



Natural Gas Pricing

Updated Winter 2005/2006

Natural gas prices have been on the rise over the past few years and there are no indicators that rates will be coming down any time soon. The temperature outside will play a significant role in whether prices will increase this winter and if so, by how much. The Office of the Ohio Consumers' Counsel (OCC) has prepared the following information about why natural gas prices are so high and what consumers can do to help manage their natural gas bills this winter.

Natural gas supplies

The United States' supply of natural gas is used by four primary categories of customers:

- Commercial – 15 percent is used by churches, schools, hospitals and other businesses
- Industrial – 35 percent is used by manufacturing plants and other types of production facilities
- Residential – 25 percent is used by homes and apartments
- Electric Power Generation – 25 percent is used by power plants to generate electricity

Since the early 1990s, almost every new electric power plant constructed uses natural gas. Tighter air pollution laws sent electric power generators looking for cleaner types of fuel like natural gas. Prior to that period, these plants primarily operated using coal, nuclear power and other fuels.

The amount of residential homes that use natural gas for heating and cooking also has increased dramatically over the past 35 years. In the Midwest region alone, 92 percent of all new homes being built use natural gas. While the amount of natural gas each household uses has decreased, the number of homes that rely on natural gas has greatly increased.



Q. Do we have enough natural gas to meet the current demand?

A. While the United States currently has enough natural gas to meet demand, new production is needed to ensure natural gas is available in the future. The United States produces the majority of its own natural gas supply and also purchases some from Canada. Over the past couple of years natural gas drilling has increased. However, these new wells have to be drilled deeper and are providing less natural gas than older, more productive wells.

Natural gas prices

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

A. There are several factors including:

Weather – Speculation about this year's hurricane season and its impact on natural gas production sent summer natural gas prices soaring to record highs. Hurricane Katrina, which hit the Gulf Coast in September, was the fourth hurricane this year that suspended production. The hot summer temperatures also resulted in an increased demand for electricity from natural gas fired power plants as people used more and more electricity to cool their homes and businesses. This coming winter may also affect natural gas prices. The lower the temperature falls, the more the nation will rely on natural gas for heat.

Limited Production – 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 have increased, there is now a greater demand from electric generators on these new, natural gas supplies.

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Oil Prices – This year, world oil prices have dramatically increased. Uncertainty in the Middle East and Russia, increased demand from other countries like China and India and the current economy are just some of the factors that have caused prices to rise. 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.

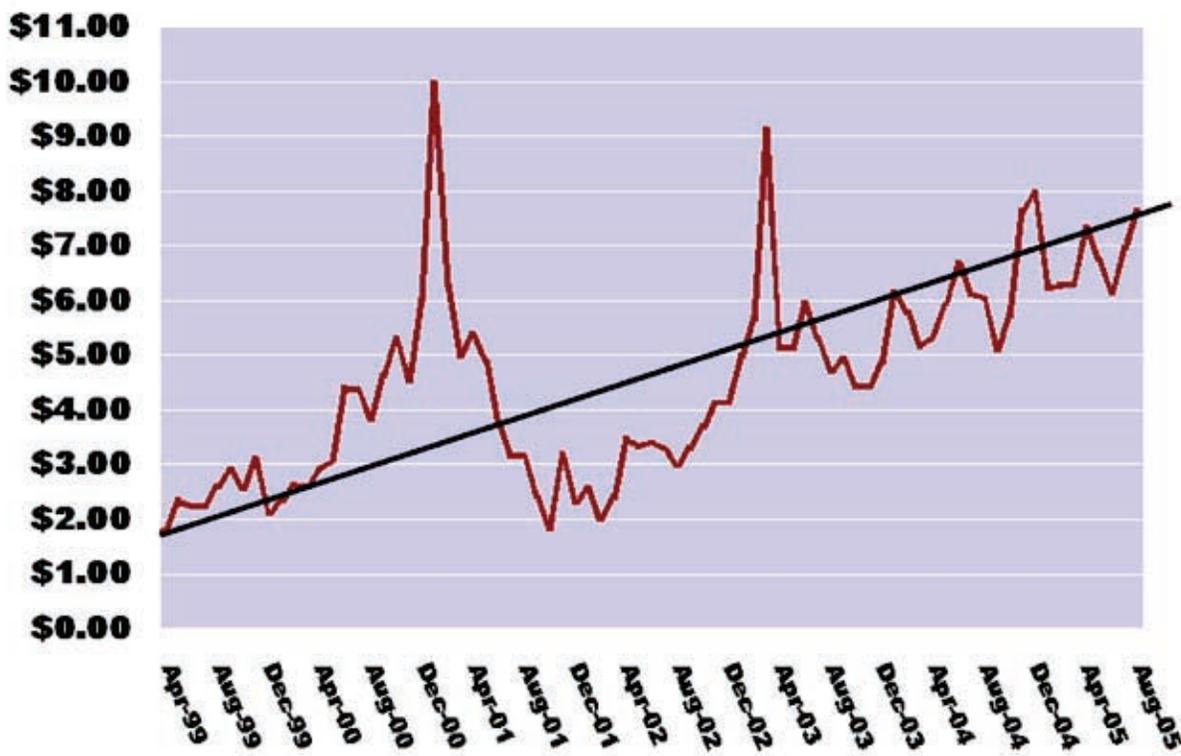
Q. What can be done on the national level to reduce natural gas prices?

A. Recently, federal energy legislation was passed that begins to address some of the issues affecting nationally escalating energy bills. Increased appliance efficiency standards is one way in which the new energy bill may help consumers reduce their energy usage in the future.

It is important for consumers to understand that this bill will not have an immediate impact on natural gas prices. While this legislation has the potential of creating long-term benefits, more is needed in the short-term to help consumers lower their bills.

The OCC advocates for Ohio's utilities to offer and support comprehensive energy efficiency programs that will enable their customers to take control of their energy usage and ultimately lower their monthly bills.

Natural Gas Wholesale Market Prices



This graph demonstrates how natural gas prices on the wholesale level have escalated over the past five years.

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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.



Your natural gas bill

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 month Cincinnati Gas & Electric, Columbia Gas of Ohio, Dominion East Ohio and Vectren Energy Delivery 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. 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 month the utility looks at the amount of natural gas that was actually used compared to what it had estimated. Then, the company adjusts its GCR rate higher or lower for the next month taking into account whether it over or under collected and the current price of natural gas.

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, dollar for dollar, directly to the customer.**

- 2. Distribution/Transportation Cost** – This charge covers the cost of moving natural gas through the utility companies 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 \$7.50, 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 energy 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 income eligible customers with their heating costs.

Percentage of Income Payment Plan (PIPP)
– 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 balance that was accrued while receiving assistance.

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Home Weatherization Assistance Program

(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 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 calculate what they could pay with a natural gas supplier compared to their natural gas utility's regulated rate. Consumers also can use the toll to verify their monthly natural gas bill. Consumers can learn more about each supplier and its offers by visiting the OCC at **www.pickocc.org** and clicking on the natural gas choice calculator located on the natural gas page.
- **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 estimate or verify a natural gas bill. Biographical information about each supplier also is 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.

- 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 answer your utility questions. You can call toll free **1-877-PICKOCC** (1-877-742-5622) or visit **www.pickocc.org**.

The Office of the Ohio Consumers' Counsel (OCC), the residential utility consumer advocate, represents the interests of 4.5 million households in proceedings before state and federal regulators and in the courts. The state agency provides information and responds to consumers' questions about their electric, natural gas, telephone and water services. To receive utility information, request brochures or schedule a presentation, 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:

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