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SENATE PERMANENT SUBCOMMITTEE ON INVESTIGATIONS

*Volatility in the Natural Gas Market:  
The Impact of High Natural Gas Prices on American Consumers*

Good morning and thank you for attending today's hearing. All of us have seen the news reports that natural gas prices have skyrocketed over the last few months. That spike in gas prices has put businesses in jeopardy and burdened families with significantly higher winter heating bills. The tragedy is that the folks in our community who are most vulnerable are suffering the most.

Take the story of Lori Cooper – a working professional, wife, and mother of a 21-month old baby. Mrs. Cooper, who lives in St. Paul, is struggling to make ends meet – and things got even worse for Mrs. Cooper when her husband lost his job and was diagnosed with cancer. They have had to scrape by on her salary alone, and even though they received an energy assistance grant from the government, paying off their heating expenses has become a great difficulty. For instance, paying last year's winter heating bill took months and months, and according to Mrs. Cooper, "it took us all summer to pay it off." Finally, they got caught up on last year's energy bill, but then they got hit by this year's heating bill, which is significantly higher – 37 percent higher. For the Cooper family, a 37% price hike is a huge problem, one that can put them in serious financial jeopardy.

Unfortunately, stories like the Cooper family are all too common. While Mrs. Cooper could not attend this hearing and detailed her story in written testimony, two other brave Minnesotans will join us today to share their stories about how the price hikes in natural gas have real consequences on our citizens. Deidre Jackson is a single mother, a working professional and a college student. Her heating bill has increased over 100 percent this December versus last December. Lucille Olson, is a senior trying to live with high costs for health insurance and prescription drugs and pay a heating bill that represents 30 percent of her monthly income. I look forward to listening to their testimony in a few minutes.

Since November, I have tasked the Permanent Subcommittee on Investigations, which I chair, to examine price manipulation in the natural gas market. For decades, the average price of natural gas ranged from \$2.30 to \$2.50 per million btu. Since 2000, prices of natural gas have generally fluctuated between \$2 and \$10 per million btu. Energy market projections estimate record high natural gas prices this winter. In December, NYMEX natural gas futures closed above \$14.00 per million btu.

As natural gas prices have increased in recent years, we have heard allegations of price manipulation. We have also heard concerns that suppliers are withholding gas supplies from the market. To be fair, it is clear that the natural gas supply has been limited by other circumstances. For instance, Hurricanes Rita and Katrina caused more than a dozen natural gas processing plants going off-line and damaged gas pipelines. That is particularly significant because approximately 20 percent of all the natural gas produced in the United States comes from the

Gulf of Mexico. At the same time however, oil industry profits have nearly tripled over the last three years to \$87 billion last year. In the first nine months of 2005 the five largest oil companies made \$84 billion in profits. Just last week, Exxon Mobile Corp. reported that its 2005 earnings totaled \$36.13 billion which is the largest annual profit ever for a U.S. company according to the Washington Post. The company's annual profit was up 43 percent from the year before.

Given the rise in natural gas prices and record profits by the oil industry I have deep concerns knowing that folks are paying double what they paid last year in heating bills. As part of my concern for market manipulation, I sent Chairman letters to five of the top producers of natural gas asking for information regarding their operations, profits, and capital expenditures to increase domestic supply. In addition, the Subcommittee has had multiple briefings with representatives for each of these companies. At this point, it is important to note some of the market factors that have contributed to high and volatile natural gas prices in recent years. First, increased demand combined with declining supply have contributed to rising natural gas prices. Second, the nation's ability to increase imports has been limited which has also contributed to higher prices. Market manipulation may also be contributing to the problem. Along with tasking the Subcommittee to look into this issue, I have asked GAO to examine market manipulation and their results should be available in the spring. Given the impact higher prices are having on Minnesotans and businesses I will continue to look into this issue. I want to ensure that natural gas prices are fair and appropriate.

