



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
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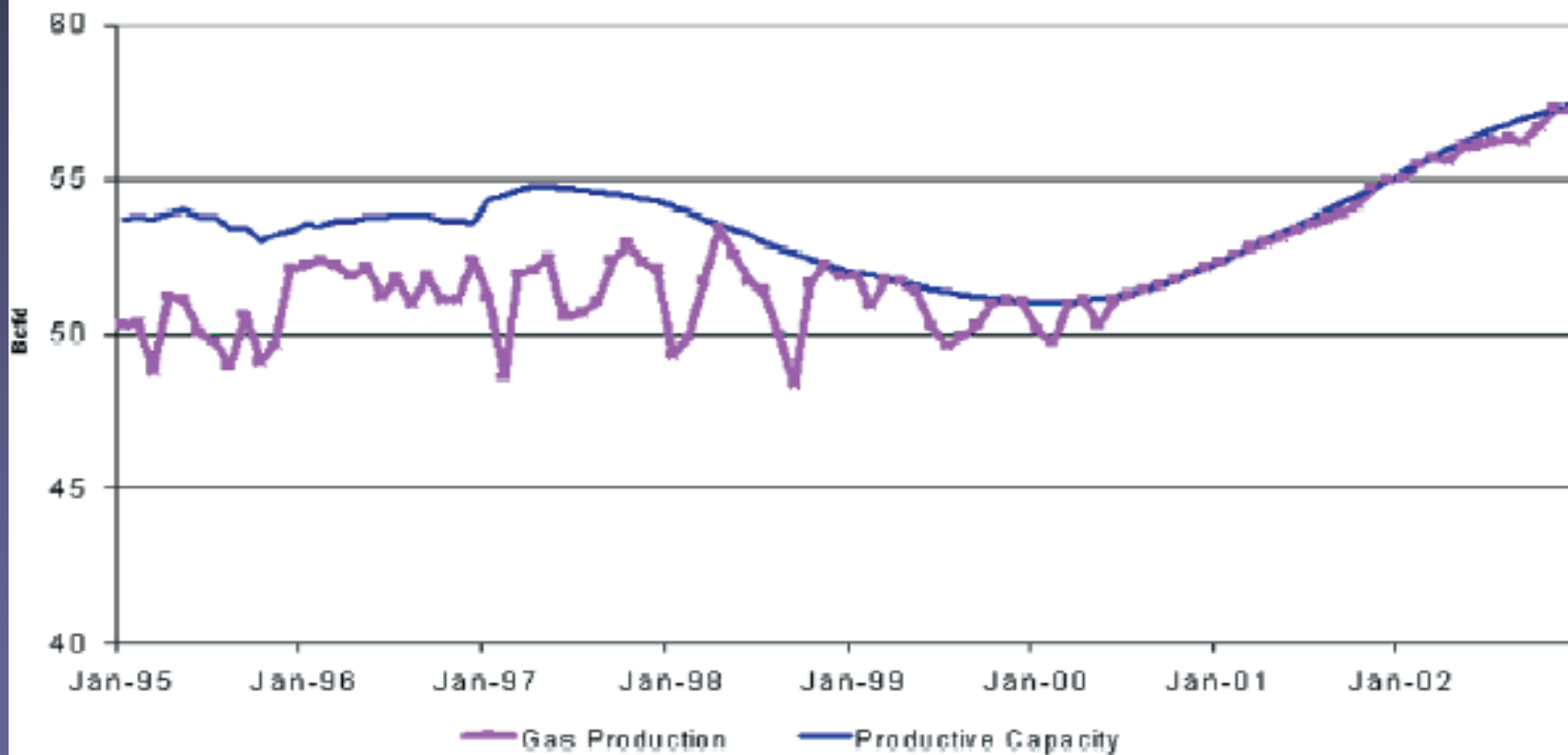
Natural Gas Overview

- 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
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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)

