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Natural Gas Costs Will Be Slightly Higher This Winter

Energy efficiency improvements can help reduce bills, PSC says

FRANKFORT, Ky. (Nov. 3, 2016) – Kentucky residents who heat their homes with natural gas will see slightly higher prices at the start of the 2016-2017 heating season than they did a year ago, the Kentucky Public Service Commission (PSC) advised today.

Gas prices have risen, on average, about 12 percent from this time last year, but are still about 60 percent below the peak prices reached in 2008.

When base rates – which include monthly customer charges and delivery fees – are factored in, Kentucky residential customers can, on average, expect their total gas bills to be about 6 percent higher this November than last, based on consumption of 10,000 cubic feet of natural gas. The average total bill for 10,000 cubic feet – including gas costs and base rates, but not miscellaneous charges – is projected to be about \$89.08.

That is up more than \$5 from last year and a decrease of about \$62 since November of 2008. The lower cost of natural gas has more than offset increases in base rates over that time and now represents about half of the average total residential bill, or \$43.10 of the \$89.08 total.

“The continued growth of natural gas supplies has maintained a steady downward pressure on natural gas prices,” PSC Chairman Michael Schmitt said. “Even with higher demand due to economic growth and greater use of natural gas to generate electricity, the supply has more than kept pace.”

Weather determines the amount of energy that consumers use to heat their homes and thus is the major factor in the size of their heating bills, Schmitt said.

“The extended outlook is for a fairly normal winter in Kentucky,” Schmitt said. “But some areas to our north are forecast to be somewhat colder than usual, which would increase usage and could increase gas prices later in the season.”

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But whatever the weather or the cost of natural gas, consumers would still benefit by taking steps to reduce consumption, he said.

“The relatively low gas prices we’ve had for a number of years have created an opportunity to invest in permanent improvements, such as weatherization, that will insulate homeowners against higher energy costs in the future,” Schmitt said.

A lower cost of gas means that base rates are now a larger portion of the total bill. Only one of Kentucky’s five large natural gas distribution companies received a base rate increase in the last 12 months.

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

Wholesale prices over the last eight years have not approached the peak prices seen during a sharp upward turn in 2008. Prices declined even more abruptly during the economic downturn in 2009, and have stabilized at a much lower level due to an increase in supplies.

The commodity cost of natural gas is passed through to consumers on a dollar-for-dollar basis by local distribution companies.

By federal law, natural gas prices are not regulated at the wholesale level and generally fluctuate with supply and demand. Under Kentucky law, gas utilities are entitled to recover the wholesale cost of the gas delivered to their customers, including the fees they pay to interstate pipelines to transport the gas to their retail distribution systems. However, gas utilities 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 actual cost of natural 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, \$4.31 per 1,000 cubic feet (mcf). That is up 46 cents (12 percent) from an average of \$3.85 per mcf a year ago. The average wholesale cost in 2014 was \$6.17 per mcf. In August 2008, the average adjusted wholesale cost peaked at \$15.17 per mcf.

The projected monthly bill 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.

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

About 44 percent of Kentuckians heat their homes with natural gas. For those who heat with propane (10 percent) or fuel oil (3 percent), prices are expected to be somewhat higher than last year, according to the U.S. Energy Information Administration.

For the 39 percent of Kentuckians who use electric heat, changes in heating costs are likely to be driven by fluctuations in fuel costs, environmental compliance costs and other items that change on a monthly basis.

Although fuel prices have been relatively stable in recent years, many Kentuckians still struggle to pay their heating bills, Schmitt noted. Heating assistance is available from local community action agencies and from utility companies, but funds are limited and sometimes run out during the heating season, he said.

“Do not wait to act until you are in a crisis and in danger of losing utility service,” Schmitt said. “If you anticipate difficulties in paying your heating bill this winter, now is the time to find out where you might be able to receive assistance.”

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 75 employees.

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QUESTIONS OR PROBLEMS REGARDING YOUR UTILITY SERVICE?

CALL THE PSC CONSUMER HOTLINE: 800-772-4636

GAS COST CHART AND CONSUMER INFORMATION SHEET FOLLOW

NATURAL GAS COSTS AND BILLS IN 2015-2016

Wholesale gas costs

Utility	Nov. 2015 cost per 1000 ft ³	Nov. 2016 cost per 1000 ft ³	Change
Atmos Energy	\$4.08	\$4.14	+ \$0.06
Columbia Gas## ‡	\$2.72	\$4.50	+ \$1.78
Delta Gas	\$4.61	\$4.38	- \$0.23
Duke Energy#	\$4.41	\$4.43	+ \$0.02
Louisville Gas & Electric	\$3.41	\$4.11	+ \$0.70
AVERAGE	\$3.85	\$4.31	+ \$0.46 (+ 12%)

AVERAGE GAS COST IN 2008: \$11.70 (unadjusted for inflation)

Monthly bill – for customer using 10,000 ft³

Utility	Nov. 2015	Nov. 2016 Base rate + gas cost = total	Change
Atmos Energy*	\$ 70.00	\$ 32.84 + \$ 41.40 = \$ 74.24	+ \$4.24
Columbia Gas## **	\$ 64.90	\$ 37.67 + \$ 45.00 = \$ 82.67	+ \$17.77
Delta Gas	\$ 110.20	\$ 63.89 + \$ 43.80 = \$ 107.69	- \$2.51
Duke Energy#	\$ 97.30	\$ 53.21 + \$ 44.30 = \$ 97.51	+ \$.21
Louisville Gas & Electric	\$ 76.30	\$ 42.19 + \$ 41.10 = \$ 83.29	+ \$6.99
AVERAGE	\$83.74	\$ 45.98 + \$ 43.10 = \$ 89.08	+ \$5.34 (+ 6%)

AVERAGE MONTHLY BILL IN 2008: \$150.78 (unadjusted for inflation)

Calculations include base rates and gas costs only.

‡ Columbia Gas had below-average gas costs a year ago due to adjustments needed to insure that customers are charged for gas on a dollar-for-dollar basis.

Duke Energy Kentucky adjusts gas costs on a monthly basis; the other four large distribution companies adjust gas costs every three months

Columbia Gas of Kentucky adjusts gas costs on a different quarterly cycle than Atmos Energy, Delta Gas and Louisville Gas & Electric. Columbia Gas will next adjust costs in December

* Atmos Energy received a base rate increase in August 2016.

** The figures for Columbia Gas of Kentucky do not reflect a base rate increase request pending before the PSC.

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.
- Install 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/>.

General information on energy programs to assist low-income Kentuckians can be found on the Community Action Kentucky website at:

<http://www.communityactionky.org/energy-assistance.html>

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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/weatherization.html>

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>