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October 27, 2005

The Honorable Joseph T. Kelliher
Chairman
Federal Energy Regulatory Commission
888 First Street, NE
Washington, D.C. 20426

Re: Volatile Natural Gas Prices

Chairman Kelliher:

We are gratified to see the proactive actions recently taken in conjunction with the Commodity Futures Trading Commission (“CFTC”) to bolster confidence and ensure integrity in natural gas market actions during this critical environment. We applaud your outreach with state regulators as we all strive to oversee our mutual public responsibility. While oversight to eliminate market manipulation is a serious consideration for all of us, additional questions regarding market actions have arisen in our hearings to which we direct your attention.

The largest single use of natural gas in Nevada is electric generation. Between now and 2008, it is estimated that electric generation’s consumption will increase approximately twenty-five percent. Nevada has no natural gas production or storage. Existing interstate pipeline capacity is adequate to meet existing demand. Nevada’s electric and natural gas utilities are being impacted by the current volatility and increase in natural gas prices. This results in proposed fuel cost adjustment increases of forty to fifty percent with the potential of even higher increases in the near future. At consumer sessions held as part of fuel cost adjustment hearings, customers are puzzled by the parallel increases in natural gas prices to oil prices. They are also puzzled by the rapidly rising natural gas prices since, prior to the hurricanes there was no apparent shortage of natural gas.

The Public Utilities Commission of Nevada (“PUCN”) has questioned the electric and gas companies’ expert witnesses on the above questions regarding the reasons for such increases in natural gas prices. The experts believe, without offering analysis or other supporting evidence, that the interchangeability of oil and natural gas may be part of the answer as to why prices between the two commodities are tracking. They also believe, again without support, that

if there was unfettered speculative activity by persons, companies, or hedge funds in natural gas trading, it would have very little effect on prices because of arbitrage.

The PUCN is not satisfied with these answers for pre-storm natural gas price increases for the following reasons. First, fuel switching capability has greatly diminished. Second, it is unclear which entities are involved and to what extent speculation in trading activities or the commodity futures trading markets are negatively impacting wholesale natural gas prices. People are questioning the trends and the volatility of natural gas prices. Replies of “market activity” and “set by the market” have not satisfied their skepticism.

The impact of rising natural gas prices is of great consequence to the state of Nevada, its economy, its visitors and citizens. Because of this, the PUCN is formally requesting that the Division of Market Oversight review the impact of speculation on natural gas prices as well as the apparent parallel relationship between natural gas and oil price movements. The PUCN requests that FERC Staff share the data and conclusions of its review with the PUCN.

We appreciate your timely attention to this serious matter.

The Public Utilities Commission of Nevada:

Donald L. Soderberg, Chairman

Carl B. Linvill, Commissioner

Jo Ann P. Kelly, Commissioner

cc: Nora Mead Brownell, Commissioner
Suedeem G. Kelly, Commissioner