

QUESTIONS & ANSWERS REGARDING NATURAL GAS PRICES

Where is the price of natural gas headed?

The answer to that question is not simple. Natural gas used to be an unwanted product of oil production back around the 1900s. Since then, natural gas has come a long way from being a by-product of oil production, which was flared (or burned off), to a highly sought after commodity in the 21st century. During this same period, the price for natural gas has evolved from long-term, very-low priced contracts (pennies in the '40s and '50s) to a highly-valued traded commodity, not unlike the way other commodities are traded.

Is the price of Natural Gas going to continue to go up?

Unfortunately, the price forecast for the next few years appears to be yes. The price for natural gas is going to continue to increase, according to the energy experts and the Short Term Energy Forecast from the federal Energy Information Administration. However, the price may not climb as rapidly as it has in recent years.

What determines the price of Natural Gas?

Generally, the price of natural gas is determined by market influences. In today's marketplace the pricing of natural gas is very complex. Some influences range from:

- The current *supply* of natural gas available for sale, as well as the anticipated future supply of natural gas;
- The current *temperature* outside locally and nationally;
- Sudden *temperature changes* and the duration of these temperature changes;
- The amount of natural gas in *storage*;
- The current and anticipated *demand* for natural gas;
- The cost to get the natural gas to your meter or *transmission costs*; and
- Yes, even the *price of oil* both domestically and abroad.

There are many more factors that influence the price of natural gas depending upon the time of year and the nation's economy and world's economic climate. However, the biggest influence on the price continues to be supply and demand. When the gas supply gets tighter and demand increases, the result is higher prices.

Who regulates the price of Natural Gas?

The marketplace determines the price of natural gas. Currently, no governmental agency regulates the price of natural gas production at the wellhead. The transportation of natural gas is regulated by the Federal Energy Regulatory Commission (FERC) as the natural gas moves in pipelines from one state to another state. The Railroad Commission

of Texas (RRC) requires each gas utility to file its rates with the RRC. If you live inside the city limits, the city in which you live sets the price a utility can charge for the *cost of service* (see definition below). If you live outside the city limits, the RRC sets the price a utility can charge for the *cost of service*. The cities and the RRC regulate the service a distribution utility provides to the consumer. The utility is allowed to pass on only the cost of gas.

What's the difference between Cost of Service and Cost of Gas?

Cost of Service represents the cost to provide natural gas to your residence or business. It *excludes* the price for the natural gas commodity. **Cost of Service** includes the cost of the pipe in the ground; the personnel necessary to provide the service; and equipment and facilities required to get the gas to you, the consumer. The utility is allowed to earn a profit through the **Cost of Service**. The **Cost of Gas** is the price the utility has to pay to purchase the natural gas commodity. It is the raw cost the utility paid for gas. The utility is not allowed to mark up the cost of gas, inflate it or add a profit to it. The cost of service is reflected in the base rate on a customer's utility bill. The cost of gas is also a part of a customer's utility bill and is billed as a Purchase Gas Adjustment (PGA) or a Gas Cost Adjustment (GCA).

Why doesn't the government do something about the rising prices?

The federal government has attempted to place artificial price controls on different commodities in past years, such as natural gas production. However, in each instance the artificial price control has failed to do what it intended. For example, when price controls have been set, sellers would eventually set the sales price at the ceiling price, and each following month the price automatically went to the ceiling price. This occurred because competition was removed. Artificial price regulation is difficult to control and often does not work as intended. The government has since decided to let the marketplace determine the price through competition.

What can be done about rising prices?

Ultimately, the price is determined by supply and demand. Earlier this year the Texas Energy Planning Council was created by a gubernatorial executive order to develop a comprehensive future energy plan for the State of Texas. The council, appointed by the governor in February 2004, consisted of 22 industry members and state officials with Railroad Commission Chairman Victor Carrillo serving as council chair.

One of the council's 10 recommendations targeted the low supply of natural gas by recommending the development of the Liquefied Natural Gas industry along the Texas Gulf Coast to establish Texas as the dominant entry point and activity hub for U.S. natural gas imports.

I live on a fixed income. What can I do to help control my cost?

There are many things you can do.

- Contact your gas company and ask if they have an energy awareness program or an energy conservation program. Many utilities offer to come to your home and conduct a review of your home's energy efficiency.
- Look around your home to see what you can do to save energy. You might want to lower your thermostat when not at home, set the water heater on a lower setting, or even review simple timing of preparation steps when cooking meals.
- Caulking around your home's exterior can help reduce heat escaping.
- Open the blinds to let the sun shine in on sunny days to help heat a room.
- **If you need help, don't wait!** Contact your utility before the bill is due. Ask if they have an alternate payment program or an average payment program.
- Contact your county or city governments for assistance and to identify the various social agencies to help in paying utility bills. Many have programs for low income residents.

How are the gas utilities' rates, services and gas costs monitored?

Each city or municipality has the regulatory authority to monitor the charges the utility passes on to its customers. Likewise, the RRC monitors the utility charges to customers outside city limits. The RRC monitors the utility by conducting periodic, random audits of the utility. The RRC conducts these audits annually to assure the RRC officials that the utility is charging the approved rates. When it is found that the utility has misapplied approved rates, it requires refunds to customers. The rates are monitored by a random selection of actual customer bills. Included in the audits is an audit of the cost of gas. Not only is the rate tested, but the audit assures that interest is calculated properly on deposits, connections and reconnection fees are charged as approved, and that the customer's quality of service is maintained as well.

Any violation of the rules of service, or the rates, is brought to the attention of the RRC officials and the utility. Correction of any problem found in an audit is monitored to assure that the utility is brought back into compliance.

Why is the cost of gas or the price the utility pays different from one city to the next?

For the same reason that the price of gasoline is different from one city to the next as you might experience driving from one city to the next. It all depends on the supply and demand of the region. The price also depends on whether natural gas production is abundant in the area; whether the natural gas needs cleaning to be burner-tip quality; and whether there is a large or small number of suppliers in the area.

Unfortunately, moving natural gas is very different than moving milk or eggs. It takes quite a bit of capital commitment to lay pipeline to serve a city.

Who has jurisdiction over gas utility's rates and services?

