

STATE OF NEW YORK

Public Service Commission

William M. Flynn, Chairman

Three Empire State Plaza, Albany, NY 12223

Further Details: (518) 474-7080

<http://www.dps.state.ny.us>

FOR RELEASE: IMMEDIATELY

05068/05G1031

PSC Reports on Natural Gas Supply and Utility Winter Preparedness

PSC and Utilities Expand Public Outreach Campaigns

PSC Acts to Ensure Adequate Supplies for Corning Natural Gas Customers

Albany, NY—10/27/05—Based on an annual review of local utilities' winter preparedness, the New York State Public Service Commission today announced that the major utilities providing natural gas service in the state are expected to meet their storage inventory targets by November 1, and that the companies are working to ensure adequate supplies for the upcoming winter in the wake of some supply disruptions caused by the recent hurricanes in the Gulf of Mexico.

"Each year staff works with the utilities to ensure that each company has taken the appropriate steps to prepare for the heating season and to help moderate the impact of volatile natural gas prices on their customers," said Commission Chairman William M. Flynn. "While there is still some uncertainty about availability of gas as a result of the recent hurricanes, staff's report today indicates that, with the exception of Corning Natural Gas Corporation, the companies are on track to meet most of their storage requirements, and are pursuing strategies to make up any potential shortfall in their supply portfolios."

Throughout the year, Department of Public Service staff monitors, among other things, gas supply portfolios, pipeline capacity, storage inventories, contract strategies and commodity pricing. Staff reported that Hurricanes Katrina and Rita initially disrupted 5% to 10% of winter gas supply, depending on the utility. However, as of this week, New York's local distribution companies have successfully replaced over three-quarters of impacted supplies, reducing to approximately 1.2% the amount of New York's overall winter requirement still in question. As a

result of the tighter than normal gas supply situation, it's possible that interruptible customers could face more frequent service interruptions than in previous years. Interruptible customers are larger customers who pay a reduced rate with the understanding that service could be interrupted if supplies are needed to serve residential and other "firm" customers.

In terms of prices, it's estimated that record high natural gas supply costs will result in residential bills that are 30 to 45 percent higher than last winter, assuming normal winter weather patterns. In addition to weather, other key factors that can affect consumers' natural gas bills include the energy efficiency of their residences and heating systems, usage, and the overall demand for natural gas supplies.

-Expanded Winter Outreach and Education Campaign-

As noted at last month's session, the Commission has enhanced and expanded its "Have an Energy Smart Winter" campaign, and Chairman Flynn asked each of the utilities to voluntarily expand their customer outreach and education efforts as well. Each of New York's natural gas utilities has responded to the critical need to raise awareness about higher natural gas prices and the steps consumers can take to better manage winter heating bills. Together, the PSC and the utilities will spend approximately \$4 million statewide on customer education initiatives this winter.

"While the Commission's outreach and education efforts will be more important than ever this winter, we can't do it alone," said Chairman Flynn. "I am pleased that, in response to my request, the utility companies will voluntarily increase their own customer outreach efforts through paid media, bill inserts and direct mail programs. Working together, we can ensure that customers are aware of the steps they can take to prepare for the winter ahead."

The Commission's aggressive and comprehensive outreach and education campaign – conducted in coordination with the New York State Energy Research and Development Authority and the New York State Consumer Protection Board - will alert New Yorkers to the natural gas outlook for the 2005-06 winter heating season and the actions they can take to cut energy costs. The campaign stresses the importance of energy conservation through low-cost or

no-cost measures to reduce energy consumption and lower bills. In addition, outreach and education material will provide information on financial assistance programs, bill payment options that can help customers better manage higher winter heating bills, and alternative energy suppliers.

Specific outreach and education activities will include: presentations to community groups, paid advertising, statewide distribution of printed information, and information made available on state Web sites. Additionally, information on energy efficiency measures and financial assistance programs will be distributed through partnerships with other organizations such as Cornell Cooperative Extension, the New York Library system, AARP, and county and municipal governments.

