

American Public Gas Association
October 20, 2005
Federal Energy Regulatory Commission
Panel Discussion

Prepared Remarks of Al Bean

Introduction

I am Al Bean, Director of Gas Management at the Southeast Alabama Gas District (Southeast). Southeast is a member of the American Public Gas Association, which represents nearly 600 public gas systems in 36 states. This year I am also proud to serve as President of the Alabama Natural Gas Association (ANGA). ANGA represents about 70 member systems serving approximately 800,000 residential and commercial customers. Today, my comments will reflect the views of Southeast and APGA. I want to thank the Commissioners for asking me to participate on this panel.

The Southeast Alabama Gas District is located in Andalusia, Alabama and serves 32 communities in 16 counties in the southeast portion of the state. It has a transmission system 753 miles in length and a distribution system of 1219 miles. Southeast also owns a small amount of production. Our customer base is about 30,000 residential, commercial and industrial customers and our annual throughput is about 9 Bcf. Our primary function is that of a Local Distribution Company (LDC).

Extremely High Gas Prices

My purpose in speaking to you today is to give an overview of Southeast's concerns about the coming winter and our preparations. Our customers are extremely concerned about the coming winter. Your initial reaction might be that it does not get that cold in Alabama, but we have our share of degree days.

Just as all LDCs, we are the end of the natural gas industry chain. We match natural gas molecules with faces. And these are often the faces of the working poor and elderly. But all of our customers depend on gas to heat their homes and water and ultimately have to shoulder the burden of high gas prices. Right now and for the foreseeable future, gas prices are at unacceptable levels and our average consumer bill will increase 40% over last winter.

SEAGD Is Preparing for the Winter with an Active Hedging Program

To mitigate against drastic market moves, Southeast developed a formal hedging program nearly seven years ago. The program is managed in-house and overseen by our elected utility board. The program allows us to manage our price risk and smooth out wild swings in the natural gas market. I often explain that hedging takes a “saw tooth” price chart and turns it into a sine curve. I also emphasize that hedging is not magic and that some years our results are better than other years.

Approaches to hedging differ based on customer needs. For industrial customers, who generally buy natural gas if it costs less than substitute fuels, we can hedge based on market prices. For this winter, we reduced their price risk by nearly 50%. But residential customers’ demand is much harder to predict. Residential customers only turn us on for home heating and hot water. For this customer group our hedge strategy is to buy a percentage of projected needs at different times throughout the year. As winter approaches, we blend the purchased percentage with storage gas to establish a winter

weighted average cost of gas (WACOG). We always fix our price but give ourselves optionality in case the market price dives.

SEAGD Is Preparing for the Winter with Active Consumer Education and Outreach

Investor owned and public gas systems in Alabama are working together, through ANGA, to create a unified message for consumers. The focus of this message is the importance of conservation. We want customers to have the information they need to make a demand response *before* they receive unprecedented gas bills, so that the financial hit is less drastic.

APGA Members Are Very Concerned about this Winter and Unsure What Regulators Can Do To Remedy the Situation

You asked me to tell you what the Commission can do to help this winter. APGA was encouraged, at last week's Natural Gas Infrastructure conference, to hear that the Commission is planning to work closely with the Commodity Futures Trading Commission (CFTC). It is absolutely crucial to watch for instances of market manipulation. However, APGA is very concerned that the small window the law provides to the Commission and the CFTC does not let you examine the Over-the-Counter markets where manipulation may well occur.

In the short term, the most important help you can give the consumer is communication. Please use your access to Congress and this Administration to repeatedly remind lawmakers that *our country is in an energy crisis*. We must do

something to get gas prices down to a reasonable level. Hurricanes Katrina and Rita simply exacerbated an already intolerable situation. And if for some reason, the weather moderates and this winter is a less severe crisis, don't lose sight of the fact that the other shoe *will* drop – in a hot summer or in a hurricane cycle.

As well, in the short term, we ask that FERC, like any emergency responder, first does no harm. Don't let the crises of this winter result in hasty decisions on Gas Quality and Interchangeability. And do make sure that processors understand that my LDC cannot handle gas with a hydrocarbon dew point of thirty 30 degrees.

Thank you

Southeast is concerned about this winter. We expect it to be rough going but we will get through it. Thank you for asking APGA to participate today. I look forward to the panel discussion and to answering your questions.