

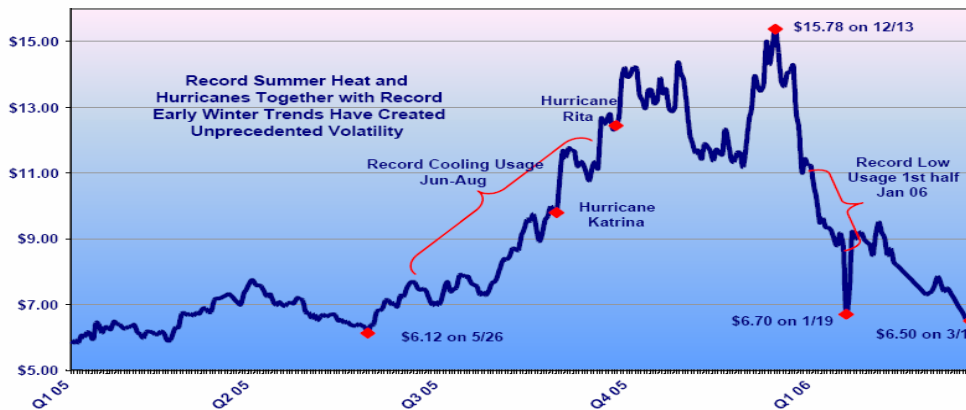
Tips on Purchasing Your Natural Gas

by Larry Anderson

While Michigan's electric markets have become uncompetitive, the Customer Choice natural gas market is robust and very competitive. Virtually anyone, whether they are a small industrial, commercial, or residential user can participate in their utility's Customer Choice program. Today, there are approximately 12 companies offering natural gas supplies (as an alternative to purchasing from your utility) and the products are varied in contract terms and prices. To find out who is serving your market, go to www.michigan.gov/mpsc and click on "Natural Gas," then click on "Customer Choice Program," and click on the name of the utility where your business is located. Here, you will find a list of companies with phone numbers and web sites for getting price quotes. Here are a few more facts you may want to know:

Fundamentals Affecting Natural Gas

The chart below shows that natural gas prices are volatile and affected by fundamental and technical factors. Fundamental factors are hot summers increasing air conditioning usage, cold winters increasing heating usage, and hurricanes that can disrupt and even destroy natural gas platforms and pipelines. Ironically, history shows us that natural gas prices are often lowest during a winter with a warm month.



Price Offers—Currently, marketing companies offer either a fixed price for price certainty (something your utility can't), or a variable price that changes month-to-month and is expected to compete with your utility's pricing. Fixed prices are offered with 1-5 year contract terms. A fixed price gives you price certainty and helps you avoid any upsets affecting natural gas prices, such as hurricanes or even geopolitical events that can impact the markets. A fixed price may have a nominal contract cancellation fee if you cancel. This is usually the marketer's attempt to recoup any hedging costs in place for your facilities should you exit the contract early. When purchasing a variable price there shouldn't be a

cancellation fee because there aren't any hedging costs involved. A variable price expects to beat—but does not promise to beat—the utility's current rate.

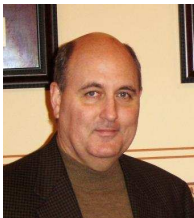
Service—If you switch to an alternative supplier, the only change in your service will be seeing your new supplier's name on your utility bill and their price of gas to you. All other service-related issues prior to switching to an alternative supplier still remain the utility's legal obligation.

Regulation—The Michigan Public Service Commission currently oversees every marketer selling within Michigan's Customer Choice Programs. It does not regulate the prices they offer—as it does with Michigan's utilities—but they do ensure each marketer has an office in Michigan, they post a surety bond with them, notify you by letter within 7 days of an oral agreement, and allow a 30 day cancellation period if you change your mind prior to beginning the contract.

Forecast—Natural gas prices are expected to remain strong and exposed to geopolitical and weather events, so it might be time to look at a Customer Choice Agreement. Currently, natural gas prices at the Henry Hub (Louisiana pricing point for all gas in North America) are as follows:

Term	Price per MMbtu
1 month	\$7.21
3 months	\$7.34
6 months	\$7.54
1 year	\$8.26

In addition to these prices, there is additional pricing for transporting the gas to Michigan, usually something around \$0.30 depending on the market conditions at the time. The market is expected to weaken slightly over the next month or so. However, it would be very unusual for it to sell off significantly given questions surrounding this upcoming summer's air conditioning load and the potential for hurricanes. Should the summer be mild and hurricanes negligible, expect prices to drop further in October.



This article was written by BOMA Detroit member Larry Anderson. Larry has 20 years of experience in the natural gas industry, and is Director of Gas Supply for Volunteer Energy Services, Inc. Larry can answer any further questions by calling 248-465-6065.