

Natural Gas Marketer Prices and Sales To Residential and Commercial Customers: 2002–2005

The Energy Information Administration (EIA) began a survey of natural gas marketers in five States in late 2001. Data collected from marketers in the States of Maryland, New York, Ohio, and Pennsylvania show that, on average, residential and commercial customers purchasing natural gas from marketers paid less than customers purchasing natural gas from local distribution companies in these States from 2002 through 2005. This report provides a summary of natural gas customer choice programs in the four States and details the collection and compilation of data from natural gas marketers and local distribution companies. Georgia, which was the fifth State in the initial survey, was excluded from the analysis because of the nature of its deregulation program (see footnote 2). Questions concerning this report should be directed to Amy Sweeney at amy.sweeney@eia.doe.gov or (202) 586-2627.

I. EIA-910 Natural Gas Marketer Survey: An Overview

To improve the coverage of natural gas prices in its publications, EIA developed the survey EIA-910, “Monthly Natural Gas Marketer Survey,” in 2001. The survey is designed to obtain price and volume information on natural gas sales by marketers selling to residential and/or commercial customers in States with active customer choice programs. Since the survey’s inception in August 2001, marketer data from the States of Georgia, Maryland, New York, Ohio, and Pennsylvania have been collected on the EIA-910. This analysis examines trends and differences observed in marketer and local distribution company (LDC) prices collected on the EIA-910 and the EIA-857,¹ “Monthly Report of Natural Gas Purchases and Deliveries to Consumers,” respectively, in Maryland, New York, Ohio, and Pennsylvania from 2002 through 2005, as well as the history of deregulation in these States. As previously noted, Georgia was excluded from the analysis because most natural gas customers in the State have no choice but to purchase natural gas from marketers.² The analysis also includes data from the

¹The EIA-857, “Monthly Report of Natural Gas Purchases and Deliveries” collects, on a monthly basis, volume and cost data on natural gas delivered to residential, commercial, and industrial consumers as reported by a sample of natural gas companies that deliver to consumers in the United States.

²Since October 1, 1999, all residential and commercial customers of Georgia’s largest local distribution company (LDC), Atlanta Gas Light, who represent over 80 percent of the customers in the State, have been required to purchase their natural gas supply from marketers. The remaining customers in Georgia purchase their natural gas from either a small LDC or municipally-owned utilities that do not offer natural gas choice. As such, a comparison of prices paid by the two sets of customers was unlike the other States where customers of the same LDC have the option of purchasing the

EIA-176, “Annual Report of Natural and Supplemental Gas Supply and Disposition,” which shows the percentage of residential and commercial natural gas sales by marketers, as well as the accompanying percentage of residential and commercial customers purchasing natural gas from LDCs in the same period.

II. State Analysis

The U.S. natural gas industry has been transformed since the enactment of the Natural Gas Policy Act of 1978 and the related Natural Gas Wellhead Decontrol Act of 1989. Both Acts were designed to facilitate the eventual complete price deregulation of the interstate natural gas market. The transformation has been aided by actions of the Federal Energy Regulatory Commission (FERC). In 1984, in order to give LDCs an opportunity to buy lower-priced natural gas and make alternative transportation agreements, FERC Order 380 allowed LDCs to not honor contracts with pipelines for minimum payments. This allowed LDCs to buy natural gas directly from producers on the developing spot market. In 1992 FERC issued Order 636, which required pipeline companies to unbundle their distribution, sales, and storage services, effectively transforming pipeline companies from sellers to transporters of natural gas. FERC Order 636 was updated in 2000 through FERC Order 637, further refining pipeline transportation regulations.

These actions enabled States to create individual restructuring plans, opening the market to residential and commercial customers who were previously bound to purchase their natural gas from their LDC. States have approached the creation of a competitive market for natural gas end users in differing ways. Several States have passed strict legislation opening up the retail market, while other States have been more

natural gas from either the LDC or marketer, while paying the same delivery costs.

reserved in allowing competitive retail supply for residential and commercial customers. (For more comprehensive information on the history and status of residential customers, consult the EIA Customer Choice web page.)³

The four States in this analysis have had active customer choice programs since the 1990s. Ohio passed legislation in 1996 that established natural gas choice as a State policy goal, Pennsylvania enacted legislation in 1999 that extended choice to all classes of consumers, Maryland's Public Service Commission (PSC) authorized pilot choice programs in 1996, and New York's PSC issued directives in 1996 to begin the process of transitioning to a third-party supplier system for all natural gas customers.

The methods for extending choice to smaller customers differ in the four States, but all have enacted marketer licensing standards and established standards of conduct regarding the relationship between an LDC and its affiliate suppliers. In each of the four States, the percentage of customers purchasing natural gas from marketers did not grow substantially from 2002 through 2005 and marketer participation decreased. Also in all four States, residential and commercial customers purchasing natural gas from marketers on average paid less for natural gas than LDC customers during 2002 to 2005. In each of the States, the data suggest that the larger per-use customers in both end-use sectors chose to purchase from marketers instead of LDCs.

Maryland

Spurred by roundtable discussions among Maryland's PSC and selected Maryland LDCs, in 1996 Maryland began customer choice pilot programs with its three largest LDCs: Washington Gas Light, Baltimore Gas and Electric, and Columbia Gas of Maryland. These pilot programs allowed portions of the three LDCs' customer bases to be eligible to be served by third-party natural gas suppliers or marketers.

By 1999, nearly all Maryland's residential and commercial customers were eligible for natural gas choice. Despite this increase in eligibility, the percentage of residential and commercial customers opting to purchase natural gas from marketers and the percentage of natural gas sales by marketers have stayed relatively static in both sectors, as shown in Figure 1 and Figure 2. Natural gas sales by marketers in the commercial sector remained around 70 percent during the period of 2002 through 2005, and the percentage of commercial customers purchasing natural gas from marketers remained around 20 percent, indicating that larger commercial customers accounted for the majority of natural gas sales in that sector.

Figure 3 shows that the number of marketers serving residential and commercial customers has also decreased each year from 2002 to 2005. Since 2000, when a formal licensing process for natural gas marketers was put into place, the number of marketers in Maryland has decreased. In general, new marketers are the result of mergers or acquisitions among existing marketers and only serve commercial or industrial customers. In order to become a licensed marketer in Maryland, there is a \$400 license fee and, in addition, the PSC may require a bond of up to \$250,000 to be posted depending upon the size and financial strength of the new marketer.

The PSC tracks the number of customers purchasing natural gas from marketers but not the prices the marketer customers are paying. However, they cite⁴ the customers' perception of similarity between LDC and marketer pricing as one reason why a decreasing number of customers are buying natural gas from marketers, as well as the difficulty many marketers face in recruiting new customers because of the implementation of the Federal Communications Commission's "Do-Not-Call List" in 2003.

³http://www.eia.doe.gov/oil_gas/natural_gas/restructure/restructure.html

⁴Platts' *Gas Daily*, "Retail Choice Enrollment Falls 11% in Maryland," December 29, 2005.

Figure 1. Percentage of Residential Customers Served by and Volume Purchased from Marketers: Maryland, 2002-2005

