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NATURAL GAS COST LITTLE CHANGED THIS WINTER

Average bills up by about 7 percent, due mostly to base rate changes

FRANKFORT, Ky. (Oct. 29, 2010) – With wholesale natural gas prices holding steady over the last year, Kentucky customers will see little change in their heating costs this winter, the Kentucky Public Service Commission (PSC) says.

“Natural gas prices have stabilized considerably since the large fluctuations of recent years,” PSC Chairman David Armstrong said. “Furthermore, with gas supplies increasing, there is reason to think that prices won’t change greatly for the next few years.”

On average, Kentucky customers can expect to pay about 7 percent more this November than last if they consume 10,000 cubic feet of natural gas. But the average total bill – including base rates – is still 35 percent lower than in November 2008.

Changes in individual ratepayer bills will vary by company and customer usage.

Wholesale costs this year are, on average, only 2 percent higher than a year ago. Four of Kentucky’s five large natural gas distribution companies have received base rate increases in the last year.

Wholesale prices over the last year have remained at less than half the peak prices seen in 2008. Wholesale costs make up the largest portion of retail gas bills during the heating season. They are passed through to consumers on a dollar-for-dollar basis by local distribution companies.

The amount of natural gas in storage for use during the winter is at above-average levels, according to data from the federal Energy Information Administration. That suggests adequate supplies and stable prices through the heating season, unless there is widespread and extreme cold weather.

Weather is always the largest factor in determining the amount of energy that consumers use to heat their homes and thus the size of their heating bill, Armstrong said. Improvements in energy efficiency and conservation are the only way to permanently lower energy bills, he said.

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“Consumers should not count on energy prices to remain low for the long term,” Armstrong said. “It is always wise to invest current savings from lower heating costs to make permanent improvements in weatherization and other steps to reduce energy consumption.”

After a sharp spike in wholesale natural gas prices in 2008 and an equally abrupt decline last year, wholesale natural gas prices have stabilized.

By federal law, natural gas prices are not regulated at the wholesale level and generally fluctuate with supply and demand. Under Kentucky law, gas companies are entitled to recover the wholesale cost of the gas delivered to customers, including the fees they pay to interstate pipelines to transport the gas to their retail distribution systems. Companies are not allowed to earn a profit on their gas commodity costs. The companies’ gas cost adjustments are reviewed by the PSC to make sure they accurately reflect the wholesale cost of gas.

About half of the natural gas used for winter heating is put into storage in the summer. The price at which it was purchased is the price passed through to consumers. Until the last decade, natural gas prices typically were considerably lower in the summer than in the winter. That gap has narrowed in recent years, due in large part to the increased use of natural gas to generate electricity.

Kentucky’s five major natural gas distribution companies expect their adjusted wholesale cost this November to be, on average, \$5.70 per 1,000 cubic feet (mcf). That is up \$.09 (2 percent) from an average of \$5.61 per mcf a year ago.

In August 2008, the average adjusted wholesale cost peaked at \$15.17 per mcf. In November 2002 the average adjusted wholesale cost was \$4.90 per mcf.

The wholesale cost of natural gas accounts for about three-fourths of a typical consumer’s winter bill. A typical Kentucky customer using 10 mcf next month will pay a total monthly bill of \$98.19, up \$6.11 – or 6.6 percent - from the \$92.08 average bill a year ago.

That increase is an average for Kentucky’s five major local natural gas distribution companies as of November. It will change as companies make further wholesale cost adjustments throughout the heating season.

The five major natural gas distribution companies in Kentucky are Atmos Energy, Columbia Gas of Kentucky Inc., Delta Natural Gas Co. Inc., Louisville Gas and Electric Co. and Duke Energy Kentucky Inc. Together the five companies serve more than 750,000 customers in Kentucky and deliver about 176 billion cubic feet of gas annually.

Atmos Energy, Delta Natural Gas, Duke Energy Kentucky and Louisville Gas and Electric all have received their base rate increases in the last year. The base rates reflect a utility’s day-to-day operating costs, including the cost of delivering gas, as well as a return on equity for company shareholders.

