Written Testimony by Planalytics, Inc.

Presented on September 18, 2003 for the Pennsylvania Public Utility Commission's Special Hearing on Natural Gas Price Increases

"On Mitigating Natural Gas Price Volatility and how this price volatility adversely affects Pennsylvania ratepayers"

Summary:
It is Planalytics' contention that natural gas price volatility causes Pennsylvania's ratepayers to pay more for their natural gas than they have to. It is Planalytics' intention to help educate LDC's and Regulators on how to understand what causes this volatility and how to take mutually agreed upon, pro-active measures to mitigate this volatility - for the benefit of Pennsylvania's ratepayers.

This education by Planalytics to Regulators and LDC's has been on-going and has resulted in natural gas utilities across the country protecting ratepayers from huge price swings while at the same time saving millions of dollars. In a recent survey conducted by the American Gas Association, 70% of respondents stated between 65% and 100% of their gas needs are purchased using 1st of the month pricing. Historically this may have been acceptable but in today’s uncertain climate, with 1st of the month volatility often exceeding 100%, this is no longer the case.

While it is no surprise to anyone to hear that natural gas prices have fluctuated dramatically over the past three years, it is surprising how few natural gas utilities have implemented proactive hedging programs to help their customers avoid these huge price swings. And thus the reason that everyone is in this room here today.

In today’s market there is one certainty - that natural gas price volatility is here to stay. The Planalytics GasBuyer is just one method of hedging natural gas prices and volatility and one that has proven successful for the numerous utilities that have employed it (and the commissions that have approved it). The hurdle that many LDC's face in implementing this program is the fear of potential disallowances. On this topic, Planalytics is in agreement with Ken Costello, Senior Institute Economist of the National Regulatory Research Institute, in his recent paper titled "Should Commissions Pre-Approve a Gas Utility's Hedging Activities?" (see Exhibit A).

From Planalytics Energy's viewpoint, the goal of stabilizing prices is to get natural gas utilities and regulatory groups together to discuss and agree on a formalized hedging program allowing for enough lead time that the hedging program will have a chance for success. While no one hedging program can guarantee to achieve the lowest possible price at all times, it is a safe bet that by doing nothing, both the regulators and LDC's will guarantee themselves more attention from disgruntled ratepayers. There is a middle ground that some LDC's and regulators have reached for the benefit of ratepayers. It is not hard; it just takes hard working people with the right interests in mind.

Thank you for allowing us to be part of this important topic and we invite any inquiries to learn more on how Planalytics can help Pennsylvania LDC's reduce volatile natural gas prices while achieving stabilized, ratable prices for their natural gas ratepayers.

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