Case No. U-13816

Comments of the
Michigan Public Service Commission
Staff and the Michigan Energy Office
Natural Gas Update

- Natural Gas Market Overview
- Price Trends
- Consumer Information campaign
- Conservation Measures
Natural Gas Overview

- Most gas used in U.S. produced in North America
- Federal government ended regulation of gas wells prices between 1985 and 1990
- Today, gas is bought and sold in well developed competitive national markets
- Michigan utilities and industries purchase gas in national markets
Supply Trends (Continued)
Flattening Seasonal US Production Constrains Seasonal Supply Response

Figure 10: Gas Markets Move Toward Just-in-Time Delivery System for Natural Gas (AGA Graph of Gas Production compared to Capacity from 1995 through 2002)

Source: American Gas Association

Source: FERC Natural Gas Market Assessment, January 29, 2003
Supply Trends

- U.S. production growing slower than demand, causing greater reliance on imports

Source: EIA
Supply Trends (Continued)

- Domestic production is flat
- New wells deplete quickly
- LNG imports are rising
- Major production areas are off-limits
- Some new production areas require large investment
Supply Trends

• Many areas in U.S. are closed to drilling, contain significant reserves

U.S. Lower-48 Natural Gas Reserves Subject to Access Restrictions

As of 2001
Total Restricted
233 TCF

Potential Reserves
1,258 TCF (AGA Potential Gas Committee)

Proven Reserves
183 TCF

Supply Trends

• New finds still require significant capital

Shell Na Kika Project
- $1.3 Billion project
- Up to 325 MMDth/day

140 miles to shore

6,000 – 7,000 ft Water Depth

Source: www.offshore-technology.com
Michigan Supply Trends

Decline by 2010: 150 Bcf/year
Natural Gas Demand

- Trend growth 1-2% annually
- New gas-fired electric generation
- Economic activity
- Price responsive demand
- Weather
U.S. Working Gas in Underground Storage

NOTE: Colored Band is Minimum & Maximum Values 1998-2002

Source: U.S. Department of Energy, Energy Information Administration
Weekly Henry Hub Spot Price

Increasing price volatility over past three years
Unlike the previous price spike in 2000-2001, prices remain elevated.

Source: Gas Daily
## Gas Cost Recovery Factors

<table>
<thead>
<tr>
<th>Company</th>
<th>July 2002</th>
<th>July 2003</th>
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<tbody>
<tr>
<td>Aquila-MGU</td>
<td>4.17</td>
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<td>Consumers Energy</td>
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<td>Mich Con</td>
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<td>Peninsular</td>
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<tr>
<td>SEMCO</td>
<td>3.828</td>
<td>6.035</td>
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</table>
Prices for 2003-2004 Heating Season

- Prices heavily dependent on weather
- Strong demand to refill storage
- Demand reductions and fuel switching becoming significant
- U.S. Production has remained flat
- Based on normal weather project national market price of $4.75 to $5.25
- Assuming normal weather, average residential bill likely to be $30 higher this winter when compared to last winter
## Residential Price of Natural Gas by State (December 2002)

<table>
<thead>
<tr>
<th>State</th>
<th>Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Illinois</td>
<td>$6.84</td>
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<tr>
<td>Indiana</td>
<td>$7.82</td>
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<tr>
<td><strong>Michigan</strong></td>
<td><strong>$6.04</strong></td>
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<tr>
<td>Ohio</td>
<td>$7.84</td>
</tr>
<tr>
<td>Wisconsin</td>
<td>$8.02</td>
</tr>
</tbody>
</table>

*dollars per thousand cubic feet*

*Energy Info. Admin/Natural Gas Monthly, March 2003*
Consumer Awareness Plan
Consumer Awareness Plan

- Review existing Consumer Alerts and revise as necessary
- Issue a new Consumer Alert detailing energy conservation measures and financial assistance programs
- Resurrect and revamp the “Be Winter-Wise” Campaign
Other Planned Activities

- Community Outreach
- Press Package
- Web Page with Links to Sources of Information
A Public Awareness Campaign

Purpose – To notify low-income, senior citizen, and unemployed utility customers that programs are available to assist them with winter energy bills.

Campaign ran each space-heating season (November – March)

1984/85 – 1996/97
“Be WinterWise” Campaign

- Brochure - Information of available assistance
- Distribution - Bulk copies to consumer organizations
- PSAs - Radio, Television, Newspapers, Buses, Outdoor Signs
Annual cost for the last several years of the “Be WinterWise” Campaign averaged $54,000. Financial support for the campaigns was provided by Michigan’s investor-owned gas and electric companies.
2003/04 “Be WinterWise” Campaign

With the cooperation of organizations, agencies, the media, and utility companies, we can get the message out again this winter that Michigan needs to “Be WinterWise”.
What Can Consumers Do

- No-cost & low-cost – 10% savings
- Insulation, furnace, & windows – 25%
- ENERGY STAR home – 50%
- Zero energy home – 100%
- MI School for Deaf & Blind – 28%
- Career & Technical Institute – 41%
What Can Energy Office Do

- Consumer publications & web site
- 6 Energy Demonstration Centers
- ENERGY STAR outreach
- Refer consumers to raters, builders, & mortgage companies
- ENERGY STAR Home grants to builders
- Assistance to businesses & institutions