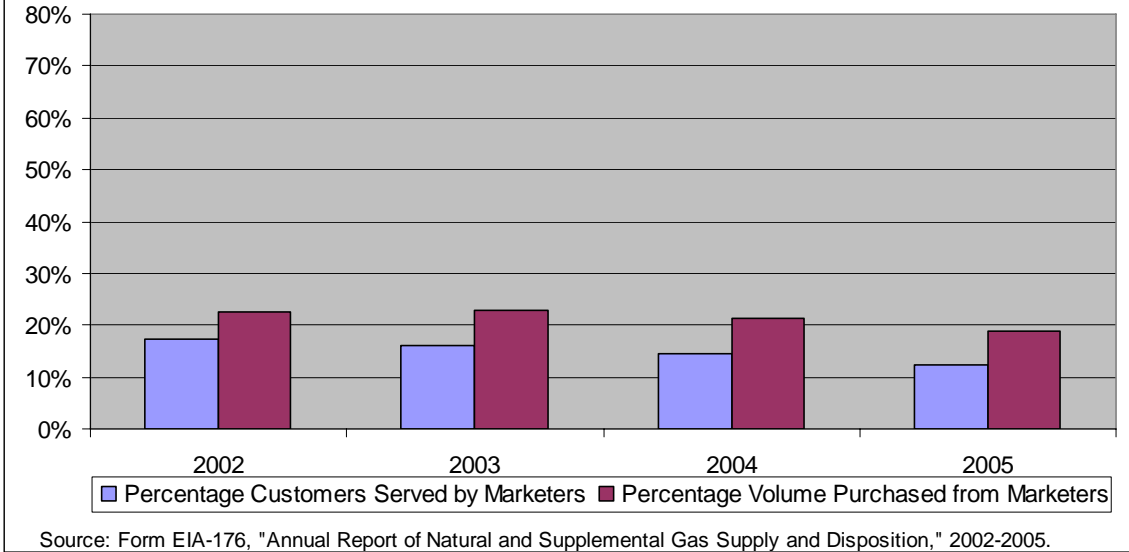
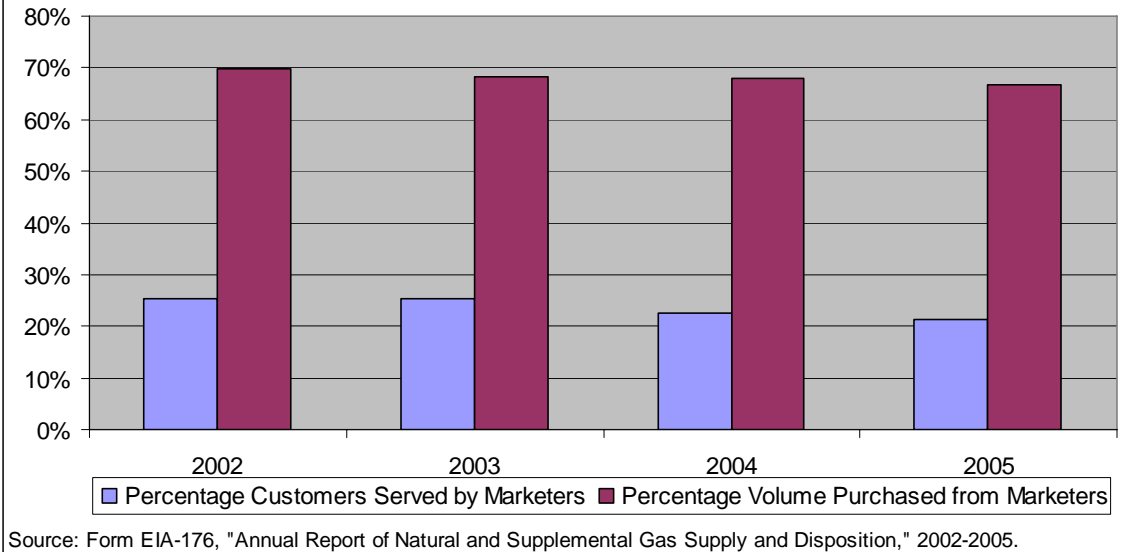
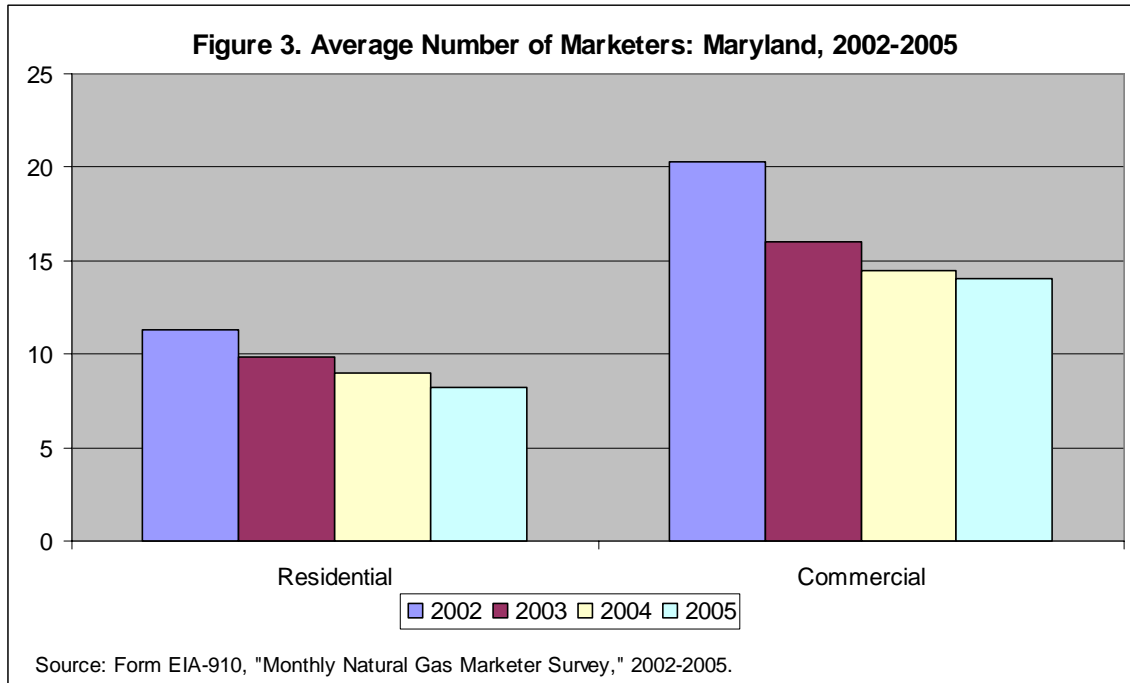


Figure 2. Percentage of Commercial Customers Served by and Volume Purchased from Marketers: Maryland, 2002-2005





New York

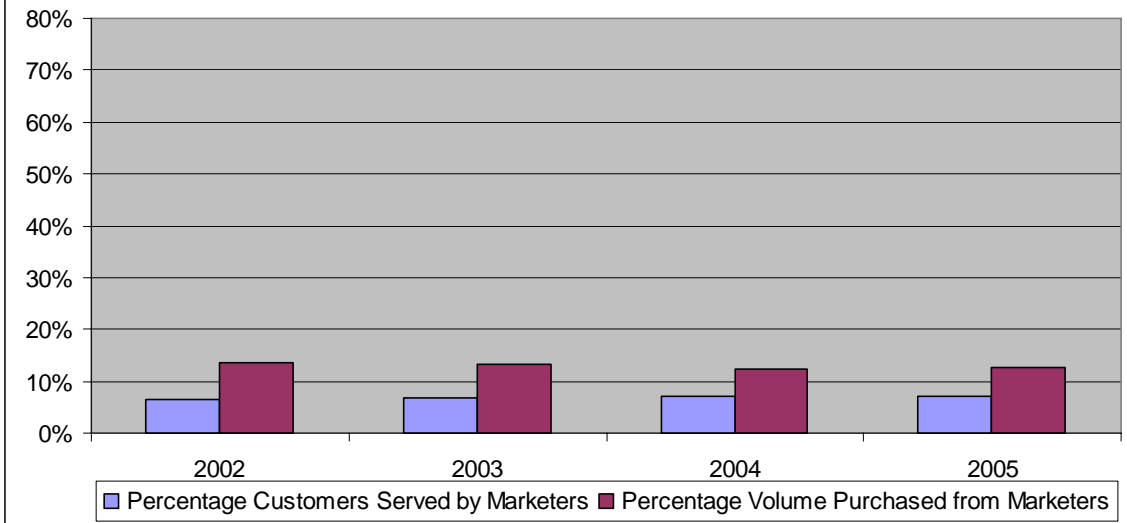
New York's natural gas residential and small commercial customer choice programs began in 1996 with the New York PSC issuing an order, Case 93-G-0932, *Restructuring of the Emerging Competitive Natural Gas Market*, allowing LDCs to engage in a mandatory 3-year assignment of their pipeline capacity for distribution customers purchasing their natural gas commodity from marketers. In 1998 the PSC issued a policy statement in Case 97-G-1380, stating that LDCs would be exiting the retail function of the natural gas industry after a transition period. Though these orders paved the way for marketers (referred to as Energy Service Companies or "ESCOs" in the State) to sell natural gas to residential and commercial customers in New York, the LDCs still account for a large percentage of residential and commercial natural gas sales and the transition period is still underway.

The percentage of residential and commercial customers purchasing natural gas from ESCOs has remained fairly constant, as has the number of active ESCOs during 2002 to 2005, as illustrated in Figure 4 through Figure 6. Similar to the other States, the residential and commercial customers who purchased natural gas from marketers appear to be larger-use customers as each class of customers purchased a

disproportionate amount of natural gas in their respective sectors. For instance, in Figure 5, during 2002 to 2005, while approximately 14 percent of commercial customers in New York purchased natural gas from marketers, the volumes purchased by those customers accounted for about half of commercial natural gas sales. The residential customers purchasing natural gas from marketers are part of aggregation pools of not less than 5,000 dekatherms per year.

