



Highlights of GAO-03-46, a report to congressional committees and members of Congress.

Why GAO Did This Study

During the winter of 2000-2001, the wholesale price of natural gas peaked at a level four times greater than its usual level. Responding to the congressional interest and concern caused by these high prices, GAO undertook a study to address the (1) factors that influence natural gas price volatility and the high prices of 2000-2001; (2) federal government's role in ensuring that natural gas prices are determined in a competitive, informed marketplace; and (3) choices available to gas utility companies that want to mitigate the effects of price spikes on their residential customers. GAO surveyed a nationwide sample of gas utilities and staff of state utility regulatory agencies.

www.gao.gov/cgi-bin/getrpt?GAO-03-46.

To view the full report, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841.

NATURAL GAS

Analysis of Changes in Market Price

What GAO Found

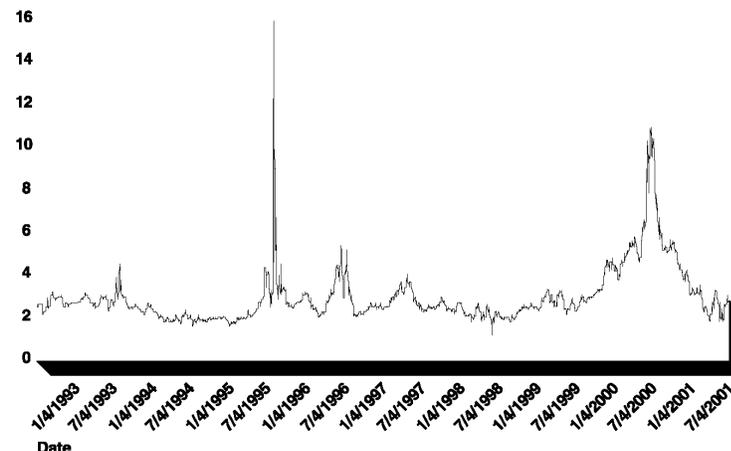
Price spikes occur periodically in natural gas markets because supplies cannot quickly adjust to demand changes. In 2000-2001 for example, natural gas supplies were constrained and demand skyrocketed, leading to the perfect environment for the price spike shown below. While market forces make natural gas prices susceptible to price volatility, investigations are underway to determine if natural gas prices were manipulated in the Western United States during the winter of 2000-2001.

Federal agencies face major challenges in ensuring that natural gas prices are determined in a competitive and informed marketplace. The Federal Energy Regulatory Commission lacks an adequate regulatory and oversight approach and is reviewing its statutory authority and market monitoring tools. The Commodity Futures Trading Commission does not have regulatory authority for over-the-counter derivatives markets. It does have antimanipulation authority and is currently investigating what role, if any, these markets played in the natural gas price spike of 2000-2001. Finally, the Energy Information Administration has an outdated natural gas data collection program, but has made efforts to reassess its data needs to provide more useful information.

Gas utility companies can protect their residential customers against price spikes such as the one that occurred in 2000-2001. For example, using various hedging techniques, utilities can lock in prices for future gas purchases. Continuing volatility in natural gas prices, especially the price spike of 2000-2001, has increased the importance of price stability for gas utility companies. Agencies that commented on this report generally agreed with its conclusions.

Natural Gas Wholesale Prices (adjusted to 2001 dollars)

\$18 Price per mmBtu



Source: GAO analysis of industrv data.