



Highlights of [GAO-06-968](#), a report to the Permanent Subcommittee on Investigations, Committee on Homeland Security and Governmental Affairs, U.S. Senate

### Why GAO Did This Study

Following Hurricanes Katrina and Rita, natural gas prices spiked to more than \$15 per thousand cubic feet, nearly seven times higher than in the late 1990s. As a result, policymakers have increasingly focused on better understanding how prices are overseen.

The prices that consumers pay for natural gas are composed of (1) the commodity price, (2) the cost of interstate transportation, and (3) local distribution charges.

Oversight of these components belongs to the federal government, through the Federal Energy Regulatory Commission (FERC), and the states. In 1993, federal price controls over commodity prices were removed, but FERC is still charged with ensuring that prices are fair. Recently, the Energy Policy Act of 2005 (EPA 2005) broadened FERC's authority.

GAO agreed to (1) analyze FERC's role overseeing natural gas prices, (2) summarize FERC's progress in implementing EPA 2005, and (3) examine states' role in overseeing natural gas prices. In preparing this report, GAO met with officials from 10 states that regulate gas in different ways and analyzed relevant laws and documentation.

### What GAO Recommends

To improve understanding of FERC's market oversight and to help deter market manipulation, FERC should better inform stakeholders about its market monitoring and investigations.

[www.gao.gov/cgi-bin/getrpt?GAO-06-968](http://www.gao.gov/cgi-bin/getrpt?GAO-06-968).

To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or [wellsj@gao.gov](mailto:wellsj@gao.gov).

## NATURAL GAS

# Roles of Federal and State Regulators in Overseeing Prices

### What GAO Found

Since natural gas commodity prices were deregulated in 1993, FERC's role in ensuring that commodity prices are determined competitively and are free from manipulation has been limited to (1) indirectly monitoring commodity markets to identify and punish market manipulation and (2) supporting competition in those markets. FERC faces challenges ensuring prices are fair, however, because staff cannot monitor all of the potentially millions of transactions and because it is difficult to identify market manipulation. FERC's oversight of commodity markets has risen in importance recently because the commodity price amounted to nearly 60 percent of the total consumer price in 2005 compared with about 30 percent in 1993. FERC also directly approves interstate transportation prices.

FERC has completed action on four of the six new tasks identified by EPA 2005 related to natural gas. FERC officials said that EPA 2005 has achieved tangible results. For example, following FERC's issuance of a policy statement on enforcement in October 2005, some industry members have self-reported instances of noncompliance with FERC-approved rules in an effort to gain consideration for a lesser penalty.

States directly oversee prices for local distribution of natural gas and have a limited role approving commodity and interstate transportation prices. States directly approve utilities' charges for local delivery of natural gas, but this represented only about 30 percent of the consumer price in 2005. While states can deny gas utilities from passing on the cost of the gas commodity to consumers, state officials told us this rarely occurs. State officials rely on FERC to ensure that commodity prices are fair, but some said they are unaware of FERC's oversight efforts. FERC officials agree that expanding the information they provide to stakeholders would improve stakeholders' understanding of FERC's efforts and could help deter manipulation.

Changes in Average Natural Gas Prices Paid by Consumers, 1993 to 2005 (in 2005 dollars)

Local Gas Utility		Local Gas Utility	
Gas Bill	To: John Doe	Gas Bill	To: John Doe
May 1993	Anywhere, USA	May 2005	Anywhere, USA
Item	Charge	Item	Charge
Commodity price	\$2.59	Commodity price	\$7.51
Interstate transportation and other charges	\$1.48	Interstate transportation and other charges	\$1.13
Local distribution	\$3.75	Local distribution	\$4.17
<b>Total</b>	<b>\$7.82</b>	<b>Total</b>	<b>\$12.81</b>

↑ Up 190%

Source: GAO analysis of Energy Information Administration data.

Note: Prices shown represent an illustrative example of natural gas prices, in 2005 dollars, based on the average price paid by most utility consumers for 1,000 cubic feet of natural gas.