

Another result of deregulation: natural gas prices soar in the US

By Gerardo Nebbia
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While the California electricity crisis has received the most national attention, utility rates are soaring across the nation as the effects of deregulation begin to be felt amid one of the coldest winters on record in many parts of the US. The cost of natural gas for homes—a preferred heating fuel in much of the country—is expected to rise by at least 70 percent across the nation according to the US Department of Energy.

In northern California average natural gas prices will jump \$125 this winter, a 62 percent climb from December and 150 percent more than 12 months ago. Coupled with a 9 percent increase in electricity rates, this means that a combined gas and electricity bill, which a year ago might have been \$105, will now approach \$185.

Electricity producers have blamed natural gas increases in part for the skyrocketing prices of electricity in California. Natural gas is used in many cases instead of oil and coal generation because it burns cleaner and because it was relatively inexpensive, up to now.

In Colorado on January 5 public utility commissioners rubber-stamped a request by XCEL Energy for a rate increase that will double the average home heating bill from \$73 to \$142 this month. This increase will bring in \$361.6 million to gas producers and distributors, the highest one-time increase in the state's history. The price rise, which took effect January 6, is estimated to affect 1 million customers. XCEL asked for and received a 40 percent rate increase in October 2000. It declared that this increase would allow it to recover \$115 million from users.

During their brief meeting the Colorado commissioners cynically argued that the higher rates would be a good way of making consumers conserve: "We have an opportunity here, as painful as it is, for

customers to learn a bit," said Commissioner Robert Hix.

The state's public schools are bracing for this next round of natural gas price hikes. More than a dozen Colorado school districts were informed last week that Western Natural Gas would no longer honor long-term low-cost contracts. "The price we would pay would be double," said Don Herman, chief operating officer of Mapleton schools, one of the affected districts. "We would see our energy costs skyrocket."

Herman says the gas price increase could eat up more than half the 5,000-student district's \$500,000 emergency fund. He says the price increases are especially challenging in an era when the district is trying to increase achievement by keeping buildings open longer for tutoring and other after-school programs. Craig Cook, the chief operating officer of the Denver School District, indicated that his district would take measures such as increasing class size and eliminating high school bus transportation to make up the shortfall.

Price hikes are taking affect throughout the country. In Wisconsin and Iowa natural gas prices are up 100 percent relative to January 2000. Natural gas is the preferred mode of home heating in the Midwestern states. This year a combination of cold winter temperatures and price increases will raise the average cost of heating a home to \$970 from \$540 last year.

In the Chicago area, protests by consumers took place in front of the Waukegan Public Library on January 6. "We need to send a strong message not only to Springfield [the state capital] but to Washington, that we will not take this anymore," said one protester. "[Regulators] need to anticipate situations like this. We shouldn't be caught in this situation."

North Chicago resident Oliver Washington, another

protester, had just received a bill for \$286, more than double the \$140 he paid last year. "Never in my wildest imagination did I think I'd have to pay that," he said. Chicago residents that earn less than \$1,300 a month can qualify for so-called relief on their utility bills, but this is really a short-term loan that spreads the cost of their winter bills over the entire year. Seventy-six percent of homes in Illinois are heated with natural gas. Other states affected are Utah and Indiana.

The latest utility crisis has little to do with low supplies of natural gas or electricity. The United States uses about 8 trillion cubic feet of natural gas a year, and has 1.9 trillion cubic feet stored, with reserves estimated at 164 trillion cubic feet. The crisis in natural gas is bound up with investment decisions driven by powerful corporate and financial interests. In the past the power of the utility giants was limited to an extent by the creation of municipal and state-owned public utilities and government regulation over private utilities.

The proponents of deregulation and privatization of natural gas and electricity reject even the most minor concessions to the public interest. They insist on the right to uncontrolled profits, making the dubious promise that market forces will, in the long run, insure adequate supplies. On this basis, California removed price regulations from electric utilities two years ago. Regulation over natural gas producers was lifted in most areas of the country 10 years ago.

The effect of these measures has been to place the decision to create new capacity entirely in the hands of the representatives of major stockholders. By the time that low levels of underground gas storage last summer raised concerns about the availability of winter supplies it was already too late. Wholesale natural gas prices more than tripled in one year, from \$2.30 per million British Thermal Units (BTUs) last January to about \$8.50 today.

The recent addition of a second gas pipeline from Alberta, Canada into the American Midwest was not able to prevent wholesale prices from increasing two and a half times from one winter to the next. Ironically, prices have also skyrocketed in that gas-producing province as wholesale producers seek more profitable opportunities in the US.

When all is said and done the US Department of Energy estimates that Americans will pay \$834 million

to heat their homes this year—\$300 million more than in 1999.

The human cost of these price hikes is already being felt as thousands of the working people and senior citizens on fixed incomes are being forced to choose between paying their electric and gas bills or other necessities such as medical care or food. In California a tight rental market for housing makes it possible for landlords to pass the entire increase on to their tenants, threatening many families with homelessness.

A survey of Iowa's 62,000 households receiving energy assistance showed that 20 percent of recipients postpone medical care to pay their utility bills. Another 12 percent cut back on food. Nearly 2,000 respondents said they shut off their hot water heaters to save money.

"We had an existing crisis that has been turned into a disaster by these current prices and colder weather," said Iowa energy assistance director Jerry McKim. "If you're living on \$9,000, you won't have your current heating bill retired before the next winter season."

That is just the beginning, the natural gas crisis is having an impact on industry as well. Fertilizer costs will shoot up, affecting agriculture. Other electricity and natural gas dependent industries—such as electronics, aerospace, aluminum and steel production—will end up laying off thousands, raising prices, or both.

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