terminals fail to meet clean air requirements and would be terrorist targets.

"We invented smog," said actor Ted Danson. "For us to be increasing that is insane."

Brosnan, who hosted the protest, said his opposition to the terminals extends beyond the beach in his backyard. He plans to oppose other proposed terminals, including one in Long Beach and one in Port Hueneme.

"I would certainly put our best efforts into that as well," said Brosnan. "I think this is for the whole California coastline."

Mark Massara, a lawyer and director of the Sierra Club's California Coastal Program, said the recent celebrity interest in the terminals has helped their cause tremendously.

"This is the greatest thing that has happened to our effort," he said. "We have struggled over the last three years."

Following a pancake breakfast, dozens of surfers, including actress Daryl Hannah on her pink board, paddled out to a sign bobbing in the water. The message to Governor Arnold Schwarzenegger, who has the power to veto the proposal, had a picture of the proposed terminal with a red line through it and two words: "Terminate it!"

The Associated Press, October 22, 2006