



Natural Gas Pricing

Updated October 2004

This publication is updated monthly.

Q. What has changed in the past few years that has affected the higher natural gas prices we are paying today?

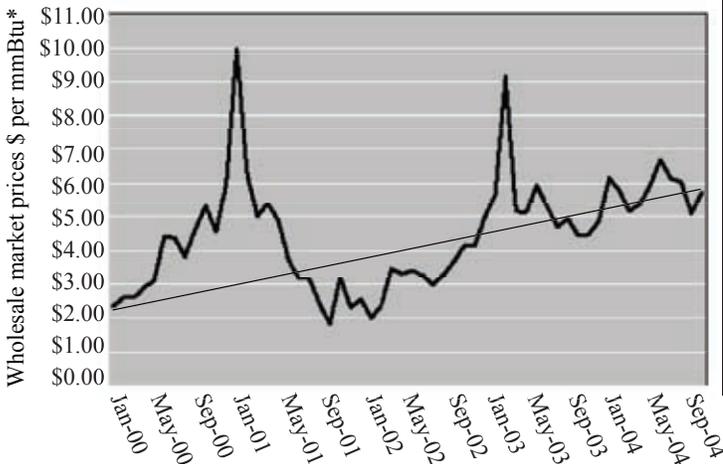
For the past four years, the entire nation has experienced escalating natural gas prices. A series of events and economic factors have driven prices to all time highs. Starting in the summer of 2000, which was abnormally hot, electricity was in high demand. In order to keep up with that demand, there was increased use of electric “peaking plants,” many of which are powered by natural gas. When demand for electricity increased that summer, a portion of the nation’s natural gas supply was used to meet it.

In November and December 2000, record cold temperatures, combined with the strain from the previous summer’s natural gas supplies, left consumers paying up to 70 percent more for natural gas than in 1999.

Since then, additional factors have contributed to the escalating cost of natural gas.

While the Office of the Ohio Consumers’ Counsel (OCC) cannot predict what this winter will bring, natural gas prices are likely to remain high.

Natural Gas Wholesale Market Prices



* Utility companies purchase natural gas in units of mmBtu.

Factors affecting natural gas prices

Q. What are the factors that affect natural gas prices?

A. There are several factors on both a national and state level that affect natural gas prices, including:

Price – World oil prices have dramatically increased as a result of uncertainty in the Middle East and Russia. The current economy is also a factor that has contributed to rising prices. Because many large industrial customers can interchangeably use oil and natural gas as a fuel source, the prices for these two sources of energy tend to be closely linked. Therefore when oil prices increase, natural gas prices also increase.

Weather – While this past summer was cooler and therefore the nation did not experience the same strain on natural gas supplies as it did in 2000, the natural gas that was bought and stored for this winter was purchased at substantially higher prices than in previous summers, about two times higher. The temperature outside will play a role in whether prices continue to rise and if so, by how much. If the nation experiences a very cold winter, an increased strain on natural gas supplies could cause prices to increase.

Limited Production and Supply – Prior to 2000, the nation had experienced a number of mild winters, which created a natural gas surplus. The surplus caused natural gas prices to fall. As prices stayed low, natural gas production became less profitable and exploration and drilling slowed dramatically. Although natural gas exploration and drilling generally increases as demand increases, there is a 12 to 18 month lag between increased drilling and having a larger supply of natural gas. Currently, the predominant factor is that new, deeper natural gas wells are less productive than the older, smaller wells.

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How natural gas is priced

Step 1: Natural gas explorers and producers locate and drill natural gas wells.



Step 2: They then sell the natural gas on the competitive wholesale market. Wholesale market rates fluctuate based on supply and demand and are not regulated.



Step 3: If demand for natural gas is high and supply is low, utility companies will pay higher prices for natural gas. If demand is low and supply is high, natural gas prices will be lower. These rates can also be affected by world oil prices and other economic conditions.



