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New Study: Billions in Ratepayer Benefits from Locking in Low Natural Gas Prices for Power Generation

A new study by a Washington, D.C., energy nonprofit says consumers could save billions of dollars on future utility bills if power plants fired by natural gas used longer-term contracts to acquire a portion of their fuel, rather than relying solely on spot market purchases as is common today.

In a report released at a mid-Atlantic meeting of utility regulators in Hershey, Pa., the American Clean Skies Foundation (ACSF) said small changes in current fuel contracting practices can deliver large dividends over the next decade due to record low prices for natural gas. The 45-page report -- "Power Switch: A No Regrets Guide to Expanding Natural Gas-Fired Electricity Generation" -- says the current benefits of low prices might be short-lived if, as expected, natural gas prices trend upward by mid-decade. Accordingly, the report advises power companies, gas suppliers and regulators to work together and agree on new commercial and regulatory terms to "lock in" today's attractive price terms for several years. Power sector stakeholders should consider new multi-year gas supply agreements, the report says, and both utilities and gas suppliers must be willing to share some of the risks of future price changes.

Gregory C. Staple, the CEO of ACSF and co-author of the report, said, "The once-in-a decade opportunity we see for electricity generators to secure affordable gas over the mid- to longer term is similar to the historic opportunity that homeowners and businesses now have to refinance mortgages at today's record low interest rates."

Staple added, "The prudent use of some longer term gas supply agreements can reduce risks for gas suppliers, electricity generators and customers alike. That's why our report is called a 'no regrets' guide." Long-term contracts provide a means for extending the benefits of affordable natural gas for years to come. Therefore, the report says that state regulators -- PSCs and PUCs -- should follow the lead of states such as Colorado and Oklahoma, and authorize longer-term agreements for purchasing natural gas just as they do for long-term coal supplies or renewable energy agreements, where 15-to-20-year contracts are common. According to the Energy Information Administration, the domestic electricity sector will spend \$330 billion for natural gas between 2013 and 2020. If just 25 percent of this expected demand is met through long-term contracts based on today's low price horizon, electricity users can save \$16 billion for every \$1 per million British thermal units (Mmbtu) that such contracts are below average spot prices.

Electricity Pricing Areas – Jun 26, 2012 June

On-Peak	Per kWh
West Hub	\$0.03241
NI Hub	\$0.03001

ComEd Average Day Ahead LMP Electric Price

Time Period	Average per Kwh
June 1 - June 30	\$0.03851
July 1 thru July 31	\$0.05170
Aug 1 - Aug 31	\$0.04064
Sep 1 - Sep 30	\$0.03058
Oct 1- Oct31	\$0.02968
Nov 1- Nov 30	\$0.02816
Dec 1 - Dec 31	\$0.02971
Jan 1 -Jan 31	\$0.03043
Feb 1-Feb 29	\$0.02963
Mar 1 thru Mar 31	\$0.02894
April 1 - April 30	\$0.02659
May 1 - May 31	\$0.02816
June 1 thru June 25	\$0.02948

Extended Temperature Forecast: Chicago Area

	Tue	Wed	Thu	Fri	Sat
High	82	90	96	89	92
Low	65	73	77	75	74

