Ernie Fletcher
Governor

LaJuana S. Wilcher, Secretary
Environmental and Public
Protection Cabinet

Christopher L. Lilly
Commissioner
Department of Public Protection

Commonwealth of Kentucky
Environmental and Public Protection Cabinet
Public Service Commission
211 Sower Blvd.
P.O. Box 615
Frankfort, Kentucky 40602-0615
Telephone: (502) 564-3940
Fax: (502) 564-3460

Mark David Goss
Chairman

Teresa Hill
Vice Chairman

Gregory Coker
Commissioner

NEWS RELEASE

Contact:
Andrew Melnykovych
(502) 564-3940 x208
(502) 330-5981 (cell)

OP-ED FROM THE KENTUCKY PUBLIC SERVICE COMMISSION REGARDING NATURAL GAS PRICES

FRANKFORT, Ky. (Jan. 20, 2006) - The following is an op-ed from the Kentucky Public Service Commission. It may be used immediately, with authorship credited as indicated.

The Rising Cost of Natural Gas

By

Mark David Goss, Chairman

Teresa Hill, Vice Chairman

Greg Coker, Commissioner

Kentucky Public Service Commission

Kentuckians who heat their homes and businesses with natural gas already are aware that it is costing more to stay warm this winter.

Now many are asking why and how natural gas became so expensive, and what role the Kentucky Public Service Commission (PSC) plays in regulating gas costs.

While the effects of hurricanes Katrina and Rita on the oil and gas facilities along the Gulf Coast have dominated discussions of energy prices in recent months, the PSC has been concerned about rising natural gas costs for more than two years. The PSC began warning consumers in June 2003 about the rising cost of natural gas.

Natural gas prices are higher for essentially one reason: supply has not kept up with demand. The wholesale price of natural gas is entirely unregulated. It rises and falls with market conditions.

Congress began deregulation of natural gas in the late 1970s as a way to encourage more exploration and production. Deregulation worked as intended. As more gas became available, consumption increased while prices remained relatively stable.

The equilibrium between supply and demand continued, with a few exceptions, until two or three years ago. That is when we began to see a fundamental change in the national market.

Not only was the overall demand for natural gas rising as our economy grew, but the nature of that demand was changing. The use of natural gas to generate electricity was increasing, particularly in the summer, when gas turbines are an efficient way to meet short-term peak demand for electricity to run air conditioners.

As a result of higher natural gas usage in the warmer months, the price of natural gas was no longer appreciably lower in the summer than during the heating season. That meant that utilities, which must rely on gas stored during the summer to meet winter demand, no longer could rely on less expensive stored gas to offset the higher price of the gas purchased during the colder months, and thus lower costs to their customers.

From the spring of 2003 to the spring of 2005, wholesale gas prices increased about 50 percent. By the middle of August 2005, gas prices had reached record levels for the summer and were about twice as high as they had been a year earlier. All indications were that prices this winter would probably be the highest ever.

-more-

That was before Katrina and Rita disrupted production on the Gulf Coast, a region that produces most of the natural gas used in Kentucky and 20 percent of our national supply. With supplies further constrained, prices skyrocketed to unprecedented levels. They have come down substantially since September, and should stabilize unless we experience unusually cold weather later this winter.

But we are unlikely to see prices return to the levels we saw only a few years ago. All indications are that high natural gas costs are likely to be with us for the foreseeable future.

While the cost of natural gas is dictated by the market, the PSC has an important role in overseeing how much customers are charged.

Natural gas distribution companies are entitled to pass along their wholesale costs to consumers. However, they are not allowed to earn any profit whatsoever on their wholesale costs. The PSC scrutinizes the costs to ensure that they are reasonable, calculated accurately and passed along to consumers on a dollar-for-dollar basis only.

The portion of a consumer's gas bill that is not the commodity cost of natural gas – roughly 20 percent during the colder months - represents a distribution company's costs of operating and maintaining its system, providing customer service, purchasing equipment, paying wages and benefits to its employees. This base rate is set by PSC only after an exhaustive review, and is the only portion of the total rate that includes a profit for the company.

A distribution company's profit margin represents only a small fraction of a customer's heating bill. With wholesale costs as high as they are, eliminating that profit entirely would have a negligible effect on the total gas rate. It is simply untrue that these high gas bills represent a windfall for the companies that operate local gas distribution systems in Kentucky. State regulation does not allow it.

The most effective way for consumers to deal with high natural gas costs is to reduce consumption. Simple steps such as turning down the thermostat or caulking around doors and windows can have a substantial effect on energy use. Consumers also should consider signing up for a budget billing plan, which spreads out the cost of heating your home over a 12-month period.

For more information about coping with high natural gas costs, go to the state government Web site, kentucky.gov. Consumers with specific questions about their natural gas utility may contact the PSC at 800-772-4636.

The high cost of energy has made this a challenging winter for many in Kentucky. The PSC will continue to monitor the situation closely and to provide the citizens of the Commonwealth with information, and to take whatever steps we can to help Kentuckians deal with these difficult circumstances.

-30-