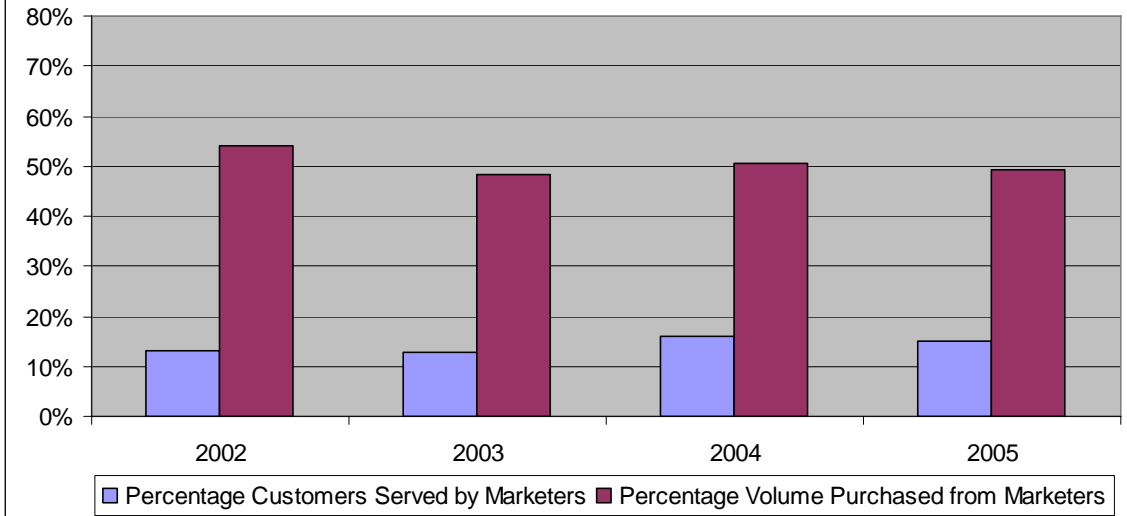
The New York PSC has taken an active role in continuing to encourage ESCOs to take over natural gas retail functions. The PSC has streamlined ESCO licensing requirements, held "energy fairs" that provide customers with information on natural gas choice, created a web site to provide customers with supply options available, and enacted various forms of consumer protection measures such as holding ESCOs responsible for providing residential customers with the same consumer rights as those who purchase natural gas from LDCs. Applicants for ESCO licenses must register with the New York Department of Public Service, have the ability for electronic data interchange (EDI) with the LDC for the purposes of billing, and demonstrate their credit worthiness, as well as disclose any affiliate relationships. The LDCs who provide distribution service on behalf of the ESCOs may have additional requirements for the ESCOs.

Figure 4. Percentage of Residential Customers Served by and Volume Purchased from Marketers: New York, 2002-2005

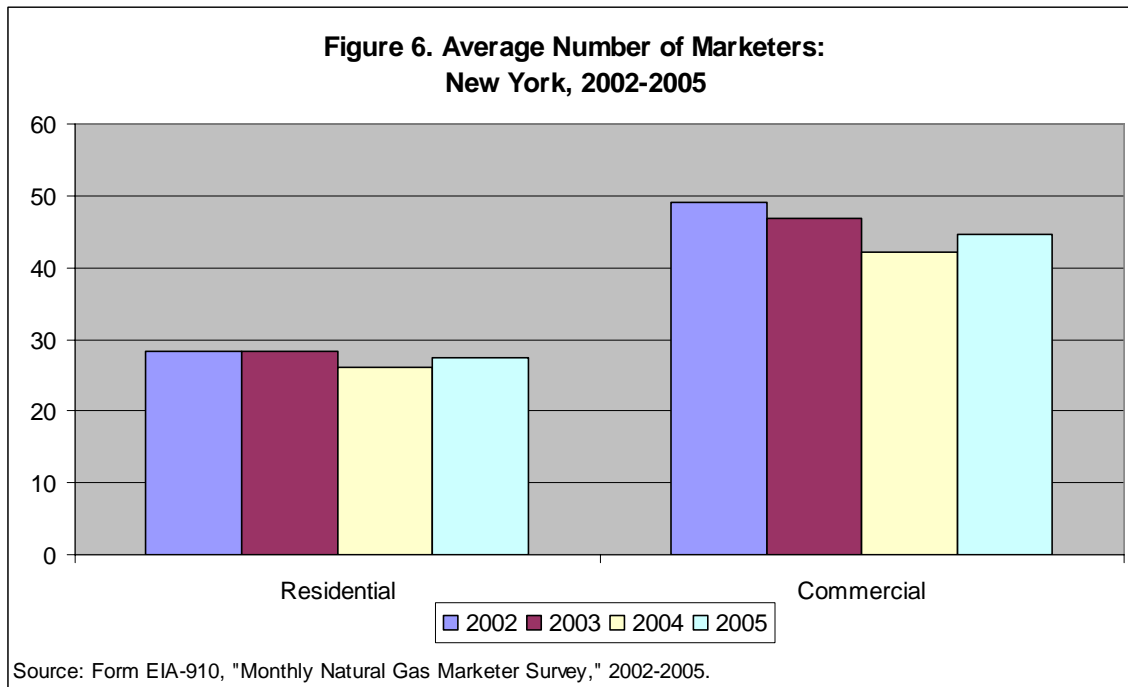


Source: Form EIA-176, "Annual Report of Natural and Supplemental Gas Supply and Disposition," 2002-2005.

Figure 5. Percentage of Commercial Customers Served by and Volume Purchased from Marketers: New York, 2002-2005



Source: Form EIA-176, "Annual Report of Natural and Supplemental Gas Supply and Disposition," 2002-2005.



Ohio

The Natural Gas Alternative Regulation law, passed by the Ohio General Assembly in June 1996, established natural gas customer choice as a State policy goal. In March 1997, as the law necessitated, the Public Utilities Commission of Ohio (PUCO) adopted rules to implement the legislation. PUCO required that the natural gas distribution companies craft individual settlements for approval by the commission. These settlements were then negotiated and approved by both the applicant company and interested parties, under specific terms and conditions. The resulting settlements created a distribution tariff which opened the applicant's distribution system to potential suppliers. Three LDCs, Columbia Gas of Ohio, Cincinnati Gas and Electric, and Dominion East Ohio Gas, have had PUCO-approved natural gas choice programs since 1997. A fourth LDC, Vectren, began its natural gas choice program in January 2003. In general, in all the settlements, customer choice has been phased in, starting with limited pilot programs and incrementally increasing the customer base that is allowed choice.

Legislation signed in March 2001 allowed communities to purchase natural gas through aggregation programs. As determined by ordinances or resolutions adopted by local governments, these programs are either an "opt-in" or "opt-out" form of aggregation. A ballot at a primary or general election is needed in order to approve an opt-out program.

According to the Ohio Consumers' Counsel, more than 200 Ohio communities have approved aggregation programs, as of August 2005.⁵ The legislation also allowed the natural gas distribution companies to recoup stranded costs by filing documents with the commission. Certification of retail natural gas suppliers by PUCO was addressed in the legislation. Several marketer issues, such as whether to include "price to compare" information in customer bills, were discussed by a natural gas supplier rules implementation group created by the legislation. The rules in support of the legislation were finalized by PUCO in April 2002.

During the Winter of 2000-2001, natural gas prices in Ohio saw a sharp increase, which, according to a PUCO report⁶ in May 2001, affected the behavior of both the competitive suppliers and customers participating in the programs. The rising natural gas costs heightened the sensitivity of both competitive suppliers and consumers to the timing of the change to natural gas choice programs and the associated risks of variable and fixed rate contracts. The market volatility exposed the weakness that some of the competitive suppliers had in competing in the commodity markets.

⁵http://www.pickocc.org/publications/natural_gas/Natural_Gas_Choice_101.pdf

⁶http://www.utilityregulation.com/content/reports/OHNGP_riceRept5-15-01.pdf#search='Natural%20Gas%20Price%20Issues%20in%20Ohio'

Sharp price increases caused some suppliers to break their contracts with customers by leaving the natural gas choice program entirely, or by unilaterally changing the terms of their customer contracts. As a result, some customers lost confidence in the program. Many marketers decided to scale back or freeze the acquisition of new customers, which resulted in limited choice for consumers. The number of active marketers in the State continued to decline through 2005, as seen in Figure 9.

Despite the decline in active marketers, there was an increase in commercial customers opting for third-party natural gas supply from 2002 to 2005, which is illustrated in Figure 8. Figure 7 shows that the residential sector witnessed a similar increase in third-

party supply customers from 2002 to 2004, but experienced a slight decline in 2005. In the commercial sector, the volume of natural gas sold by marketers accounted for more than 60 percent of natural gas used by commercial entities for all 4 years. The percentage of commercial customers served by marketers is significantly less than this, consistent with the trend in the other three States where the larger commercial entities are taking part in the natural gas choice program. The PUCO continues to assist consumers who are thinking about switching to another supplier by offering “apples-to-apples” true-costs calculators on their web site. These calculators offer a line-item bill, which identifies differences between bills collected by marketers and LDCs.

