



## ***THE OUTLOOK FOR NATURAL GAS IN THE NORTHEAST FOR THE WINTER HEATING SEASON, 2004-2005***

***November 3, 2004***

### **SUMMARY**

#### **The Region's Natural Gas Industry is Ready for Winter**

The Northeast region's natural gas industry is ready for winter. The utilities' capacity situation is strong and sufficient supplies are projected for all firm customers.

The local distribution companies, or LDCs, through individual gas supply arrangements have contracts for gas storage in storage areas located in the Northeast and Midwest. The interstate pipeline system is in strong shape with maintenance and regular system upgrades completed. By November, as normally, the LDCs' local storage of liquefied natural gas (LNG) and propane will be at appropriate levels in preparation for winter. LNG and propane provide important peak-day support for the regional natural gas system, supplementing the daily deliveries from the interstate pipeline system.

#### **Prices for All Fuels, including Natural Gas, Will Be Higher This Winter**

Prices for all fuels, including natural gas, are projected to be higher this winter. In its recent report, "Winter Fuels Outlook: 2004 – 2005", the U.S. Energy Information Administration (EIA) reports:

"Increases in heating fuel prices are likely to generate higher expenditures even in regions where demand for fuel is expected to fall. Average residential natural gas prices this winter are expected to be 11 percent higher than they were last winter and household expenditures are expected to be 15 percent higher. Heating oil prices are expected to average 29 percent higher compared with last winter and household expenditures are expected to be 28 percent higher. Propane prices are expected to average 17 percent above last winter with 22 percent higher expenditures for propane-heated households."<sup>1</sup>

EIA projects that prices paid by residential consumers of natural gas are expected to be about 11% higher than last winter's average.

The biggest factor in the overall supply/demand balance, and customer bills, will be the weather. A colder-than-normal winter would mean higher consumption, translating into higher bills.

### **SUPPLY OVERVIEW: NATIONAL AND REGIONAL**

#### **Demand for Natural Gas Continues to Rise**

This winter, October 2004 – March 2005, EIA projects natural gas demand to increase by 1.5% over last winter's demand. This reflects higher consumption, due to projected colder weather on average nationally, as well as the increase in the number of customers who use natural gas.<sup>2</sup>

---

<sup>1</sup> U.S. Energy Information Administration, "Winter Fuels Outlook: 2004-2005", October 6, 2004

<sup>2</sup> EIA, *ibid*

### **Natural Gas Production Appears Steady**

Domestic gas production is projected by EIA to be about 0.6% higher this winter than last. The number of rigs drilling nationwide for natural gas is over 1,070 as of mid- October, compared to 930 at the same time last year.

### **The National Storage Situation is in a Positive Position**

The natural gas supply and storage situation for the upcoming winter is strong, and is currently higher than normal.

- As of October 22, 2004, the national storage levels of natural gas were 7% above the 5-year average for this time of year. Stocks in the Eastern region were 3.4% above the 5-year average.<sup>3</sup>

### **The Region's Supply and Storage Situation is Strong**

The Northeast's capacity situation is flexible and secure. The LDCs through individual gas supply arrangements have contracts for gas storage in storage areas located in the Northeast, Midwest and Canada. By November, as normally, the LDCs' local storage of liquefied natural gas (LNG) and propane will be close to full capacity levels, as designed. LNG for instance currently provides as much as 29% of peak day sendout in the New England states.

### **Recent Growth in Pipeline Capability, and Enhanced LNG Peak Day Support**

Among the enhancements to the region's gas infrastructure in recent years are expanded pipeline capacity and increased LNG capabilities.

Since October 2003 two new pipeline projects have been put into service:

- the HubLine and M&NE Phase III Projects of Duke Energy Gas Transmission, in eastern New England; and
- the Eastchester Extension Project of Iroquois Gas Transmission Project, the first new pipeline project into New York City in several decades.

The region has also increased its deliverability capacity of liquefied natural gas (LNG):

- Tractebel LNG's Distrigas facility near Boston nearly doubled its delivery capacity in the spring of 2003.

Numerous other pipeline and infrastructure enhancements are planned for New England, New York and New Jersey in the next few years to meet the growing demand for natural gas. These projects include:

- New pipeline projects
- New storage projects
- New LNG import facilities and new local LNG storage facilities.

NGA is hopeful that these important projects will be successfully implemented, to help meet the growing demand for natural gas in all sectors, from residential to power generation.

