

STATE OF NEW YORK

# Public Service Commission

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FOR RELEASE: IMMEDIATELY

05060

## Commission Expands Winter Outreach and Education Efforts

### Rising Prices and Hurricane Impacts Spur Additional Action

Albany, NY – 9/21/05 – In the face of higher natural gas and electricity prices, caused in part by Hurricane Katrina's damage to production facilities in the Gulf of Mexico, the Public Service Commission today voted to reallocate \$500,000 in funds within the System Benefits Charge program budget to support an expanded \$1 million winter outreach and education campaign. The goal of the winter campaign will be to provide customers with useful information on the steps they can take to conserve energy and better manage higher winter heating bills, and information on the market forces that affect the price of natural gas and electricity.

"A tight balance between supply and demand, the increased use of natural gas for power generation, a warmer than normal summer, and Hurricane Katrina's impact on production facilities have all contributed to a dramatic rise in the price of natural gas," said Public Service Commission Chairman William M. Flynn. "While we cannot control the price of natural gas, we must do everything we can to ensure customers are prepared to deal with the higher commodity prices for natural gas and electricity through available energy conservation and efficiency measures, payment options, and financial assistance programs. With natural gas prices hovering at record levels and customers' winter gas bills expected to increase by 25-35%, the importance of this effort cannot be overstated, and I have asked the utility companies to make customer education this winter a priority as well."

The Commission's statewide "Have an Energy Smart Winter" campaign will explain the factors that drive energy prices, what consumers can expect this year, the steps they can take to control their heating bills, and the fact that they can choose to purchase their natural gas and electricity from competitive suppliers. Given the correlation between the price of natural gas and the price of electricity, the campaign also will promote electricity peak load reduction and demand management programs. The program will include plain language publications, mailings to community leaders, radio and newspaper advertising, grassroots outreach at consumer shows, speaking presentations, and partnerships with service organizations such as American Association of Retired Persons, Cornell Cooperative Extension, the state Consumer Protection Board, and the New York State Energy Research and Development Authority (NYSERDA). With the additional \$500,000, a total of \$1 million is available for this winter's outreach and education effort.

For information on how to lower energy costs this winter, call the New York State Public Service Commission at 1-888-Ask-PSC1 (1-888-275-7721), or visit the PSC's Web site at [www.AskPSC.com](http://www.AskPSC.com) and click on the New York's Natural Gas Outlook link. Energy saving tips also are available from the New York State Energy Research and Development Authority (NYSERDA) by calling 518-863-1090, or by visiting NYSEDA's Web site ([www.GetEnergySmart.org](http://www.GetEnergySmart.org)). For a listing of competitive natural gas and electricity suppliers, and a comparison chart, visit [www.AskPSC.com](http://www.AskPSC.com) and click on the "Power to Choose" logo, or call 1-888-AskPSC1.

### **The Price of Energy and the Effects of Hurricane Katrina -Natural Gas-**

In New York State, there are about 3 million natural gas heating customers who heat with natural gas. About 50 percent of the households in the state use natural gas for heating purposes and residential customers constitute the majority of natural gas customers. Nearly 98 percent of the natural gas used in New York State is imported from other regions of North America, principally from the Gulf States and Canada.

The Commission only regulates gas delivery rates and not the price of gas itself, often referred to as the "commodity price." The federal government deregulated the commodity price

of natural gas beginning in 1978 so the price is now determined by national and international markets, not the Commission or New York utilities. Many factors affect the price of natural gas, including the weather, demand, the amount and cost of gas in storage, pipeline capacity and costs, and the extent and success of exploration and drilling. The price of natural gas can be tracked on the New York Mercantile Exchange (NYMEX) as it changes daily and almost hourly. On average, the cost of the gas commodity itself accounts for roughly 60 to 75% of a customer's bill, depending on the utility.

While natural gas prices have increased over the past two years, Department of Public Service staff noted that damage caused by Hurricane Katrina has increased the upward pressure on prices. In a briefing for the Commission today, staff reported last winter's average settled price on the NYMEX for the months of November through March was \$6.81 per decatherm (Dt), the unit of measurement reflecting consumer usage. On August 22, 2005, before Hurricane Katrina made landfall, the NYMEX price for natural gas to be delivered from November 2005 through March 2006 was \$10.05/Dt. In the weeks after Katrina, the average NYMEX price for that future period rose to \$12.16/Dt. Now, with the threat of Hurricane Rita impacting production, the average NYMEX price for gas to be delivered from November through March increased to \$13.64 as of September 19<sup>th</sup>.

In New York State, the price of gas reflected on customers' bills is not based solely on current market prices. Instead, in response to a Commission policy statement, New York's local gas utilities maintain diverse supply portfolios, and will meet this winter's demand using a combination of gas withdrawn from storage, gas obtained through hedged price contracts, and gas purchased on the market. It is expected that natural gas bills for average residential customers will be 25-35% higher when compared to last winter.

Department staff also reported that Katrina damaged production area facilities in the Gulf of Mexico, including drilling platforms, undersea pipe, compressor stations and gas processing plants. Immediately following the hurricane, approximately 90% of the daily production of natural gas in the Gulf was closed down. Many of the facilities in Katrina's path were deepwater facilities, adding to the cost and time required for repairs. Approximately 35% of gas production in the Gulf is still out of service, representing approximately 7% of U.S. supply. Some of New

York's local gas distribution companies did experience small supply disruptions as a result of the hurricane, but were able to make up the shortfall by using gas in storage.

**- Electricity -**

Rising natural gas and oil costs have also placed upward pressure on electricity prices, since these fuels are used to generate a significant portion of the state's electricity. These increased fuel costs are eventually recovered from customers regardless of whether utilities operate in a competitive wholesale market or under a traditional, regulated rate of return regime. In New York State, natural gas and oil are used for fuel in approximately 30% of the power generation portfolio. The remainder of New York's electricity is generated from a diverse mix of coal, nuclear, hydro and other renewable resources. It is projected that electricity bills will be approximately 10-25% higher than last winter as a result of higher fuel costs.

In an effort to put downward pressure on wholesale electricity prices in the short term, the Commission today ordered the utilities to file draft tariffs within 60 days to make real-time hourly pricing mandatory for the largest customer classes. Real-Time Pricing programs can provide significant value by assisting utilities and their customers in reducing peak-load demands and in shifting load to off-peak, less expensive time periods. It has been demonstrated that even a modest level of demand reduction in response to hourly prices can reduce the need to operate the most expensive gas and oil-fired generators, thus lowering wholesale power prices to the benefit of all customers. Both Niagara Mohawk Power Corporation, Inc. and Central Hudson Gas and Electric, Inc. require hourly real-time pricing for their largest customers.

The Commission will issue a written decision detailing today's votes. The decisions in Commission Cases 94-E-0952 and 03-E-0641, when available, can be obtained from the Commission's Web site at <http://www.dps.state.ny.us> by accessing the Commission Documents section of the homepage. Many libraries offer free Internet access. Commission orders can also be obtained from the Files Office, 14<sup>th</sup> floor, 3 Empire State Plaza, Albany, New York 12223 (518-474-2500).