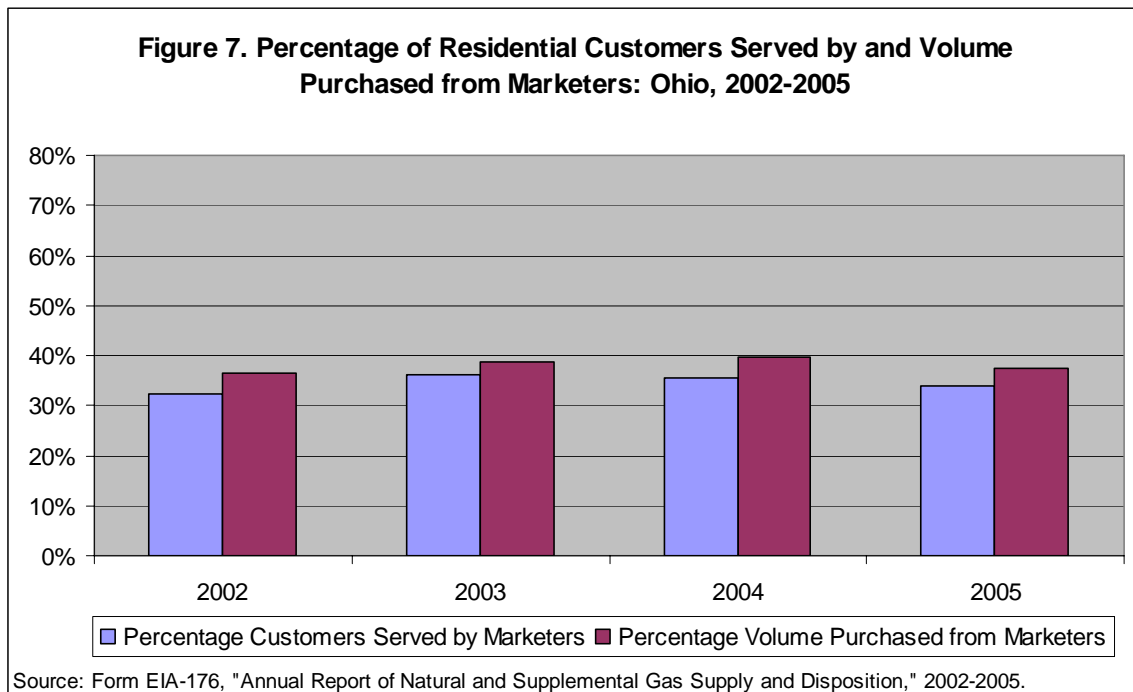
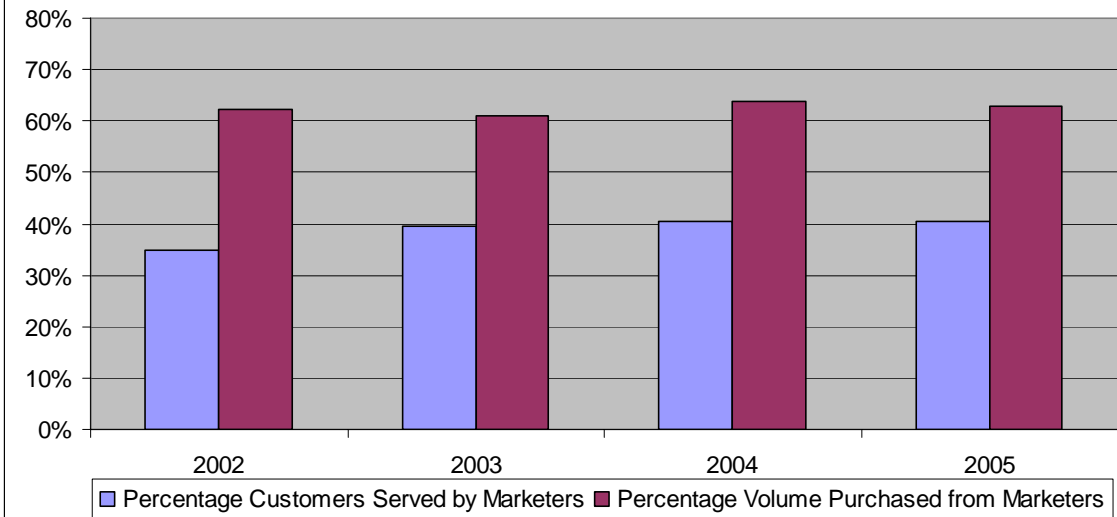
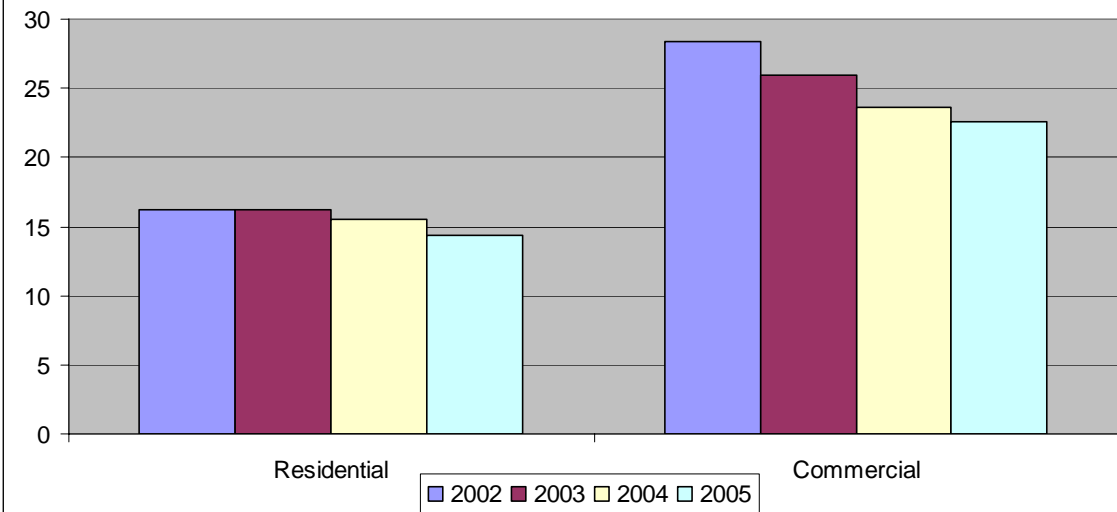


Figure 8. Percentage of Commercial Customers Served by and Volume Purchased from Marketers: Ohio, 2002-2005



Source: Form EIA-176, "Annual Report of Natural and Supplemental Gas Supply and Disposition," 2002-2005.

Figure 9. Average Number of Marketers: Ohio, 2002-2005



Source: Form EIA-910, "Monthly Natural Gas Marketer Survey," 2002-2005.

Pennsylvania

On June 22, 1999, Governor Tom Ridge signed the Natural Gas Choice and Competition Act into law. The Act called for natural gas choice to be offered to all classes of consumers by November 1, 1999, and placed the responsibility on the Pennsylvania Public Utility Commission (PUC) to act as a steward in the implementation of the law. The PUC was to determine a schedule for natural gas distribution companies to file their restructuring and unbundling plans for PUC review and approval. Several of the natural gas distribution companies in western Pennsylvania (Columbia, Dominion Peoples, and Equitable) had extensive retail choice “pilot programs” in place prior to the passage of the Act. In both the pilot programs and the Act’s provisions, retail customers retained the option to continue to purchase natural gas commodity service from their incumbent natural gas distribution company.

A supplier must take several steps to be licensed in the Pennsylvania natural gas choice market. The supplier must furnish a bond or other security in an amount agreeable to the appropriate natural gas distribution company(ies). The PUC regulation requires that the amount of the security should be reasonably related to the amount of financial exposure that the distribution company is incurring. Potential suppliers also have to agree to standards of conduct, which include fair business practices and communication with the distribution companies regarding changes in business.

The Act also required that the PUC investigate the status of the natural gas choice program 5 years after the legislation was signed into law. This investigation opened in May 2004, and testimony from interested parties was heard on September 30, 2004. According to testimony⁷ filed by the Office of the Consumer Advocate at that time, natural gas choice had not successfully taken hold in Pennsylvania. Increasing

wholesale prices, consumer aversion to risk, limited natural gas suppliers, and insignificant or no savings potential were some of the reasons cited for the lack of movement of consumers to third-party suppliers. An assessment report⁸ from the investigation was filed with the General Assembly in October 2005. This report also asserted that there was no effective competition in the State of Pennsylvania and listed seven failings that contributed to the lack of competition. These included a lack of participation by suppliers and buyers, a lack of awareness of consumers of the commodity price of natural gas, barriers of entry for natural gas suppliers, and a lack of timely and accurate price signals in the marketplace.