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About 44 percent of Kentuckians heat their homes with natural gas. Those who heat with propane (10 percent) and fuel oil (3 percent) will see higher costs than last year.

The 39 percent of Kentuckians who use electric heat are likely to see somewhat higher bills on average this winter, largely because of base rate increases granted to three of Kentucky's largest electric utilities in the past year. The cost of coal – used to generate more than 90 percent of Kentucky's electricity – has remained relatively stable in recent years.

Fuel prices have stabilized in large part because the sagging economy has reduced demand, Armstrong said. The ongoing economic slump means that many Kentuckians will continue to have difficulty paying their heating bills, he said. Heating assistance is available from utility companies and local community action agencies, but funds are limited and sometimes run out during the heating season, he said.

“Do not delay looking for assistance until a difficulty has become a crisis,” Armstrong said. “Now is the time to take the necessary steps if you think that you may need help paying your heating bill this winter.”

A briefing held today on natural gas prices will be available for viewing at a later time in streaming video format in the PSC's video library, at <http://psc.ky.gov/Home/Media>. A video of the briefing also will be available for download on the PSC's FTP site, <ftp://162.114.3.167/>.

The PSC is an independent agency attached for administrative purposes to the Energy and Environment Cabinet. It regulates more than 1,500 gas, water, sewer, electric and telecommunication utilities operating in Kentucky and has approximately 100 employees.

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CONSUMER INFORMATION SHEET FOLLOWS

COPING WITH HOME HEATING COSTS

Information for consumers

Kentucky consumers can take a number of steps to reduce their natural gas usage or to soften the impact of gas costs. They include:

Budget billing: This option allows customers to pay the same amount each month, based on their average monthly usage during the year. Customers should contact their utility for more information.

Energy conservation measures: Simple steps such as turning down thermostats on furnaces (most people are comfortable at 68 degrees) and water heaters (120 degrees is hot enough for nearly all uses) can be big energy savers.

Energy audits: Many local utilities offer home energy audits at little or no cost to consumers. These audits can identify energy-wasting trouble spots and provide information on how to correct the problems.

Weatherization: Consumers can do a number of things to reduce inflows of cold air and leakage of warm air, particularly around windows and doors. Some basic weatherization steps include:

- Use caulk or weatherstripping to seal cracks around windows, doors, pipes and other points where cold air can enter the home. This alone can reduce heating costs by 10 percent or more.
- Federal and state tax credits are available for installing energy-efficient doors and windows
- Add insulation in attics, crawl spaces and walls.
- Cover windows, especially those with single-pane glass, with storm windows or plastic sheeting before the onset of cold weather.
- Clean or replace furnace filters monthly to improve airflow and efficiency.

Advice on conserving energy, including links to a wide range of information, also is available from the Kentucky Department for Energy Development and Independence on the Web at: <http://energy.ky.gov/efficiency/>.

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Weatherization assistance for low-income families is available in Kentucky. Many utilities offer weatherization assistance in conjunction with local social service agencies. Local social service agencies also offer assistance through a state program administered by the Kentucky Cabinet for Health and Family Services. For information on weatherization assistance, go to:

<http://www.communityactionky.org/WhatWeDo/EnergyAssistance/Weatherization/tabid/356/Default.aspx>

Low-income consumers may qualify for assistance with their heating bills through the Low-Income Home Energy Assistance Program (LIHEAP). It is administered at the local level by community action agencies. Consumers who do not qualify for LIHEAP may be eligible for assistance through programs sponsored by their utility company or programs operated by local social service organizations. Consumers should contact their utility for more information. Information about LIHEAP is available on the Web at:

<http://chfs.ky.gov/dcbs/dfs/LIHEAP.htm>

For general information about cutting heating costs, utility issues or for assistance with resolving consumer disputes with utilities, contact the PSC by calling 800-772-4636 or go to the PSC Web site at:

<http://psc.ky.gov>

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