---

<sup>3</sup> EIA, "Weekly Natural Gas Storage Report," October 28, 2004

### **The Natural Gas Industry is Committed to Reliable Service**

The natural gas industry in the Northeast is committed to meet the needs of its customers at all times, particularly during periods of peak demand. The system was built and operates according to design with no interruption to firm customers. Last winter saw new cold weather records in mid-January in many sections of New York state and New England. Firm customer needs were met as designed, with very few brief localized impacts.

Since last winter the region's gas industry has continued its ongoing maintenance work on the system infrastructure, and enhanced pressure support to particular system areas where needed. Last winter was a good test for the regional system, which has added many new customers in recent years.

### **Natural Gas is Provided on the Basis of Contracts**

Natural gas is provided under contract terms between a supplier and a customer. The contract terms are considered "firm" or "non-firm"/ "interruptible." Service to residential customers, for example, is firm. Larger commercial or industrial customers, such as a power generator, on the other hand, have the option of contracting for either firm or interruptible transportation service. Firm transportation service is not subject to prior claim by another customer and is the highest quality service offered to customers. Firm transportation is a service for which facilities have been designed, installed and dedicated up to a certified volume. Firm transportation service takes priority over interruptible service and ensures transportation under almost all circumstances.

Interruptible transportation service is a service which is subject to interruptions when deliveries under such service would interfere with or restrict deliveries of transportation service having higher priority. Therefore, interruptible service (i.e., "non-firm" service) includes in its contract terms the possibility of interruption under certain operational and market conditions.

The Federal Energy Regulatory Commission (FERC) has noted:

"The adequacy of the natural gas infrastructure is based on its ability to fulfill its contractual commitments. Natural gas may be contracted on a firm or interruptible basis. Interruptible contracts are typically less expensive because capacity is only paid for if used, and the supplier or transporter may interrupt service. The natural gas infrastructure is considered adequate if firm commitments are met and terms of the interruptible contract are satisfied."<sup>4</sup>

### **An Industry Mutual Aid Network Supports Reliability in the Northeast**

For decades the natural gas industry in the region has worked together through joint committees to provide a network for mutual aid, should a supply interruption occur. The New York gas utilities have worked together through a Gas Control Committee, known as GOCON; the

---

<sup>4</sup> Federal Energy Regulatory Commission, Staff Report: "New England Natural Gas Infrastructure," December 2003, p. 12

metropolitan New York City have worked together through the Facilities Planning Group; and the New England gas utilities have worked together through the New England Gas Supply Task Force. These groups provide a link between the companies involved in delivering natural gas in the region, from the interstate pipelines to the LNG importer and transporters, to the local gas utility. Should there be an emergency situation on the natural gas delivery system that might impact supply levels in the region, the gas control and gas supply groups of NGA could be called into action to monitor the situation and to take any appropriate actions to ensure firm delivery of natural gas.

At the end of October 2004, New England, New York and New Jersey natural gas utilities participated in a joint NGA meeting of gas control officials, and conducted a drill to test how the companies would react to a supply shortfall at a particular point and how they would work together to help redistribute gas supplies to where they are needed most on the delivery system. It was a helpful exercise that NGA will continue to administer throughout this winter and the years ahead. NGA updates state government officials of any group actions. NGA also will be working closely this winter with the operator of the electric grid in New England, and is looking forward to a similar coordinating relationship with the New York electric system operator, reflecting the growing importance of natural gas to the electric power system for the generation of electricity. As in the past, efforts will be made by the gas system to assist the electric system to the extent possible if a high demand/supply constraint situation occurs. It should be noted that this support is dependent on location and gas system conditions, that the timing of the request is critical, and that firm gas customers must and will be served first, as provided under contract terms and regulatory obligations.

### **The Weather is the Biggest Factor in Supply & Price Fluctuations**

How cold this winter is will determine to a great extent how high the price for the natural gas commodity will be. In its September 2004 winter outlook, the Natural Gas Supply Association observed: "The weather can be the largest single factor affecting demand and customer bills, and it also the most difficult to predict."<sup>5</sup> EIA stated in its recent winter outlook that "a colder-than-projected winter would increase both consumption and prices."

On October 6, 2004, the National Oceanic and Atmospheric Administration (NOAA) released its "U.S. Winter Outlook." NOAA is projecting below average temperatures across the Gulf Coast states, the Southeast and the mid-Atlantic region. For the Northeast, NOAA predicts there are "equal chances of warmer, cooler or near-normal temperatures."<sup>6</sup> So time will tell.