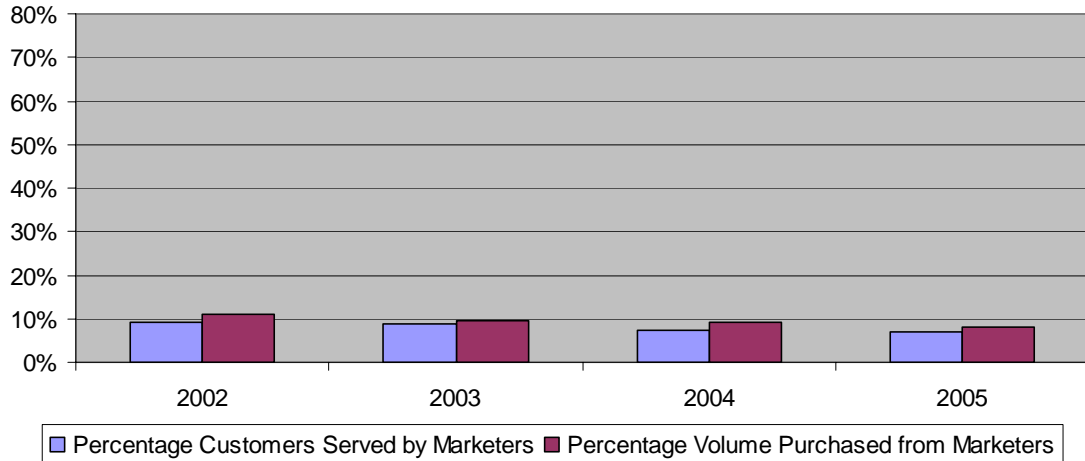
These failings are apparent in the stagnation of the number of marketer customers, as shown in Figures 10 and 11, in the 2002-2005 period for both the commercial and residential sectors. Figure 12 illustrates how in 2005, despite the lack of growth in residential customers participating in the natural gas choice program, there was an increase in active marketers serving the residential sector. This is in stark contrast to the commercial sector which continued to experience a decline in active marketers, while showing a slight increase in customers taking third-party supply. As seen in Figure 11, in the commercial sector from 2002 to 2005, the volume of natural gas supplied by marketers accounted for nearly 40 percent of natural gas used by commercial entities. The percentage of commercial customers served by marketers is a fraction of this, showing that the larger commercial entities are taking part in the natural gas choice program.

As a result of the PUC assessment report, the PUC directed that the stakeholders in the natural gas industry reconvene to explore ways to improve the program. The report also stated that further legislative actions may be necessary. A second assessment report on the status of the natural gas choice program in Pennsylvania is expected in late 2007.

⁷ <http://www.oca.state.pa.us/tmony/Sept3004.pdf>

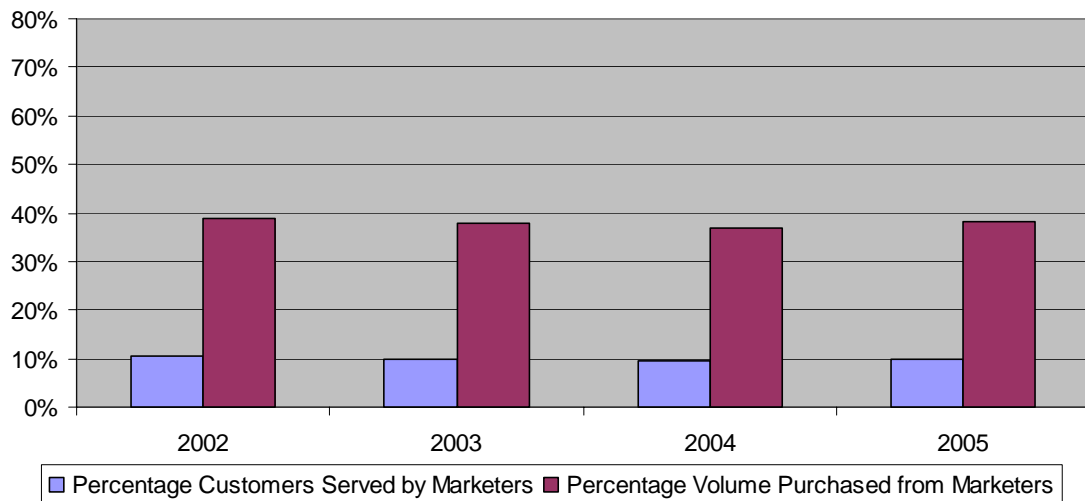
⁸ <http://www.puc.state.pa.us/PcDocs/570097.pdf>

Figure 10. Percentage of Residential Customers Served by and Volume Purchased from Marketers: Pennsylvania, 2002-2005

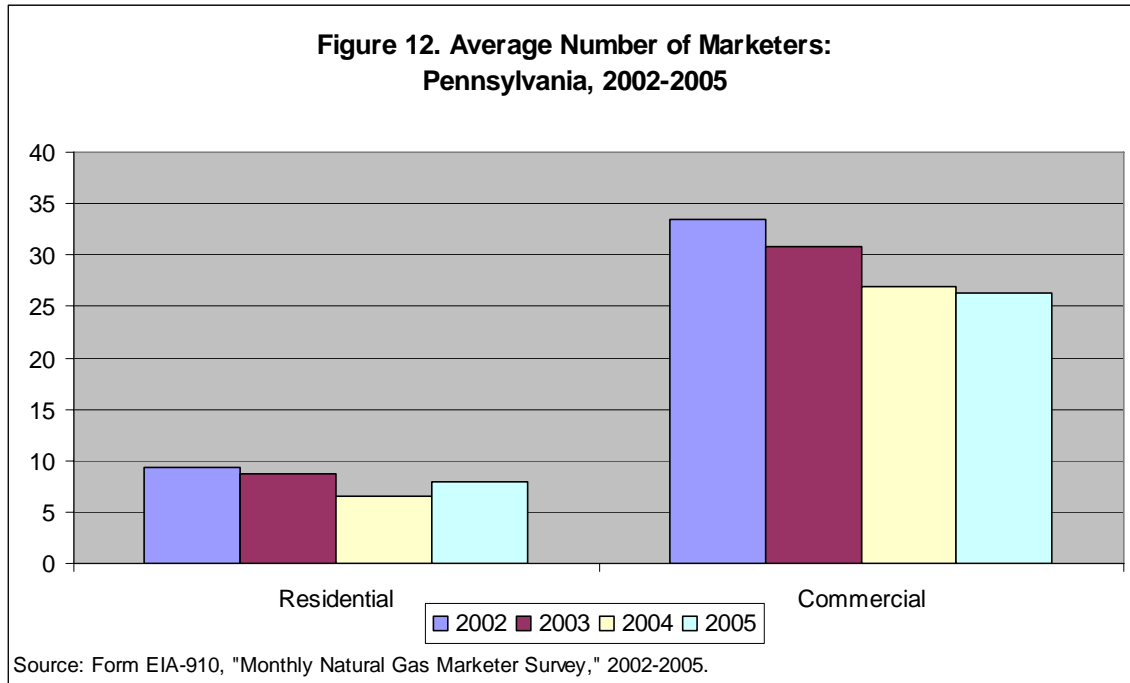


Source: Form EIA-176, "Annual Report of Natural and Supplemental Gas Supply and Disposition," 2002-2005.

Figure 11. Percentage of Commercial Customers Served by and Volume Purchased from Marketers: Pennsylvania, 2002-2005



Source: Form EIA-176, "Annual Report of Natural and Supplemental Gas Supply and Disposition," 2002-2005.



State Summary

While natural gas customer choice programs were approved in Maryland, Ohio, New York, and Pennsylvania during the late 1990s, marketers have had varying degrees of success in penetrating the residential and commercial natural gas marketplace. Despite actions taken by public utility commissions to promote natural gas customer choice in each of the States, factors such as natural gas price volatility and lack of customer participation have slowed or reversed the growth of marketer participation. From 2002 to 2005, among the four States, Ohio had the greatest level of sales by marketers with an average of 35 percent of residential customers and 39 percent of commercial customers accepting third-party supply for that 4-year period.⁹ New York had the lowest residential participation average at 7 percent, and Pennsylvania had the fewest commercial customers participating, with an average 10-percent participation rate.¹⁰

⁹Energy Information Administration, EIA-176, "Annual Report of Natural and Supplemental Gas Supply and Disposition, 2002-2005."

¹⁰Energy Information Administration, EIA-176, "Annual Report of Natural and Supplemental Gas Supply and Disposition, 2002-2005."

III. EIA-910 Price Methodology

The purpose of the Form EIA-910, "Monthly Natural Gas Marketers Survey," is to determine the price of natural gas sold by marketers to residential and commercial customers. Since the restructuring of the natural gas industry, EIA's coverage of residential and commercial price data has declined, because it only covers the portion of natural gas sales from utility or local distribution companies. Prior to the EIA-910's implementation, EIA's residential and commercial natural gas prices were derived solely from LDCs who were surveyed on the EIA-857, "Monthly Report of Natural Gas Purchases and Deliveries to Consumers" and EIA-176, "Annual Report of Natural and Supplemental Gas Supply and Disposition." The EIA-910 survey is designed to fill the gap in coverage by surveying marketers who sell natural gas to residential and commercial customers and by asking them to report volume sold and revenue. This, along with the revenues collected by LDCs for distributing the natural gas locally, allows EIA to report a volume-weighted price that represents sales by both LDCs and marketers.

