

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>

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State PSC: Local Natural Gas Utilities are "Winter Ready" for Heating Season

**-- Chairman Flynn Seeks Investigation into Recent Price Rise of
Natural Gas, Set by National/International Markets --**

New York, NY – 12/17/03 – Following its annual review of utilities' winter preparedness, the New York State Public Service Commission today announced that local utilities providing natural gas in the state have adequate supplies to meet forecasted customer demands this winter and have taken steps designed to reduce price volatility, as much as possible, at a time when the price of natural gas has remained higher than last year. Commission Chairman William M. Flynn announced today that he has asked New York Mercantile Exchange (NYMEX) Chairman Vincent Viola to investigate recent spikes in the price of natural gas even as supplies remain adequate to meet the nation's needs.

"The price of natural gas is set by the national and international markets and is largely influenced by exploration and drilling operations in, and off-shore of, the Gulf States and in Canada," Commission Chairman William M. Flynn said. "While the price of natural gas is not regulated, our staff works each year prior to the winter heating season to ensure that the local utilities have taken steps to meet customers' needs and reduce price volatility as much as possible during the winter months. On this basis, I am pleased to report that the utilities are 'winter ready.' "

"However, I am concerned about the recent spike in the price of natural gas and am asking NYMEX Chairman Vincent Viola to investigate what is driving the dramatic price rise," Chairman Flynn stated. "Recent weather developments around the country reflect normal winter weather patterns, yet for some reason futures prices of natural gas have surged."

As of November 24, NYMEX "futures" prices for natural gas projected for the market this winter averaged \$4.78 per decatherm (DT) of gas, approximately 15% lower than the \$5.64

average price during last winter. However, over the first two weeks in December, NYMEX futures prices for the remaining winter months have increased dramatically. Prices for January delivery were under \$5.00 per decatherm going into this month. By December 12th, they were trading at \$7.22 per decatherm, a greater than 45% increase.

In New York State, there are about 3 million natural gas customers, most of whom are residential, who heat with natural gas. About 50% of the households in the state use natural gas for heating purposes. Approximately 98% of the natural gas used by New York residents, businesses and industries comes from outside New York, primarily from the Gulf States and Alberta, Canada.

The Commission's assessment of natural gas supplies and prices is based on its staff's monitoring of local distribution utilities and gas marketer actions to prepare for the winter. Throughout the year, staff monitors, among other things, gas supply portfolios, pipeline capacity, storage inventories, contract strategies and commodity pricing. 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.

While staff determined in this year's analysis that interstate pipeline capacity – that is, the "space" on the nation's transmission pipelines available to transport natural gas into New York – is adequate, it remains tight, especially into the downstate region. Demand for natural gas is growing at approximately 2% in volume annually in the New York City region and additional pipeline capacity into that region will be needed to meet that demand.

Traditionally, the price of natural gas in the United States falls once the winter heating season ends. However, staff's monitoring of prices this year reveals that prices did not drop as much after last winter as they did after the previous winter of 2001-2002. As a result, the gas that local utilities purchased over the spring, summer and fall to have in storage for customers this winter was more expensive than the previous year. The recent gas price spike in December will only add to upward pressure on customers' bills.

Bill impacts for residential customers in New York State Electric & Gas Corporation's (NYSEG's) service territories this winter will reflect a completed transition back to market prices. Between 1995 and 2002, residential customers paid NYSEG a fixed price for gas supplies, which did not cover the actual cost of the gas for some of that time period. In December 2002, the Commission approved a NYSEG rate plan that, among other things, provided for a return to market prices for gas supplies in residential bills, as had been the case prior to 1995. In order to ease residential bill impacts during the transition to market-based gas supply costs, the Commission required NYSEG to phase in the bill changes over ten months.

With completion of the phase-in mitigation plan in September 2003, and for the next two years, NYSEG residential bills will include an amount reflecting the difference between the mitigated and the actual cost of gas supplies during the phase-in period. NYSEG commercial and industrial customers have been paying actual market supply costs for a long time, as have all customers of all other New York State gas companies.

Shopping for Natural Gas Supplies: Some Tips

In 1996, the Commission approved retail competition programs designed to allow smaller customers – residential and small commercial – the option of buying their own natural gas supply from sources other than the traditional utility companies. Customers may choose to purchase their gas commodity from nonutility suppliers, gas marketers or agents, or the local utility serving their area. Customers will still continue to pay the local utility company for the delivery of natural gas through its system. Through competition, it is expected that some customers may see savings reflected in their gas bills. Individual customers will receive different results depending on the supplier and service offerings they choose. Thus far, approximately 350,000 customers have selected a nonutility provider to supply their natural gas.

The Commission's staff has implemented an extensive consumer awareness outreach campaign to alert New Yorkers to the 2003-2004 natural gas outlook for the state and the actions they can take to control winter heating bills. The campaign focuses on four major topics: energy conservation, energy competition and the choices it provides, financial assistance programs, and payment options. Staff's consumer education campaign includes: grass roots presentations; statewide distribution of printed information; public service announcements; information made available on the Commission's Web site (www.AskPSC.com) and through a toll-free number (1-888-ASK-PSC1); and, partnerships with state and local agencies such as the New York State Energy Research and Development Authority (NYSERDA), the New York State Office for the Aging, Cornell Cooperative Extension, the New York Library System, county and municipal governments; and local school districts.

Before consumers decide to participate in the competitive market, they should consider certain information as a guide in making a decision to choose a marketer or agent for their supply of natural gas. Just as someone would do when making a product purchase or entering into a service contract, consumers should gather relevant information before making a commitment with a marketer or agent. First, a consumer should contact the local utility company to get a copy of his or her billing profile, usage history, and the price the utility charges. Then, the consumer should compare the service offerings of nonutility suppliers for costs, other product or service packages, terms of the contracts, billing arrangements and complaint dispute resolution processes.

When shopping for natural gas supplies, consumers should ask questions to get as much information as possible. For instance, is the price of the gas being offered fixed or variable? If it's fixed, is it guaranteed? Does the price quoted include taxes? Are there any discounts or bonuses? Are other services available? How long is the agreement? Are there penalties for breaking the agreement? Are there additional fees? Is a deposit required? Where are the company's offices and what are the office hours? What is the complaint handling process? Are there toll-free numbers? Ask for a copy of any contract that the company is offering. Read it carefully.

If New Yorkers have any questions about shopping for natural gas, or want to check to ensure that a company is eligible to provide natural gas services in the state, they can call the Commission's toll-free, energy-assistance line at 1-888-ASK-PSC1 (1-888-275-7721). The Commission also provides extensive information about shopping for natural gas at its Web site at www.AskPSC.com that is updated regularly. Many libraries offer free internet access.

Managing Winter Bills: Energy Conservation, Budget Billing

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 rechecking the condition of energy conservation measures implemented in the past can produce savings.

Customers also should 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 divided into equal monthly payments. Typically any differences between the original annual estimate and the actual costs incurred will be reconciled annually.

For more information on how to lower energy costs this winter, call the New York State Public Service Commission at 1-888-Ask-PSC1, or visit the PSC's Web site at (www.AskPSC.com). Energy saving tips are also available from the New York State Energy Research and Development Authority (NYSERDA) by calling 518-863-1090, or by visiting NYSEDA's Web site at (www.GetEnergySmart.org). Remember.....If you conserve a little, you can save a lot.