

Consumer Prices

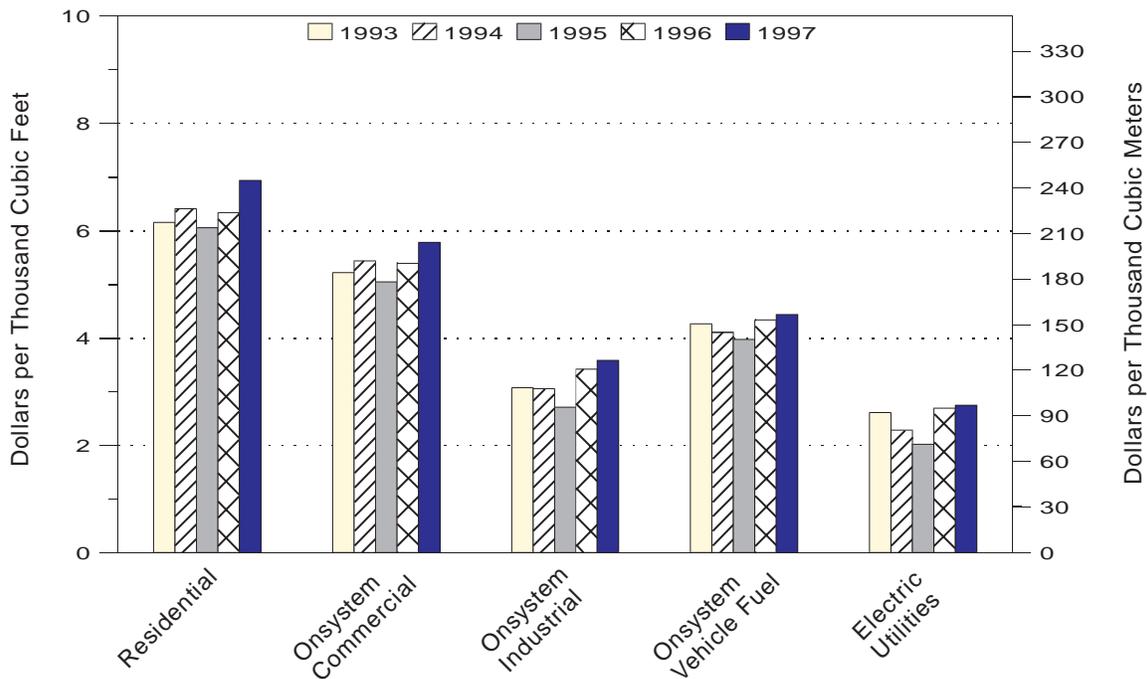
During 1997, the price of natural gas rose at the city gate and in all consuming sectors. Following the trend in prices at the wellhead, prices for sales to the industrial and electric utility sectors increased substantially from 1995 to 1996, but much more modestly from 1996 to 1997. Among the onsystem sales customers, industrials and electric utilities are large volume customers with relatively high load factors which enable them to take advantage of economies of scale in purchases. They also are in a better position to elect whether to stay with their local distribution company (LDC) or seek supplies from alternate sources. These factors result in prices that are highly responsive to fluctuations in wellhead prices.

By contrast, the increase in price paid for deliveries to the residential sector from 1996 to 1997 was larger than the increase from 1995 to 1996. In the commercial sector, the

percentage increase in price was about the same in each time period. These consumers pay higher prices for gas than industrial and electric utility consumers because they have fewer options for service and require high quality service during periods of peak demand. Also they may be paying an increasing share of the fixed costs of long distance transportation and local distribution as more customers choose to purchase gas from third parties in place of LDC's.

The natural gas bills received by residential users often reflect a long-term average of their costs, in order to cushion the impact of sharp increases in wellhead prices. The relatively smaller increase in the average residential price for the year 1996 (28 cents) compared with 1997 (60 cents) may reflect the shifting of the impact of rising wellhead prices from 1996 to 1997 as a result of this common billing practice.

Figure 13. Average Price of Natural Gas Delivered to Consumers in the United States, 1993-1997



Note: Onsystem sales deliveries represent 77.4 percent of commercial deliveries, 19.9 percent of industrial deliveries, and 93.9 percent of vehicle fuel deliveries in 1997.

Sources: Energy Information Administration (EIA), Form EIA-176, "Annual Report of Natural and Supplemental Gas Supply and Disposition" and Federal Energy Regulatory Commission (FERC), Form FERC-423, "Monthly Report of Cost and Quality of Fuels for Electric Plants."