



Research and strategy for the land community.

Statement of Spencer Phillips, Ph.D.

to the

People's Hearing Investigating FERC

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My name is Dr. Spencer Phillips, and I am a natural resource economist with more than 25 years' experience in the field. My colleagues and I have examined the economics of several proposed interstate natural gas pipelines as well as how well (or not) FERC has done its job to consider those economic effects. We have found that FERC's pipeline certification policy suffers from failures of design and execution that guarantee that the American people will be saddled with an economically inefficient and environmentally unsustainable excess of pipeline capacity.

Common sense and fundamental tenets of economics tell us that an action is worthwhile if and only if the benefits outweigh the cost. U.S. environmental policy requires that "cost" include the foreseeable negative consequences stemming from damage to ecosystems.

FERC's pipeline certification policy does make a nod in this direction; it requires pipeline companies to demonstrate that their proposals benefit the public without imposing uncompensated "residual adverse effects" on affected communities. Beyond that whiff of good intention, however, FERC's policy is completely inadequate for evaluating the costs and benefits of proposed pipelines. Here's why:

- First, FERC's process is plagued by confirmation bias. FERC's stated policy is for the applicant to provide information that supports FERC's approval. By asking only for information supporting a foregone conclusion, FERC fails to subject pipeline applications to a full, rigorous, or economically adequate examination of the proposals.
- Second, FERC relies almost exclusively on cost and benefit information supplied by applicants and their consultants, who have—and act upon—their self-interest by

presenting inflated estimates of benefits and greatly discounted estimates of costs. In the cases we have reviewed (ACP, MVP, PennEast, Millennium ESU), the applicants provide no serious consideration of any costs at all.

Some of the important costs that pipeline applicants and, by extension, FERC fail to consider include:

- Reductions in private property value along the length of pipelines and extending outward through the right-of-way, the “high consequence area,” and the evacuation zone. (Applicants and FERC cite fundamentally flawed, industry-sponsored studies that claim there is no such effect. Credible, independent research shows that pipelines do have significant negative effects on property values.)
- Lost natural benefits like water filtration, aesthetic quality, wildlife habitat, and food production.
- Forgone economic development opportunity as recreationists, tourists, retirees, entrepreneurs, and workers choose safer, more environmentally healthy, and more aesthetically pleasing locations.

These costs can be significant and staggering:

- For the Atlantic Coast Pipeline, where we estimated these costs for just a fifth of the ACP’s proposed 500+ mile length, these costs total between \$6.9 and \$7.9 billion.
- For the Mountain Valley Pipeline, we looked at the region impacted by half the proposed 300-mile length and estimate between \$8 and \$8.9 billion in costs.
- And for the PennEast Pipeline, our examination of the whole length (118 miles) reveals external costs of approximately \$38 billion.¹

The results of FERC’s flawed policy and subsequent failure to give serious consideration to benefits and costs is predictable, inefficient, and inequitable. There is already more than

¹ Regional differences in land prices account for much of the difference between these examples. Eastern Pennsylvania and New Jersey are higher cost-of-living areas than rural Virginia and West Virginia.

enough pipeline capacity, and the addition of the PennEast or other pipelines awaiting FERC's foregone approval will only make matters worse. That's the inefficiency.

The outcome is inequitable because pipeline companies will profit as they pass the financial costs of these wasteful projects on to ratepayers while burdening landowners, residents, business owners, and visitors with massive external environmental costs for which there will be no offsetting benefit and little chance for just compensation.