



Speakout: Overreliance on natural gas means higher bills

**By Greg Sopkin
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If you live in the Denver metro area, you may have noticed that over the past 12 months your natural gas bill increased about \$10 per month, and your electric bill about \$7.50. What you might not know is that these increases are likely only the beginning of a trend related to natural gas prices.

Many years ago, electric utilities and regulators decided that natural gas was the preferred new fuel to use in generating electricity. It now appears that increased demand coupled with supply inadequacy have made that decision shortsighted. Your higher electricity and gas bills are almost solely due to increased reliance on natural gas, and the conventional wisdom is that natural gas prices for the rest of the decade will be double the average for the last decade.

In the mid- to late 1990s, power companies had to build plants and/or contract with independent generation companies to meet increasing demand for electricity. Tighter environmental controls and substantial capital costs made the nation's No. 1 electric fuel source - coal - less economical. New nuclear power was politically impossible in the U.S. As a result, more natural gas-fired generation plants were built. At that time, natural gas prices were low and there seemed to be a plentiful supply of natural gas domestically. The upshot in Colorado is that natural gas generation increased from being less than 1 percent of Public Service Co.'s fuel energy mix in 1996 to about 25 percent now. And more gas-fired generation is coming on line soon.

Planners might have failed to take into account that utilities everywhere were turning to natural gas to generate electricity, which caused a nationwide spike in demand.

Today, while gas storage levels are down a third from the five-year average - partly due to a cold winter in parts of the country, but also because gas is being used more and more in the summer - demand for gas is increasing for electric generation. Despite the fact that gas price futures have recently increased to the \$5 to \$7 range, gas supply actually has decreased by 5 percent from last year, and is expected to decrease another 2 percent to 3 percent this year.

The reasons for this include investor skittishness after a 2001 price plummet, delays in getting drilling permits from the federal government, declining production from maturing fields, and the inability to drill on federally protected lands. Gas imports from Canada and Mexico are subsiding, and transporting any significant amounts of cryogenic, liquefied natural gas (the only way to transport it other than by pipeline) from other countries is both expensive and years away.

A hot summer could send natural gas prices even higher. While Colorado enjoys lower prices from nearby Wyoming and Colorado gas basins (often \$1.50 below other areas), that differential is waning due to increased pipeline capacity taking natural gas to higher-cost areas like California.

This makes for higher electricity and natural gas bills all year long. And the increased bills greatly affect large industrial and business customers which, in turn, takes a toll on the economy.

What to do? For starters, the federal government should promote greater supply by speeding up the drilling permit process and relaxing regulation of certain federal lands. Absent significant new supply, utilities should be backing off any plans to increase reliance on natural gas to generate electricity. In Colorado, we are fortunate to be neighbors to massive coal production in Wyoming (almost as large as all of Appalachia), and this is cleaner-burning coal than other deposits.

While coal plants are expensive to build, stable and cheap coal prices yield long-term benefits. New clean technologies can greatly reduce nitrogen oxide and sulfur dioxide emissions, and carbon dioxide controls are being developed for future use.

If total elimination of air pollution is the goal, nuclear plants (now being promoted in the federal energy bill) offer zero emissions, and newer pebble bed technology greatly diminishes safety concerns.

While wind power might offer some help at the margin, it cannot be a large portion of the energy mix because of the costs of backup generation (the wind does not always blow) and ancillary costs associated with dispatch and transmission. Finally, hydrogen-based fuel-cell technology is probably more than a decade away from being commercially viable.

Unfortunately, long-term solutions are just that - years away.

Here's hoping for a mild summer.

Greg Sopkin is the chairman of the Colorado Public Utilities Commission.