For more information on energy efficiency and financial assistance programs, consumers can contact the following state agencies:

- New York State Public Service Commission at www.AskPSC.com or 1-888-AskPSC1
- New York State Energy Research and Development Authority (NYSERDA) at www.nyserda.org or www.GetEnergySmart.org or 1-877-NY-Smart (1-877-697-6278)
- New York State Consumer Protection Board at www.consumer.state.ny.us or 1-800-NYS-1220
- New York State Office for the Aging at www.aging.state.ny.us or 1-800-342-9871
- New York State Office of Temporary and Disability Assistance at www.otda.state.ny.us or 1-800-342-3009.

Commission Acts to Protect Corning Gas Customers

Based on this year's annual review and past interaction and monitoring by Department staff, the Public Service Commission took dramatic action to address concerns expressed by staff about Corning Natural Gas Corporation's preparedness to provide adequate service to approximately 14,500 gas customers this winter. Staff's concerns stem from the combination of significantly higher gas costs, the company's cash-flow situation, its failure to procure fixed-price commodity hedges, and its failure to adequately fill storage on a timely basis. As a result of these factors, staff is also concerned about the reliability of service and estimates that Corning customers will see winter bills that are approximately 55% higher than last year, compared to statewide average bill impacts of approximately 30-45%.

Given concerns about Corning's ability to provide adequate service throughout the entire winter heating season, and to ensure customers are protected, the Commission today determined that it must take the following extraordinary actions to ensure adequate supplies and to investigate Corning's procurement, accounting, and fiscal operations:

- To address the primary and immediate concern regarding adequate gas supply, the Commission initiated a proceeding on its own motion to determine if one or more gas corporations can provide supply to Corning on a mutual-aid assistance basis. New York utilities have a procedure in place to share gas supplies during certain operational contingencies. Today's Commission action would build on that procedure by extending the period of assistance through the entire winter and expanding the scope to cover financial emergencies.
- The Commission ordered Corning Natural Gas to show cause why a temporary operator should not be appointed and why the company should not be directed to comply with the Commission's 1998 Statement of Policy on Gas Procurement. Policy statements are issued to provide guidance, and do not have the force and effect of law, unless the Commission directs a company to comply through its rulemaking authority. In this case, to protect customers, staff believes it may be necessary to impose stricter compliance requirements.
- Finally, at the end of this winter, staff will be in a better position to fully assess the impact of Corning's gas procurement practices on customers and report back to the Commission on the need for further investigation of the prudence of the company's preparations of the 2005-2006 winter heating season.

Chairman Flynn has sent a staff team from the Department for on-site monitoring at the company's headquarters. In addition, the Commission will schedule informational forums in Corning's service territory to explain today's actions and answer questions. Details on the forums and additional customer outreach activities will be announced shortly.

Editor's Note: Attached please find additional background information on natural gas supplies and prices.

Additional Background on Natural Gas Supply and Prices

- In New York State, there are about 3 million natural gas 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.
- About 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 regulates gas delivery rates and not the price of gas itself, often referred to as the "commodity price." The commodity price of natural gas was deregulated by Congress beginning in 1978 and is determined by national and international markets, not the Commission or New York utilities. The price of natural gas can be tracked on the New York Mercantile Exchange (NYMEX) as it changes daily and almost hourly.
- As of October 14, 2005, natural gas storage in the United States was almost 3.1 trillion cubic feet (Tcf), which is about 3 percent higher than the 5-year average of 3.0 Tcf. Storage levels nationally are expected to exceed the 5-year average of 3.1 Tcf for November 1st of this year.
- Natural gas futures on the NYMEX averaged \$6.81 per decatherm (Dt) last winter, with close to normal winter weather. Just prior to Hurricanes Katrina and Rita, prices for winter delivery were up over 50 percent compared to last year. As of October 24, 2005, NYMEX futures prices for November 2005 through March 2006 averaged \$13.25 per/Dt, or nearly 100 percent higher than in 2004-2005 winter.
- According to Commission policy, utilities in New York State implement various gas portfolio management strategies to reduce price volatility, including contracting for winter gas supplies during the spring, summer and fall months when demand and prices are typically lower. NYMEX prices during the 2005 summer season (April-October) averaged \$8.51/Dt, or 46% higher than the \$5.84/Dt average price during the 2004 summer season. As a result, the utilities' average cost of gas in storage for the upcoming winter season is \$7.02/Dt, an increase of 24% compared to year's average storage cost of \$5.66/Dt.