## **NATURAL GAS PRICES**

### **Factors Impacting Natural Gas Prices**

"The price paid for natural gas by consumers depends on the price of the gas commodity itself, and the cost of transporting that gas from production areas to customers."<sup>7</sup>

<sup>5</sup> Natural Gas Supply Association, "Customers Facing a Mixed Bag of Natural Gas Costs this Heating Season," September 30, 2004, p. 2

<sup>6</sup> NOAA, "U.S. Winter Outlook," October 6, 2004

<sup>7</sup> American Gas Association, "Natural Gas Price Trends", June 19, 2000

There are many factors that can affect the market price of natural gas<sup>8</sup>:

- Seasonal natural gas demand
- Gas storage
- Weather
- Alternative fuel prices
- Producer economics
- Market structure
- Pipeline capacity and costs
- Futures markets
- Market psychology.

### **What is the Projection for the Gas Commodity Cost this Winter?**

As noted above, the U.S. EIA in early October predicted that “heating fuel-expenditures per household are expected to rise this winter in all regions of the country, reflecting both higher fuel prices, and, in some areas, colder weather than last year.”

In its October 2004 “Short-Term Energy Outlook,” EIA is projecting that the wellhead price of natural gas at the Henry Hub is “expected to average \$6.10 per Mcf in 2004.”

For natural gas at the residential level this winter, EIA is projecting that household expenditures will rise 15 percent on average, due to a 4% increase in consumption and an 11% increase in prices over last year.

### **What is the Local Impact in the Northeast of a Higher Commodity Price?**

Higher wellhead prices mean a higher cost for the gas commodity and results in higher prices for all natural gas customers. However, the impact is not a direct correlation in price. Residential prices, for instance, do not reflect the volatility seen in wellhead prices. The price of natural gas commodity at the wellhead makes up about one-third of the total price a residential customer pays, on average. Other costs include commodity costs of other supply sources, interstate pipeline capacity (or transportation) costs and charges for the LDCs’ transportation service.

As reported above, EIA projects that the impact of current and projected wellhead prices on residential customers this winter will result in an 11% increase over last winter. The gas utility, or LDC, passes on the actual commodity cost to customers; the LDC does not make any margin from the purchasing of the gas commodity and reselling it to retail customers. It is a direct pass-through.<sup>9</sup> The residential customer’s bill is regulated by the state public utility/public service commission (PUC or PSC).

### **Why is the Residential Price Not as High as the Wellhead Price?**

As noted above, the price of the gas commodity makes up about one-third of the total price a residential customer pays, on average. The American Gas Association (AGA) states: “Changes

---

<sup>8</sup> Gas Research Institute, “Short Term Gas Prices: How the Market Adjusts to Changing Fundamentals”, GRI-97/0375, July 1998

<sup>9</sup> AGA, “Natural Gas Price Trends”, June 19, 2000

in the prices paid by utilities for gas, whether based on fuel prices, the spot market, or the comparative price of other fuels, do not have an immediate impact on residential gas customers because of the structure of regulation and the industry. This is true for several reasons<sup>10</sup>:

- Utilities' gas supply portfolios are diversified among spot purchases, long-term contract gas, storage gas, peak-shaving gas and other sources;
- State regulation of gas cost recovery generally tends to spread out short-term increases or decreases over time.

EIA has noted:

“Residential customers see less [price] variation because their bills reflect monthly average prices, which do not fluctuate as much as daily prices. Also, many residential customers stabilize their monthly bills by participating in yearly budget plans provided by their local gas distribution companies.”<sup>11</sup>

### **What Can Customers Do to Manage Heating Costs this Winter?**

Customers can consider several measures to lessen the impact of higher fuel prices:

- Conserve energy
- Replace aging/inefficient appliances
- Consider bill-payment options that enable customers to levelize payments over the year
- Request special assistance<sup>12</sup> (see section on LIHEAP below).

In October 2004 the New York Public Service Commission (PSC) released a paper on natural gas LDC winter readiness which included tips for customers on managing winter bills. It includes these suggestions:

“Two very important steps that consumers can take to manage winter heating bills are to implement energy conservation measures that lower usage during winter and to explore budget-billing options.

“Adding insulation to an attic, checking weatherstripping around doors and windows, ensuring furnaces are working efficiently, and taking steps to conserve energy will all help to lower monthly bills. Initiating such steps and checking the condition of energy conservation measures implemented in the past can produce savings.