Q. What are the main parts of a natural gas bill?

A. There are three main parts of your natural gas bill:

1. The Gas Cost Recovery Rate (GCR) – Every quarter Columbia Gas of Ohio and Dominion East Ohio calculate the price they pay for natural gas and for moving that natural gas from where it was purchased (Ohio gets the majority of its natural gas supply from Texas, Louisiana and the Gulf of Mexico) to Ohio. Cincinnati Gas & Electric and Vectren Energy Delivery of Ohio calculate these same costs on a monthly basis. The costs are then multiplied by an estimate of how much natural gas will be used by customers. From this information, the expected gas cost rate is determined.

At the end of each quarter, or month depending on the company, the utility also looks at the amount of natural gas that was actually used compared to what it had estimated. Then, the company adjusts the rate higher or lower depending on whether it over or under collected to determine the next GCR rate.

These two elements - 1) the price of natural gas delivery and 2) any adjustments from the previous GCR rate - are combined to equal the new GCR rate. The GCR makes up 60 to 70 percent of your total bill. **The natural gas company is not allowed to make a profit on the cost of natural gas, it passes this cost directly to the customer.**

2. Distribution/Transportation Cost – This charge covers the cost of moving natural gas through the utility company's pipelines to your home. This rate is approved by the Public Utilities Commission of Ohio (PUCO) and is applied to the amount of natural gas that is transported to your home. As a result, the more natural gas you use, the higher your transportation cost.

3. Customer Charge – This flat rate charge of between \$4 and \$7, depending on the utility company, covers costs such as reading and maintaining meters, billing and other administrative costs. This charge is billed to you regardless of the amount of natural gas you use.

The amount of natural gas you use as well as costs associated with transportation have a direct impact on the cost you pay for the GCR and transportation of natural gas to your home. The more natural gas you use, the higher these costs will be. By conserving energy and using less natural gas you can lower your overall heating bill.

Financial assistance

Consumers struggling to pay their natural gas bills can contact the OCC for help identifying financial assistance programs, including:

Home Energy Assistance Program (HEAP)

– This federally funded program is designed to assist low-income customers with their heating costs.

Percentage of Income Payment Plan (PIPP)

– Also available to low-income customers, PIPP allows consumers to pay a percentage of their gross monthly income to the utility company that provides their primary source of heating instead of paying the entire bill. Once the customer is no longer eligible for PIPP they are responsible for paying any money not collected while receiving assistance.

Home Weatherization Assistance Program

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(HWAP) - a federally funded low-income residential energy efficiency program that aims to reduce energy use in the home. Through this program, an eligible household can receive:

- Attic, wall and basement insulation
- Heating system repairs or replacements
- Health and safety testing and inspections

To learn more about these and other assistance programs, or to find out if you qualify, contact the OCC toll free at **1-877-PICKOCC**(1-877-742-5622).

Managing natural gas bills

Q. What can I do to manage my natural gas bills?

A. You have many options when it comes to managing your winter heating bills, including:

Natural Gas Choice - Customers of Cincinnati Gas and Electric, Columbia Gas of Ohio, Dominion East Ohio and Vectren Energy Delivery of Ohio have the opportunity to save on energy costs through one of Ohio's natural gas choice programs. Natural gas choice allows you to compare prices and shop for natural gas just like you would for other goods and services.

Even if you choose another natural gas supplier, your local utility still owns the pipes and other equipment that transports gas to your home. No additional pipes or meters will be needed if you decide to switch. If you experience any service related problems or an emergency situation, you will still contact your local utility.

The OCC offers the following free resources to assist you with making informed decisions about your natural gas choices.

- **Gas Choice 101**
– A guide to assist residential consumers considering participating in Ohio's natural gas choice programs. Every step of the evaluation, selection and enrollment process is included.



- **Calculating Your Energy Choices** – This interactive calculator allows consumers of Columbia Gas of Ohio and Dominion East Ohio to compare natural gas supplier offers to their natural gas utility's regulated rate. Consumers can calculate potential savings and learn more about each supplier and its offers by visiting the OCC at **www.pickocc.org** and clicking on the natural gas choice calculator from the featured links.
- **Comparing Your Energy Choices** – A weekly updated list of suppliers in each utility's service area, their offers and contact information. Fact sheets for each company include a worksheet to help calculate potential savings. Biographical information about each supplier is also available.
- **Budget Billing** – Each utility company has a budget billing program that allows you to spread your natural gas expenses throughout the year. You can enroll at any time and the company will look at your historical usage and the expected cost of natural gas to determine your monthly payment. Depending on the utility, at some point your budget amount will be reviewed to see whether you paid too much or not enough for the actual amount of natural gas that you used. At that point, your monthly budget payment may go up or down. For more information, contact the OCC and request "The Facts About Natural Gas Budget Billing."

