

FUEL FOR THOUGHT

WHY ENERGY
PRICES ARE RISING
AND WHAT CAN
BE DONE.



National Fuel

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FUEL FOR THOUGHT

Issues and Answers about Natural Gas

The cost of natural gas is a national issue affecting approximately 60 million customers.

Q. Why will natural gas prices be higher this winter?

A. The wholesale commodity price of the natural gas that National Fuel pays its suppliers has increased considerably in the past year. This cost is reflected in the “Gas Supply Charge” portion of your bill.

Q. What affects gas prices?

A. The cost of natural gas is affected by the market forces of supply and demand. Demand for natural gas in the United States and in the global market is increasing while supply struggles to meet that demand. Rising demand is the result of a number of factors, including:

- More and more natural gas is being used for electric generation due to its environmental benefits over coal or oil. In fact, the demand for natural gas to produce electricity has increased 10% in the last year alone. And it is expected to go up in the future.
- Global demand for natural gas has also escalated, and many countries pay nearly twice what U.S. consumers pay for natural gas.
- Drilling activity and production have increased, but the industry is prohibited from significantly expanding its resource base in proven areas where there are gas reserves, such as in certain offshore areas.
- Weather can also affect commodity gas prices. For example, a hot summer across the United States can raise natural gas power-generation demand, a cold winter can escalate heating demand, and severe weather such as hurricanes in the Gulf of Mexico can cause temporary supply disruptions – all of which can increase prices.

Q. How will my bill compare to last winter?

A. The cost of the natural gas that our customers use is now about 20% higher this year. Gas costs make up approximately three quarters of your bill and reflect the marketplace price of the gas you use. Unfortunately, the market forces of supply and demand that have increased prices at the pump, can also affect natural gas costs.

Q. Does National Fuel make a profit on the price of the natural gas it sells to utility customers?

A. No. National Fuel does not make a profit on the cost of gas sold to utility customers. By law, natural gas utilities cannot make a profit on the gas they purchase and then sell to its customers. The price utilities pay is passed on to customers, dollar for dollar.

Q. If National Fuel does not make a profit on the price of gas, how does it make a profit?

A. National Fuel’s Delivery Service Charges, or the cost of delivering natural gas safely and dependably to you, include the Utility’s cost of doing business: staffing, offices, equipment, pipeline maintenance, taxes and interest. If these costs are managed wisely, Delivery Service Charges include the opportunity for the Utility to earn a profit.

Q. Isn’t it cheaper for National Fuel to purchase natural gas that is produced locally, rather than from the national marketplace?

A. Not necessarily. Even local producers charge market-based rates. National Fuel buys as much local gas as producers are willing to sell to the Utility, but local industrial customers contract for the majority of the natural gas that is produced from local wells.

Q. What can be done to increase natural gas supplies?

A. The U.S. Geological Survey estimates there is enough recoverable gas within the U.S. to last decades. However, the U.S. is the only country in the world that bans drilling off its coasts. One-quarter of the nation’s energy needs are met with natural gas and demand for natural gas is expected to increase by 50% by 2020. More domestic drilling, by using modern technologies that minimize environmental impacts, combined with efforts to manage and reduce energy use and the integration of certain alternative fuels in our energy mix will help make more supplies of natural gas available and stabilize prices. While prices have increased considerably compared to last year, current and forecasted market prices have recently experienced a significant decline. This is a step in the right direction and shows that the market forces are at work, leading to increased drilling and declining demand due to conservation efforts. However, that trend could be reversed by any number of factors, including a significant heat wave or interruption of production that adversely affects supply and demand.