“Customers should also check with their utility or energy services company to determine the availability of budget billing, which can make monthly gas heating bills more predictable. A budget-billing option allows customers to equalize monthly payments. For example, a customer's annual bill can be estimated based on past energy use and then

---

<sup>10</sup> AGA, *ibid*

<sup>11</sup> EIA, “Why Do Natural Gas Prices Fluctuate So Much?”, 1998

<sup>12</sup> AGA, “Frequently Asked Questions”, July 18, 2000

divided into equal monthly payments. Typically any differences between the original annual estimate and the actual costs incurred will be reconciled annually.”<sup>13</sup>

As noted, local gas utilities have suggestions on energy-saving tips for their customers. NGA’s website includes links to the local gas utilities in the region – visit [www.northeastgas.org](http://www.northeastgas.org).

### **State Regulatory Oversight and Coordination Contributes to Customer Protection**

State public service / public utility commissions have oversight over the distribution costs of natural gas utilities. Utilities submit cost of gas adjustments to the commissions during the year as appropriate, to reflect different seasonal costs of the gas commodity. If the cost of gas itself rises or falls over a given period, that variation is reflected in the cost of gas adjustment provision. State oversight provides an additional measure of consumer protection.

### **Importance of Low-Income Home Energy Assistance Program (LIHEAP)**

The Low-Income Home Energy Assistance Program – or LIHEAP – has been particularly important to the Northeast region, one of the coldest regions in the nation. For the last several years NGA and its member utilities have urged that the U.S. Congress reauthorize annual funding of LIHEAP, to help lower-income residents meet fuel costs. This winter, with projected higher prices for all fuels, the value of the LIHEAP is even stronger.

In early October 2004, the U.S. Department of Health and Human Services (HHS) announced the release of \$1.2 billion in preliminary LIHEAP funding in advance of this winter heating season. \$371 million, or about 30 percent of the national total, is targeted for the eight Northeast states.

## **CONCLUSION**

### **The Regional Natural Gas Industry is Committed to Working With Government Agencies and Others to Ensure A Strong and Reliable Energy System**

The Northeast Gas Association (NGA) on behalf of its member companies worked closely with state and federal officials last winter and will continue during the coming heating season to work with all parties to do its part to help ensure a strong and reliable energy delivery system for the entire region.

## **FOR FURTHER INFORMATION**

Utility, Industry and Government Information Resources

For further information, you might want to contact the following organizations, or visit their web sites.

### ***Local Distribution Companies:***

---

<sup>13</sup> New York Public Service Commission, “Higher Natural Gas Bills Could Impact Customer Heating Bills This Winter - Local Natural Gas Utilities are ‘Winter Ready’ for Heating Season,” October 20, 2004, page 3

Contact your local gas utility by linking through the NGA web site. From [www.northeastgas.org](http://www.northeastgas.org), go to the “Meet the Companies” link, and select the hyperlink to your local utility.

#### ***Northeast Gas Association***

The Northeast Gas Association represents the local natural gas utilities that serve customers in the six New England states, New York, and part of New Jersey. On the NGA web site home page is a link on “Supply & Price Info.” that provides links to useful sites on the web (some referenced here). Look for [www.northeastgas.org](http://www.northeastgas.org).

#### ***American Gas Association***

The American Gas Association represents 189 local natural gas utilities that serve customers in all 50 states. It has considerable information on its web site concerning the winter outlook. Visit [www.aga.org](http://www.aga.org).

#### ***U.S. Department of Energy (DOE)***

The U.S. Department of Energy created a very helpful web link last year providing energy-saving tips for homeowners. The information is located at: [www.energysavers.gov](http://www.energysavers.gov).

#### ***U.S. Energy Information Administration (EIA)***

The EIA is the statistical agency of the U.S. Department of Energy. It provides extensive information on all forms of energy including natural gas. Publications of particular interest include its “Short-Term Energy Outlook,” updated monthly, and its weekly “Natural Gas Market Update.” Its site is located at: [www.eia.doe.gov](http://www.eia.doe.gov).

#### ***National Association of Regulatory Utility Commissioners (NARUC)***

NARUC is an organization that represents the state public utility commissions responsible for oversight of natural gas and electric utilities. In 2003 NARUC published a very useful document on natural gas supply and price issues, with a chapter on “consumer options.” The document is entitled: *Natural Gas Information “Toolkit.”* It can be found at: <http://www.naruc.org/displayindustryarticle.cfm?articlenbr=17173>

#### ***New York Public Service Commission (PSC)***

The New York Public Service Commission (PSC) has implemented an extensive consumer awareness campaign to alert New Yorkers to the 2004-2005 natural gas outlook for the state and the actions they can take to control winter heating bills. Information is on the PSC’s consumer web site at: [www.AskPSC.com](http://www.AskPSC.com).