The EIA-910 survey began in August 2001 and initially collected data from marketers in five States: Georgia, Maryland, New York, Ohio, and Pennsylvania. These States have active customer choice programs where natural gas marketers were providing a substantial percentage of sales to residential and commercial customers. The EIA-910 has since expanded its collection into seven additional States and the District of Columbia. In 2004,

EIA began conducting the EIA-910 in Florida, Illinois, Massachusetts, Michigan, New Jersey, Virginia, West Virginia, and the District of Columbia. These States were chosen because of their increasing percentage of natural gas sales by marketers, as well as their proximity to the original five States.

Price and volume data published in the *Natural Gas Monthly (NGM)* are based on data collected monthly from the EIA-910 and EIA-857 surveys. Price and volume data published in the *Natural Gas Annual* are also based on EIA-910 and EIA-857 data, as well as data from the annual EIA-176 survey. The published price data in the *NGM* for the States in the EIA-910 are a combined price from the EIA-910 and EIA-857 (see box below).

Both sets of residential and commercial prices collected on the EIA-857 and EIA-910 are considered end-user prices which, when multiplied by a customer's usage, should comprise a customer's total bill including commodity, distribution, account fees, and tax charges. On the EIA-910, a customer's commodity natural gas charges are collected, along with any account fees. This portion is then added to the distribution charges collected on the EIA-857, which also include taxes. Georgia is an exception to this rule as marketers in that State collect distribution charges and taxes on behalf of the LDCs, and therefore the revenue collected on the EIA-910 includes tax and distribution charges. The volumes sold to LDC customers are reported on the EIA-857, referred to above as 857 SalesVolume, and the EIA-857 sales revenue includes the natural gas commodity, delivery, account fee, and tax charges.

The EIA-910 collects data from each active marketer's operation in each State in which the EIA-910 is conducted. An active marketer is defined as any marketer who is currently supplying natural gas to a

residential or commercial customer, regardless of whether the marketer is enrolling new customers.

Each marketer reports by sector its number of customers, total volumes sold, as well as its total revenue for the quantity of natural gas sold. The revenue reported is a sum of the revenue collected for customers participating in all of the marketers' rate plans, whether currently being offered or not. These include fixed, variable or, in some cases, low-income rate plans. Marketers are to exclude any taxes or distribution fees they collect on behalf of the LDC, which delivers the natural gas, and to include any customer service or account fees they may charge their customers. Revenue data collected on the EIA-910 in Georgia are slightly different in that marketers are asked to report gross revenue as they bill their customers directly, whereas the billing function is not always handled by marketers in the other States where the EIA-910 is conducted.

The distinction between volumes delivered to the commercial and industrial sectors has posed a challenge to many EIA-910 respondents as they classify their rates according to usage instead of their customers' line of business. EIA's definition of a commercial customer is, in general, any non-manufacturing, non-residential entity. Included in this are hospitals, universities, retail, or government establishments. Since many of these types of end users consume sizable quantities of natural gas, they are frequently classified as industrial users by the marketers. This misclassification has decreased over time as EIA has been able to recognize and help correct this reporting error by closely comparing EIA-910 commercial and industrial volumes to commercial and industrial volumes transported on behalf of marketers as reported on the EIA-857.

The published price data in the *Natural Gas Monthly* for the States in the EIA-910 are calculated as follows:

Combined Published Price =

$$\left\{ \left[\left(\frac{857SalesVolume}{857TotalVolume} \right) * \left(\frac{857SalesRevenue}{857SalesVolume} \right) \right] + \left[\left(\frac{857TransportationVolume}{857TotalVolume} \right) * \left(\frac{910Revenue}{910Volume} + \frac{857TransportationRevenue}{857TransportationVolume} \right) \right] \right\}$$

Combined Published Price for Georgia =

$$\left\{ \left[\left(\frac{857SalesVolume}{857TotalVolume} \right) * \left(\frac{857SalesRevenue}{857SalesVolume} \right) \right] + \left[\left(\frac{857TransportationVolume}{857TotalVolume} \right) * \left(\frac{910Revenue}{910Volume} \right) \right] \right\}$$

IV. EIA-910 and EIA-857 Price Differences

For the States of Maryland, New York, Ohio, and Pennsylvania, Figures 13 to 20 illustrate EIA-910 marketer prices, which include distribution costs provided by the LDCs. The marketer prices are, in most cases, equal to or below those of the EIA-857 LDC prices in both the residential and commercial sectors between 2002 and 2005. The largest gaps between the EIA-910 and EIA-857 prices are generally observed during the summer months, with the EIA-857 prices being higher than those on the EIA-910, particularly in Ohio and Pennsylvania.

There are a few months where the EIA-910 price levels are above those on the EIA-857. Those instances are limited to a 3-month period or less, with the observed price differences being less than \$1 per thousand cubic feet. Prices for both LDC and marketer customers appear higher during the summer months, in part because of the fixed components of the pricing structure which encompass a higher portion of the total bill during periods of low usage. On an annual basis between 2002 and 2005, the average price difference per thousand cubic feet between the EIA-857 LDC prices and EIA-910 marketer prices is as follows in the four States in the residential and commercial sectors, respectively: in Maryland, \$1.44 and \$2.38; in Ohio, \$0.78 and \$1.29, in New York, \$0.66 and \$1.38; and in Pennsylvania, \$0.36 and \$1.84. In each of these cases, the marketer price is below the LDC price.

Despite the observed price differences between the EIA-910 and EIA-857, many factors should be considered when evaluating the disparity between marketers and LDCs. During the period reviewed, the ability of marketer customers to lock in prices would have protected them from the rising wholesale prices that may have affected variable-rate LDC customers. Additionally, the EIA-910 price is an average (the price is derived from summing total revenue collected by marketers and dividing it by total volumes provided) which incorporates different terms with the various marketers.

The timing of contracts also affects the level of savings realized, as customers who sign up at different points in time, for varying contract lengths, will likely have different marketer commodity offer prices. Larger-use residential and commercial customers have a greater bargaining power in negotiating with marketers. Additionally, specific contract terms may give certain marketer customers preferential pricing. Finally, it should be noted that the pattern of lower prices collected on the EIA-910 when compared with those collected on the EIA-857 began to change in late 2005

as natural gas wholesale prices rose sharply after the Gulf Coast hurricanes.

Preliminary data for 2006, which will not be final until the *Natural Gas Annual 2006* is published in late 2007, suggest that the price trend that was witnessed during the majority of 2002 to 2005, where marketer prices are below those of LDC prices, begins to change. Marketer residential price data for 2006 in New York, Ohio, and Pennsylvania tightly track LDC pricing, at times exceeding the prices paid by LDC customers. In the Maryland residential sector, this trend appears to be even more pronounced, with preliminary marketer prices exceeding LDC prices by more than \$1 per thousand cubic feet for most of the year.

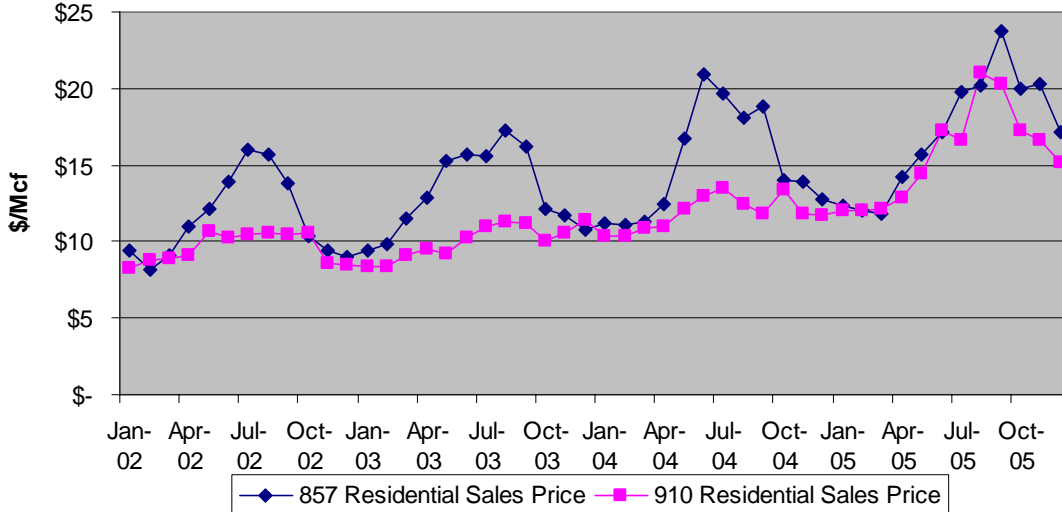
The preliminary commercial sector price data for 2006 suggest that the observed trend of lower marketer prices, when compared with LDC prices, continued in Maryland, Ohio, and Pennsylvania. However, initial 2006 commercial sector price data for New York indicate that the gap between LDC and marketer prices is closing, and at times the prices paid by LDC customers are lower than the marketer prices. As these are preliminary 2006 data, it is important to note that these observations of the 2006 pricing data may change.

