

# the Pilot

A newsletter for customers  
of Clearwater Gas System

FALL 2005

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**Closeout Savings**

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# Natural Gas and Crude Oil Prices

By Brian Langille, Technology and Supply Engineer

*Due to questions regarding the restoration of full natural gas production in the Gulf of Mexico, all Florida electric customers have been asked to conserve energy. This electricity conservation alert does not directly affect natural gas customers since residential and commercial end-users have first priority to receive natural gas supply, followed by industrial users, and finally, electric generation plants. However, natural gas customers will notice an increase in the purchased gas adjustment portion of their natural gas bills due to increased natural gas commodity prices. Clearwater Gas makes no profit on commodity prices, but passes them along to customers. The article below explains the ABCs of purchasing and supplying natural gas energy.*

### A new era for gas prices.

Just seven years ago this country was experiencing a boom in oil and natural gas supplies. There appeared to be plenty to go around, and the price reflected this seemingly adequate supply. Crude oil was trading below \$20 per barrel and natural gas was around \$2 per million Btu (MMBtu). However, times have changed dramatically. Since 1998, demand for oil and natural gas has been increasing at a fast rate and production has had a difficult time keeping up. This imbalance in demand and supply was further aggravated with Hurricane Ivan in 2004 and just recently with the damage caused by Hurricane Katrina to Gulf coast gathering and production facilities. Our volatile weather has proved that any supply disruptions can have a major impact on energy pricing. As a result, crude oil peaked over \$70 (+250% increase) and natural gas topped the \$12 level (+500% increase) due to Katrina. These price increases are a result of production "shut-ins" from oil and gas platforms, which will take months for all to come on-line again.

### Why is Natural Gas tracking crude oil?

Another major factor affecting the price of natural gas is crude oil. Most of the natural gas supplies are produced domestically, however, our dependence on foreign supplies is increasing each year. Increased imports of liquefied natural gas (LNG) into the U.S. are supporting our growing demand. LNG enters this country on large ships from production areas such as Algeria, Trinidad and Qatar. The U.S. must bid on these LNG supplies

along with other countries. If other areas of the world are willing to pay higher prices, then the LNG is shipped there. Also, many of these LNG price contracts are tied to a crude oil-based index, which further increases the price relationship between crude oil and natural gas. Therefore, if crude oil increases, then the cost of LNG imports increase, which will put pressure on our domestic supply to do the same.

### What does the future hold?

Over the past summer natural gas prices have reached all time highs. The Energy Information Administration (EIA) predicts that natural gas prices will average \$8.42 per MMBtu for 2006, which is about \$0.40 lower than the projected 2005 price. However, this is still higher than the 2004 average of \$6.06. Industry experts expect prices to remain high for the next year, or possibly longer, taking into account the influences of increased energy demand by developing countries and growing economies, and the limitation placed on supply by weather-related disruptions, global political factors, and environmental concerns. This forecast is one good reason to start budgeting for higher fuel costs and plan ahead so you can secure your future energy consumption requirements.

*Clearwater Gas joins with other public gas systems to purchase gas at the most advantageous prices. We follow a strategy that includes a mixture of both long-term contracts and short-term purchases with a variety of suppliers and producers designed to attenuate the volatility of commodity market prices.*

# A Look at Natural Gas Supply and Consumption

By Chuck Warrington, Managing Director and Executive Officer

Today's unprecedented high fuel prices are forcing Americans into an energy crisis, which is being accentuated by recent Hurricane damage to the Gulf production facilities. As a result, prices have increased as demand exceeds supply for oil, natural gas, gasoline and electricity.

Clearwater Gas System (CGS) has not experienced any shortages of natural gas, but the gas supply prices are at historical levels. In October, we increased our standard Purchased Gas Adjustment (PGA) which will increase our typical residential customer's bill by 26% this fall and winter. This is higher than we would like, but falls short of the 50 – 71% increases that have been projected nationally.

So, what should you know about our PGA, and what are we doing about it?

- While it won't help ease the burden of higher prices, customers should know that Clearwater Gas does not make a profit from gas price increases. Increased commodity costs are passed along to our customers with no markup.
- Beyond the typical cost advantage, our customers usually purchase gas appliances based upon their "life style" benefits. Gas heats faster, controls heat better, provides more hot water, is more reliable, and is the basis for many of our customer's gas buying decisions.