Energy efficiency

There are many quick and inexpensive, short-term energy saving steps you can take to help reduce your monthly natural gas bills now, as well as some long-term adjustments that will help keep energy bills down in the future.

To identify which energy efficient steps may offer you the greatest benefits, complete a free home energy audit by visiting the energy efficiency portion of the fact sheets and publications page at www.pickocc.org.

No cost tips

- Lower your thermostat while away from home. For example, if you lower your thermostat from 72° to 65° degrees for at least eight consecutive hours every day during the winter, you can reduce your energy bill by as much as 10 percent a year.

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- Clean warm air registers, baseboard heaters and radiators as needed; make sure they are not blocked by furniture, carpeting or drapes.
- Use kitchen, bath and other ventilation fans wisely; in just one hour, these fans can pull all of the warm air out of a house.
- Keep draperies and shades on windows facing south open during the day to allow the sunlight to enter your home and closed at night to reduce the chill.
- Leave the bathroom door open after a shower, to let the warm air circulate through the house.
- Minimize the use of your fireplace. Warm air escapes through the chimney. Make sure the fireplace damper is closed unless a fire is burning.
- When baking in a gas oven, keep your preheating time to a minimum and use the smallest pan possible so that less energy is used to heat the food. Also, limit the number of times you open the oven door since you lose heat each time.

Low cost tips \$

- Install a programmable thermostat to automatically turn heat up while you're at home and down while you are away.
- Add humidity to your home by keeping house plants. Humid air feels warmer and is helpful in reducing winter colds and dry skin.
- Purchase tight-fitting plastic sheeting to insulate the inside of windows. Weather-strip all inner and outer doors.
- Install low-flow showerheads, which control the amount of hot water being used in your shower and repair any leaky faucets. Heating water is the second largest energy user in the home.

The Office of the Ohio Consumers' Counsel (OCC), the residential utility advocate, represents the interests of 4.5 million consumers in proceedings before state and federal regulators and in the courts. The state agency also educates consumers about electric, natural gas, telephone and water issues and resolves complaints from individuals. To receive utility information, brochures, schedule a presentation or file a utility complaint, residential consumers may call 1-877-PICKOCC (1-877-742-5622) toll free in Ohio or visit the OCC website at www.pickocc.org.

The Office of the Ohio Consumers' Counsel is an equal opportunity employer and provider of services.

For additional information from the Office of the Ohio Consumers' Counsel:

Call: 1-877-PICKOCC (1-877-742-5622) toll free or (614) 466-8574
Write: 10 West Broad Street, Suite 1800, Columbus, Ohio 43215-3485
E-mail: occ@occ.state.oh.us • Internet Address: www.pickocc.org

- Have a professional inspect and tune up your furnace once a year. Make sure to clean/change your air filter and always keep the area around the furnace clean.

Investment \$\$

- Select energy-efficient equipment when you buy new heating units. Look for appliances with energy efficiency information.
- Add insulation to your attic, walls and around air ducts. Many times, a professional may be needed for major insulation projects.

Alternatives \$\$\$

- If you are building a house, consider solar design techniques to help reduce heating costs. A simple technique is placing insulated windows on walls facing south.
- If you use electricity to heat your home, consider installing a heat pump system. Heat pumps can reduce the amount of electricity you use for heating by as much as 40 percent.

Where to turn for help

The OCC is committed to providing you with the most current and accurate information. As the winter heating season progresses we will work to keep you updated about natural gas prices and the resources available to assist you. In addition to the free tools highlighted in this fact sheet, the OCC also offers a toll-free hotline and website to help you resolve complaints and answer your utility questions. You can call toll free **1-877-PICKOCC** (1-877-742-5622) or visit **www.pickocc.org**.