V. Conclusion

In each of the States examined, the EIA-910 data showed that customers purchasing natural gas from marketers paid less than LDC customers in most months during 2002 to 2005. However, it remains unclear how consistent this savings potential is, given that prices calculated from EIA-910 data represent an average of prices paid by customers participating in various forms of contracts with marketers. Furthermore, the price savings may not have always been discernable to customers due to lack of information. Given the volatile nature of natural gas prices, many LDC customers may have had difficulty gauging when and how much they could save if they switched to a natural gas marketer at any given time. This phenomenon is particularly true today as more marketers have fixed offer prices at or above the current LDC commodity price that may appeal to customers who desire protection from price volatility.

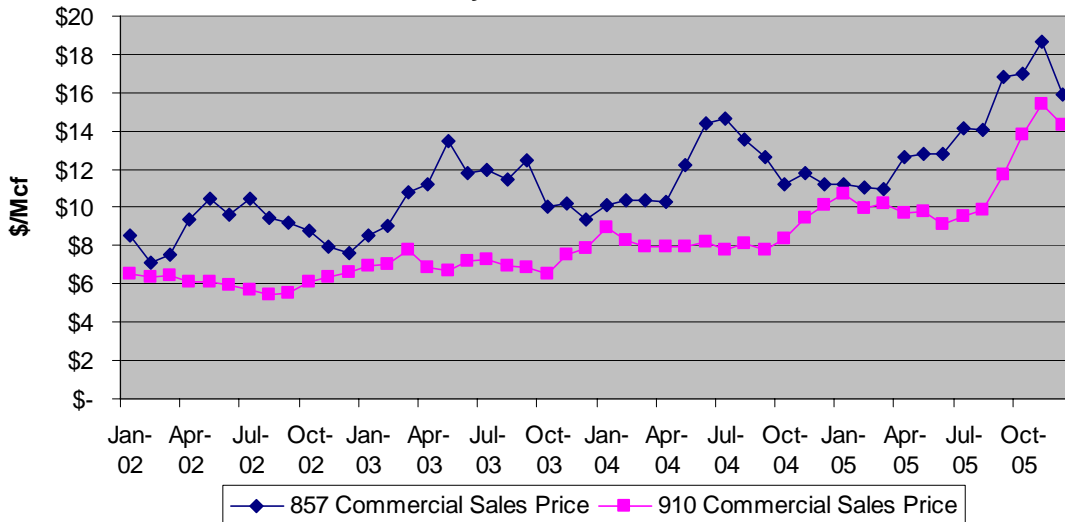
Despite the relatively low levels of customer migration from LDCs to marketers from 2002 to 2005, the EIA-910 improved EIA's price coverage in the surveyed States, as the difference between LDC pricing, as reported on the EIA-857, and marketer pricing is real and measurable. As natural gas retail choice continues to evolve and/or expand, EIA will continue to evaluate its impact on the published survey prices.

**Figure 13. Residential Price per Thousand Cubic Feet:
Maryland, 2002-2005**



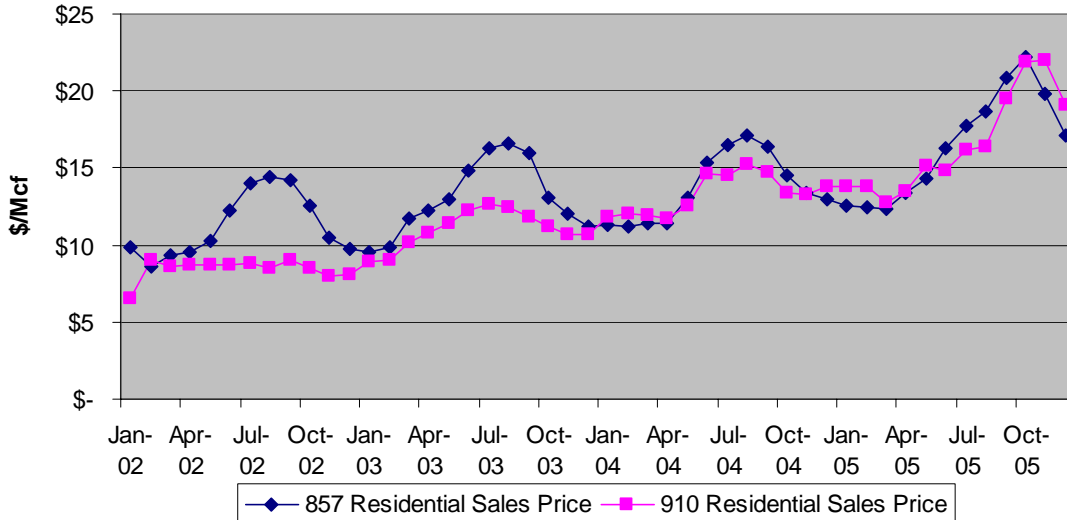
Source: Form EIA-910, "Monthly Natural Gas Marketer Survey," 2002-2005 and Form EIA-857, "Monthly Report of Natural Gas Purchases and Deliveries to Consumers," 2002-2005.

**Figure 14. Commercial Price per Thousand Cubic Feet:
Maryland, 2002-2005**



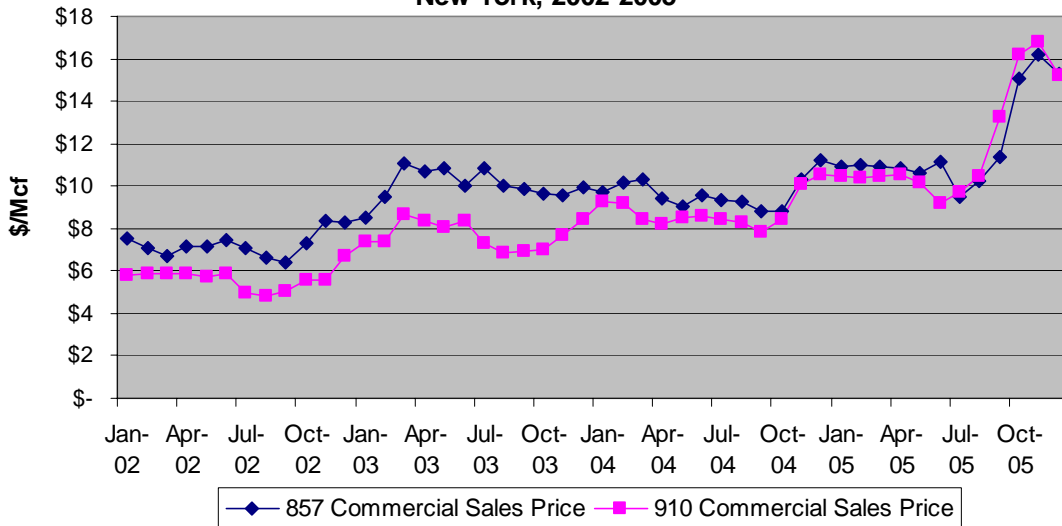
Source: Form EIA-910, "Monthly Natural Gas Marketer Survey," 2002-2005 and Form EIA-857, "Monthly Report of Natural Gas Purchases and Deliveries to Consumers," 2002-2005.