Mrs. Cooper's story and the stories we will hear from Mrs. Jackson and Mrs. Olson show that the increased energy costs are taking a toll on the American families, businesses, and the economy at large. In Minnesota, natural gas is used to heat most homes, and therefore, rising costs have directly affected most families. The Department of Energy found that, from 1999 and 2004, residential heating prices rose an astounding 73 percent. Prices should skyrocket even further, according to a Department of Energy forecast, which projected that residential households are expected to pay 41 percent more on average for natural gas this winter. CenterPoint Energy, the largest provider of natural gas in Minnesota, said that last year's average customer spent \$720 to heat their homes during the months of November through March. This year, officials at CenterPoint indicated that the same customer could spend \$1,070 by the time winter is over. So far, thankfully, Minnesotans have benefited from a mild winter which has mitigated some of the supply effects and projected price increases resulting from Hurricanes Rita and Katrina.

I am concerned when families have to spend more money on their heating bill, and have to choose between paying for heat, medicine, food, and clothing. The problem is not limited to families – natural gas prices paid by Minnesota's manufacturers have increased nearly 150 percent since 1999. That is a serious drag on our economy, and hamstringing our businesses which are trying to compete with countries where energy costs far less. In fact, the United States pays significantly higher prices for natural gas than the rest of the world. Even countries that produce no natural gas, like Japan, have lower natural gas prices than the United States.

In response to concerns about the effect of higher energy costs on Minnesotans, I have continued to be a strong supporter of the Low Income Home Energy Assistance Program, otherwise known as LIHEAP. This program helps families struggling to pay their heating bills. Most recently, I

co-sponsored a motion in November to include \$2.92 billion in additional funding for LIHEAP. Unfortunately, this effort did not lead to an increase in funding. As a result, I worked with Senators Snowe and Collins and demanded a firm commitment from the Senate leadership to provide \$2 billion in additional funding for LIHEAP. Currently, I am working with leadership to draft language for such a bill.

In light of the home energy crisis that families face, I introduced in December the Home Energy Savings Incentives Act of 2005. This legislation provides tax credits to homeowners for making energy saving upgrades. Upgrades may include simple items such as using energy efficient light bulbs and weather stripping or more substantial items such as purchasing an energy efficient furnace or windows. Residents can receive up to \$5,000 in tax credits that will immediately reduce heating bills resulting from energy efficient upgrades.

These efficiency upgrades are, however, just one part of the solution to our nation's energy problem. Another part of the solution is a necessary commitment to conservation and the use of alternative fuels. I am proud to be the Senator for the State of Minnesota, which leads the nation in renewable fuels like ethanol, biodiesel, wind, and energy derived from livestock waste. Minnesota's work in renewable fuels makes good sense because those homegrown, clean-burning fuels provide cleaner air and water, promote greater energy independence, lower our fuel costs, and foster economic development through jobs. The production and use of renewable fuels will always be a top priority of mine – for our farm families, our rural communities, and for our nation.

This morning we are going to focus on the recent price increases for natural gas and the effect they have on American consumers. As I mentioned earlier, we will have the pleasure of hearing from two Minnesotans – Deidre Jackson and Lucille Olson – who will describe the affects of high prices on their lives. I look forward to hearing their experiences and want to thank them for attending.

In addition, I am looking forward to hearing from Cargill, headquartered right here in Minnesota, to understand how higher natural gas prices have affected their business. Similarly, the University of Minnesota is going to discuss how the University is dealing with higher energy costs and what effect prices have had on the school's educational mission.

I look forward to hearing from the Minnesota Department of Commerce and the Minnesota Public Utilities Commission with respect to any recent trends that are affecting residents during the winter heating season, as well as any recommendations that each agency may have.

Lastly, I am eager to hear from the Federal Energy Regulatory Commission with respect to the factors that are driving up today's prices, their oversight and monitoring of natural gas prices and what the Commission is doing to ensure that prices are just and reasonable. And finally, the Government Accountability Office is going to talk about their analysis of the factors affecting prices including whether price manipulation is contributing to higher prices, as well as what additional steps we can take to ensure that prices are determined in a competitive and informed marketplace.

I look forward to hearing from all of our panelists this morning and I know we will all learn a great deal today. I should note one other item – this hearing was originally scheduled for last Friday, but the Senate had votes that day. As a result, we had to re-schedule these proceedings and I appreciate everyone’s willingness to accommodate that change.

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