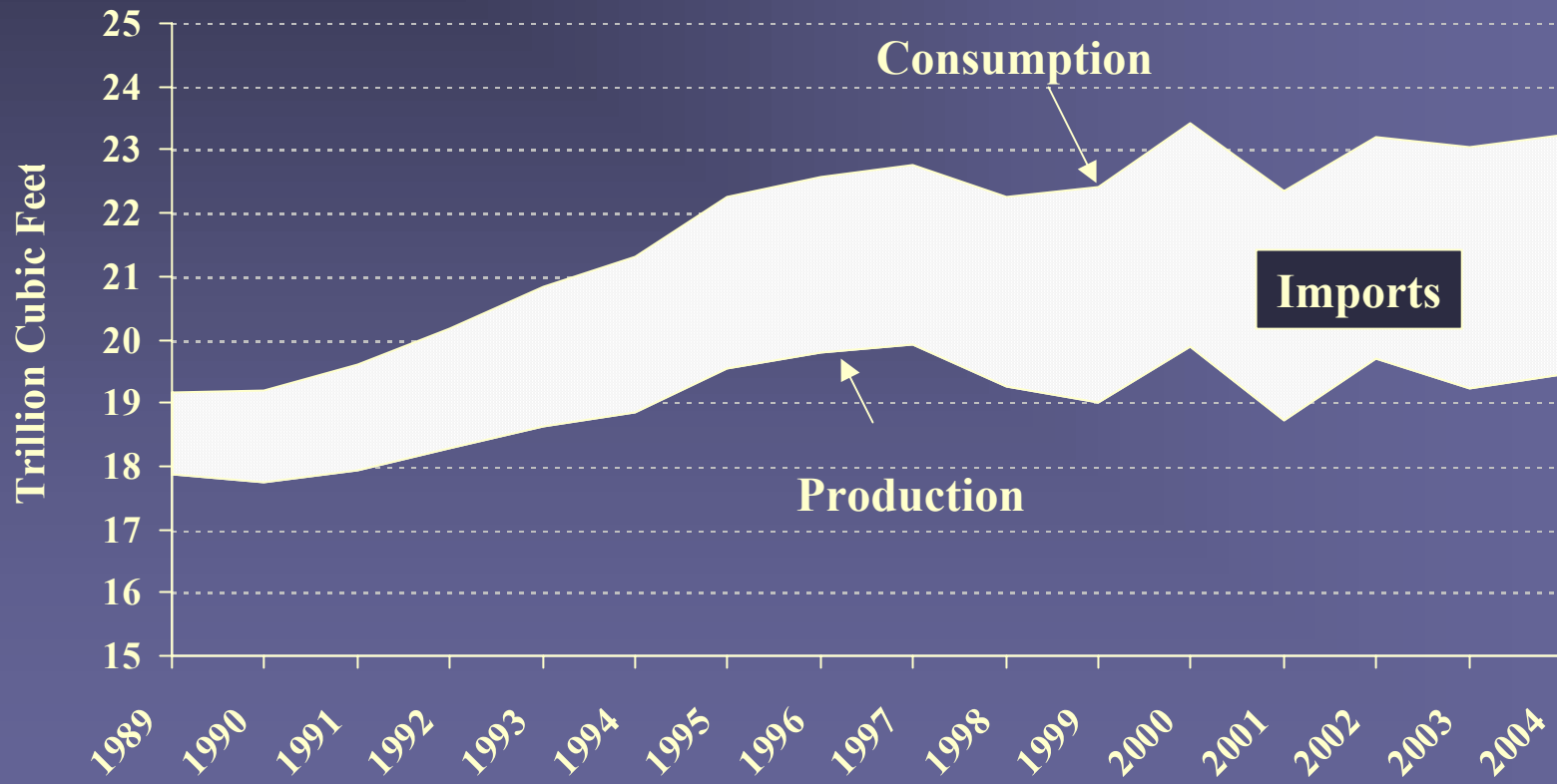


Source: American Gas Association

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

Supply Trends

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



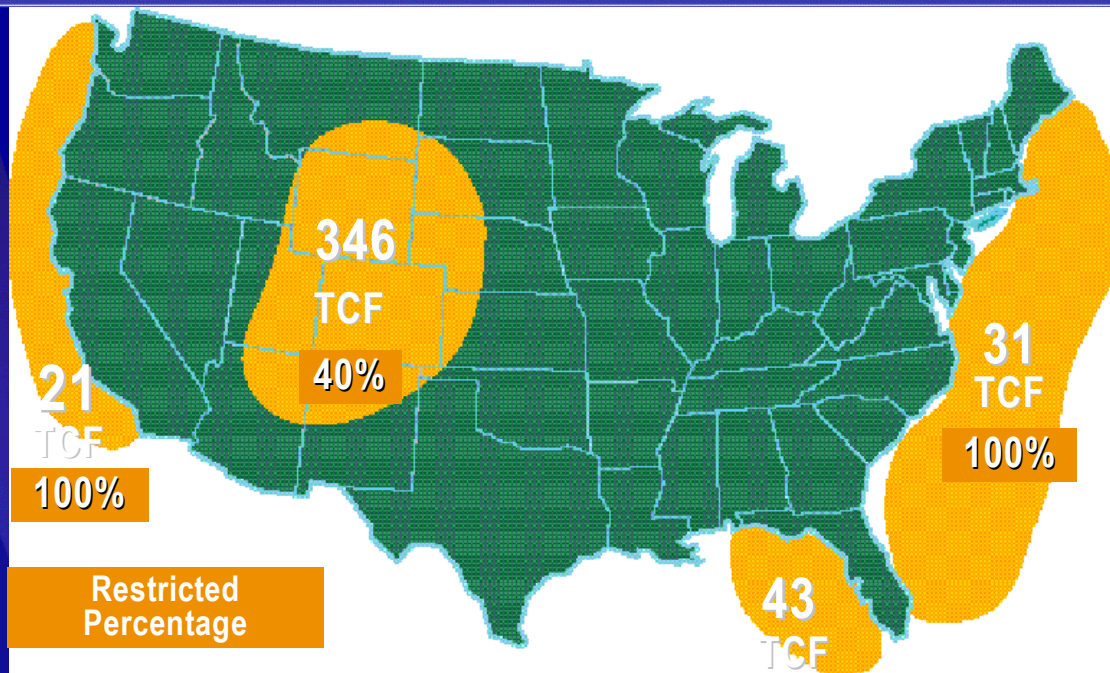
Supply Trends (Continued)

- 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
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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



* Approximately 29 TCF Of The Rockies Gas Resources Are Closed To Development And 108 TCF Are Available With Restrictions.