**Figure 15. Residential Price per Thousand Cubic Feet:
New York, 2002-2005**



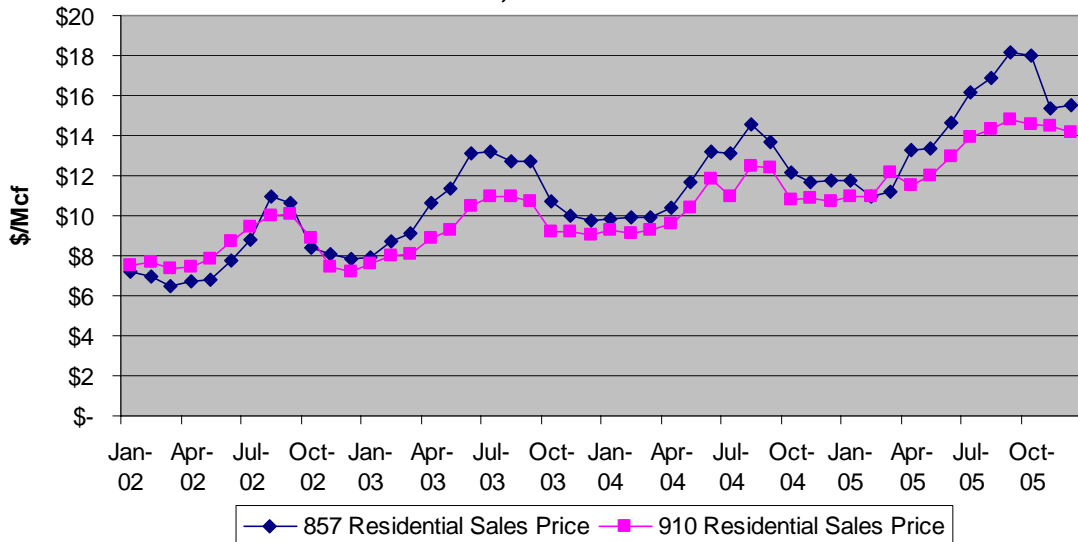
Source: Form EIA-910, "Monthly Natural Gas Marketer Survey," 2002-2005 and Form EIA-857, "Monthly Report of Natural Gas Purchases and Deliveries to Consumers," 2002-2005.

**Figure 16. Commercial Price per Thousand Cubic Feet:
New York, 2002-2005**



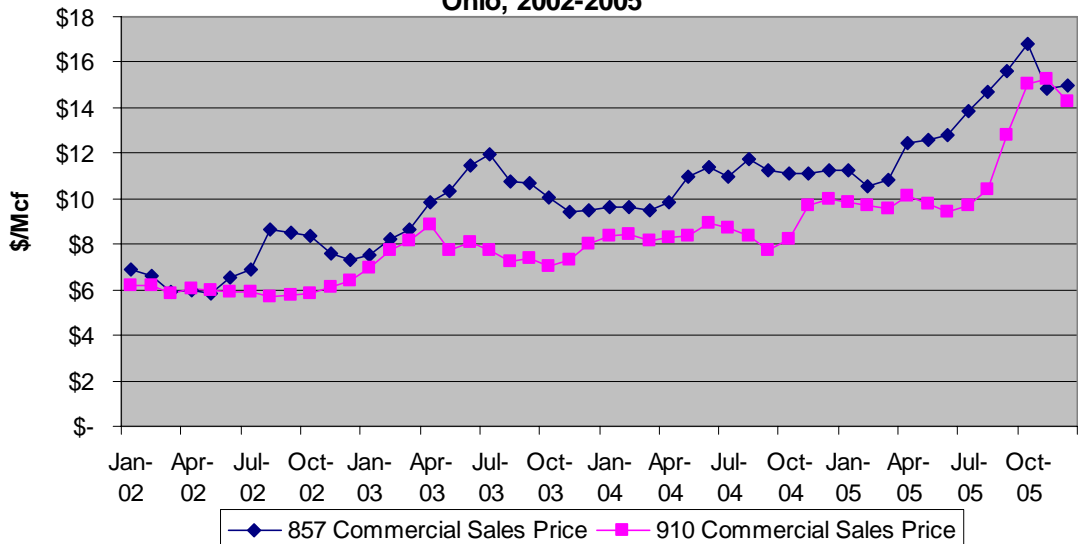
Source: Form EIA-910, "Monthly Natural Gas Marketer Survey," 2002-2005 and Form EIA-857, "Monthly Report of Natural Gas Purchases and Deliveries to Consumers," 2002-2005.

**Figure 17. Residential Price per Thousand Cubic Feet:
Ohio, 2002-2005**



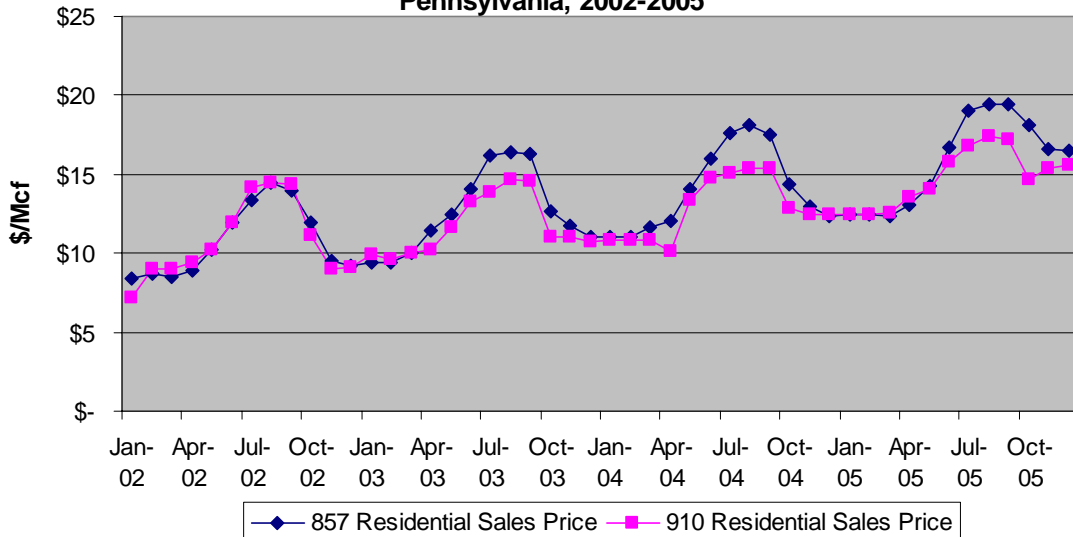
Source: Form EIA-910, "Monthly Natural Gas Marketer Survey," 2002-2005 and Form EIA-857, "Monthly Report of Natural Gas Purchases and Deliveries to Consumers," 2002-2005.

**Figure 18. Commercial Price per Thousand Cubic Feet:
Ohio, 2002-2005**



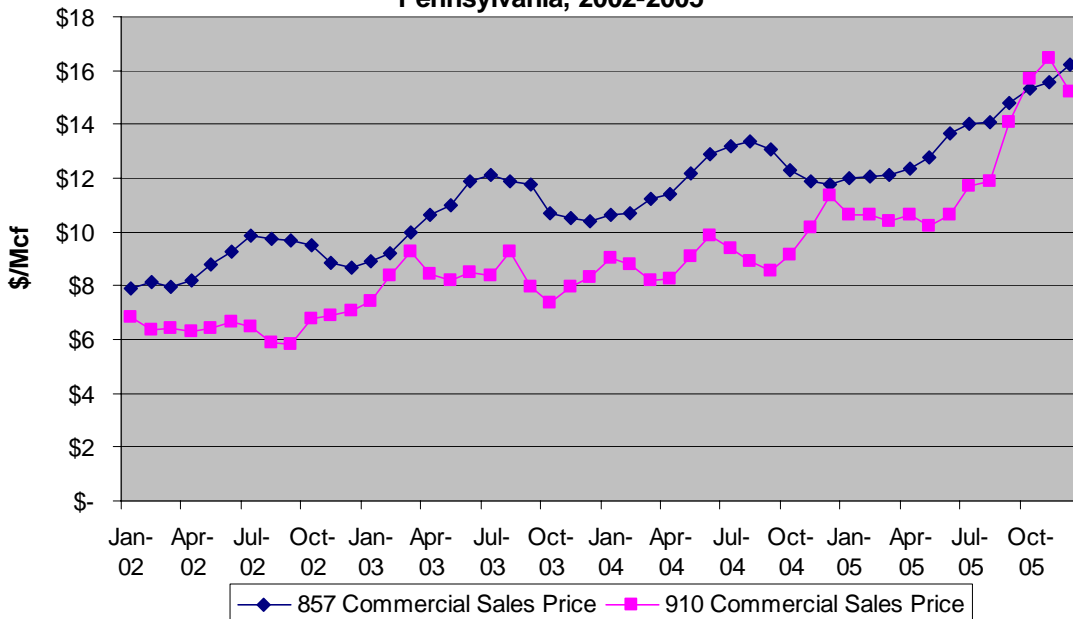
Source: Form EIA-910, "Monthly Natural Gas Marketer Survey," 2002-2005 and Form EIA-857, "Monthly Report of Natural Gas Purchases and Deliveries to Consumers," 2002-2005.

**Figure 19. Residential Price per Thousand Cubic Feet:
Pennsylvania, 2002-2005**



Source: Form EIA-910, "Monthly Natural Gas Marketer Survey," 2002-2005 and Form EIA-857, "Monthly Report of Natural Gas Purchases and Deliveries to Consumers," 2002-2005.

**Figure 20. Commercial Price per Thousand Cubic Feet:
Pennsylvania, 2002-2005**



Source: Form EIA-910, "Monthly Natural Gas Marketer Survey," 2002-2005 and Form EIA-857, "Monthly Report of Natural Gas Purchases and Deliveries to Consumers," 2002-2005.