As of 2001

Total Restricted
233 TCF

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

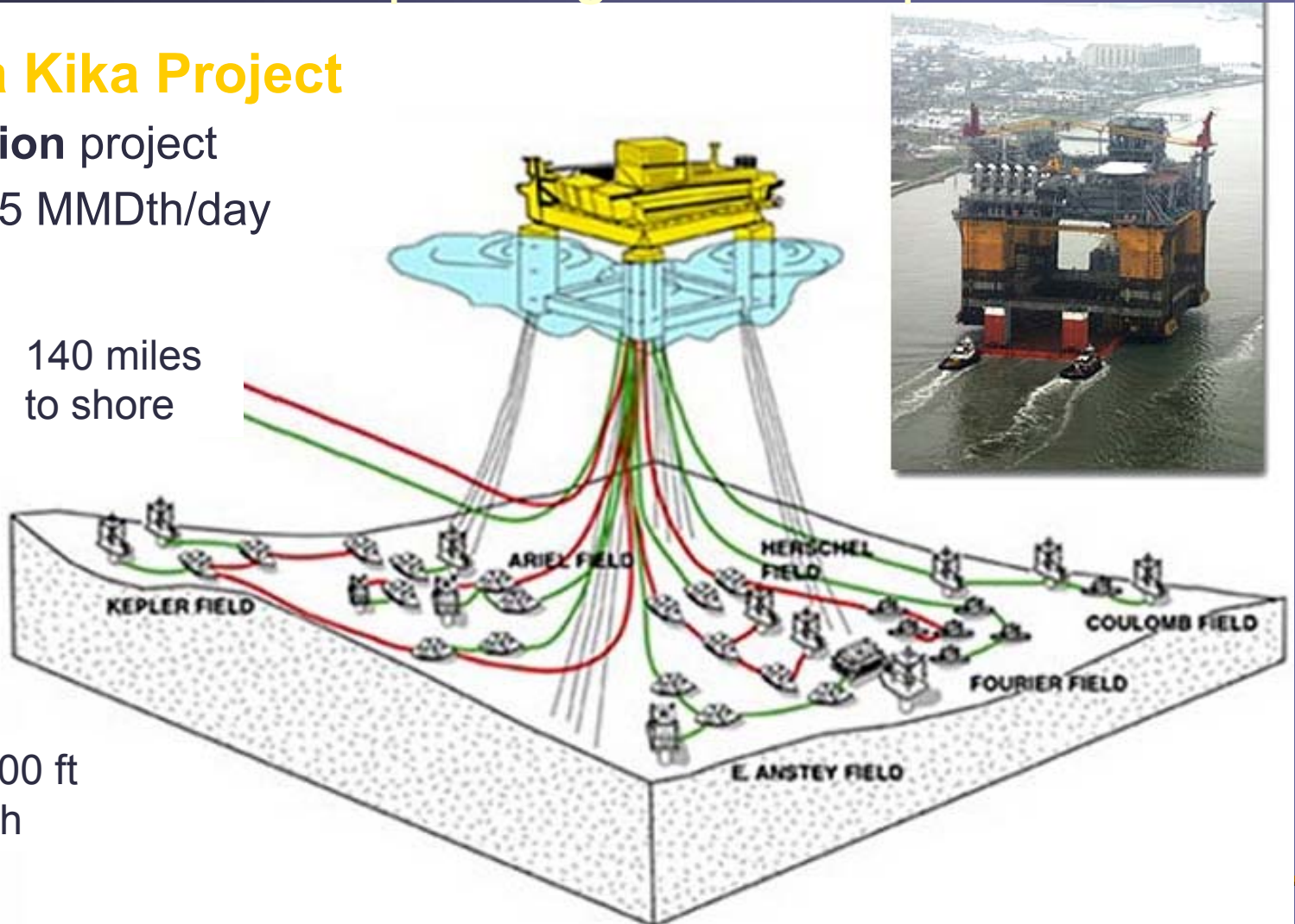
Proven Reserves
183 TCF

Supply Trends

- New finds still require significant capital

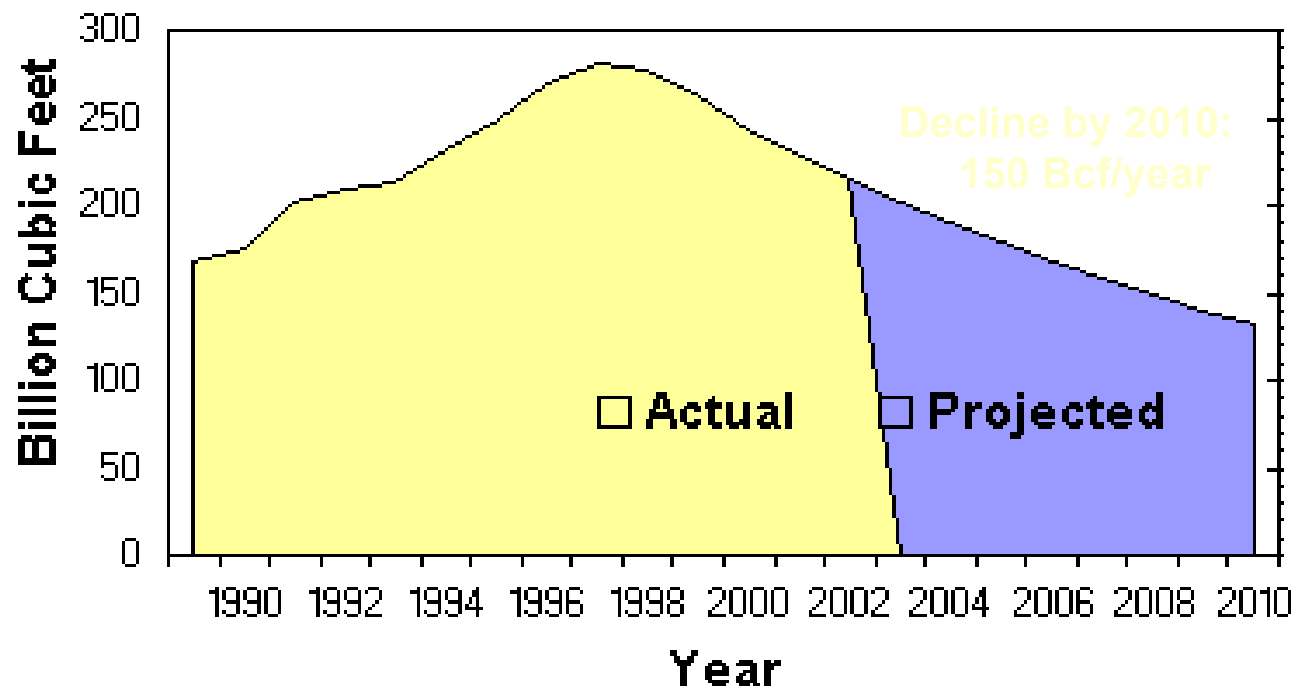
Shell Na Kika Project

- \$1.3 Billion project
- Up to 325 MMDth/day



Michigan Supply Trends

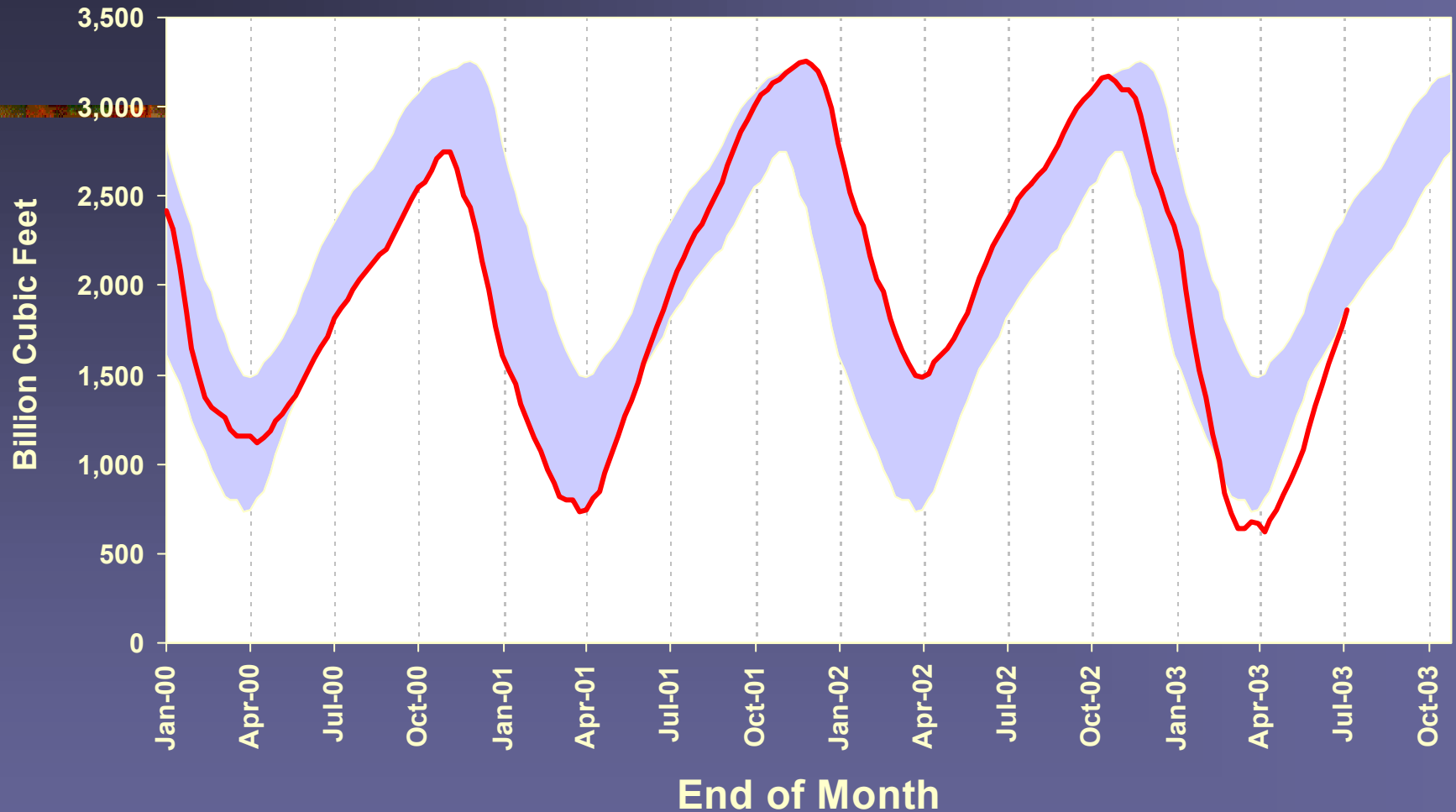
Michigan Natural Gas Production



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

Weekly Henry Hub Spot Price

Increasing price volatility over past three years

Unlike the previous price spike in 2000-2001, prices remain elevated .



Gas Cost Recovery Factors

■ Company	July 2002	July 2003
■ Aquila-MGU	4.17	6.08
■ Consumers Energy	3.66	5.183
■ Mich Con	4.38	4.97
■ Peninsular	3.50	6.12
■ SEMCO	3.828	6.035

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
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Residential Price of Natural Gas by State (December 2002)

dollars per thousand cubic feet

Illinois	\$6.84
Indiana	\$7.82
Michigan	\$6.04
Ohio	\$7.84
Wisconsin	\$8.02



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
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Other Planned Activities

- Community Outreach
 - Press Package
 - Web Page with Links to Sources of Information
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“Be WinterWise” Campaign

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

ENERGY BILLS
A PROBLEM?

BE WINTERWISE

1996 / 97



- Brochure-Information of available assistance
- Distribution-Bulk copies to consumer organizations
- PSAs-Radio, Television, Newspapers, Buses, Outdoor Signs

Campaign Costs

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%
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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
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