- We are buying our gas supply smarter and more aggressively in order to control the volatility to hopefully reduce the overall cost to our customers. The results over the last 21 months (since 1/1/04) show that we have held our PGA increases to 34¢/therm, while the gas supply market swung wildly over this period. We were able to dampen the effect of our gas supply market volatility to our customers by nearly 70%. That's our job to buy smartly and use our PGA tools to reduce the effect on our customers. Some of the tools that we use to control volatility and hold down gas cost include:

- Utilizing a gas buying agent, FloridaGas Utility (FGU), that purchases gas for 23 publicly-owned gas and electric utilities in Florida and manages the transmission flow of our gas supply.
- Buying fixed price gas strips to fix the price of a quantity of gas for a specified time period.
- Using complex financial tools to hedge portions of our gas

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Customers should know that Clearwater Gas makes no profit from natural gas price increases.

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- Purchasing segments of gas on a monthly spring summer futures basis.
  - Joining the group, Public Gas Partners (PGP), who are purchasing a mutual fund of gas wells, which will ultimately provide about 15% of our gas supply for the next 20 years.
- Working with FGU to buy prepaid contracts for about 15-20% of our supply to take the combined advantage of long term purchasing and the use of municipal tax free bonds.

We are also advocating for more gas supply availability via participation within various national gas organizations, that are aggressively seeking federal energy legislation for additional exploration opportunities. Florida's Eastern Gulf waters, are the key battleground in this national energy legislation.

We could possibly reduce our energy costs, and reduce our energy dependence on foreign governments and cartels, if future energy prospecting included drilling

off our coast and accessing the mineral rights royalties (100-125 mile zone off our coast). As a matter of fact several of our key Florida congress members have indicated that they are in favor of Outer Continental Shelf (OCS) exploration.

However, we have a long way to go to make this a reality. America simply can't wait for Liquefied Natural Gas (LNG) importation to grow and for gas to come from the north slope of Alaska.

Both are very important in the longer-term, but near-term solutions lie within reach of our current technology. For example tapping into OCS areas while maintaining reasonable environmental controls. We believe that America can no longer ignore the resources in the Gulf of Mexico while our nation is strapped with the highest energy costs in the industrialized world, which impacts the life-style and economy of our customers.

In summary, gas remains the most reliable energy source and is still 23% cheaper than electric for most residential applications. At Clearwater Gas, it is our goal to deliver safe, reliable, and stable natural gas pricing to our customers for their homes and businesses. That's our commitment to you — our valued customer.

Thank you for choosing to be our customer.



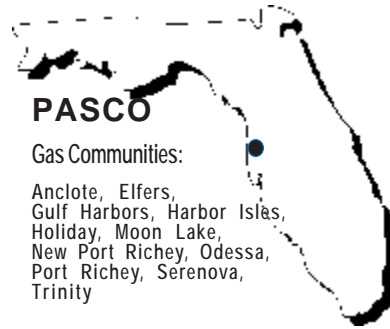
# Pioneers of the Future

Often referred to as the “Nature Coast,” or the “Gateway to Tropical Florida,” Pasco County ranks as the seventh fastest growing county in Florida. Formed in 1887, Pasco was named after a Florida senator and statesman, Samuel Pasco. Pasco County, an area that once served as a retreat for stars of the silent film era, is now the site of rapid growth in the greater Tampa Bay region.

During the early days, Pasco's fertile soil and large tracts of open acreage along with numerous citrus groves and cattle ranches were the basis for an agrarian economy. Today, Pasco County is home to an array of business services such as electronics, health management, metal fabrication, optics, plastics, and medical instrumentation. Clearwater Gas is excited to serve the residents and businesses of this burgeoning county.

With a team of dedicated employees, and a goal to assist in the challenges of growth, Clearwater Gas opened its doors in Pasco in 1996 on US 19 North. Clearwater Gas provides natural and propane gas service to residents and businesses in the areas of New Port Richey, Port Richey, Anclote, Elfers, Gulf Harbors, Harbor Isles, Holiday, Moon Lake, Odessa, Seronova and Trinity. Clearwater Gas service territory spans 117 square

miles and extends from the Gulf of Mexico in the west, inland about 10 miles, to the west of State Road 41 and Land O'Lakes and from the Pinellas and Hillsborough County lines on the south to State Road 52 on the north.



As Clearwater Gas marks our tenth anniversary in Pasco County, our presence has grown substantially. We currently serve some 2,200 customers, quite an increase from the 400 accounts we served in 1996.

Clearwater Gas faces constant challenges in keeping up with growth. Florida's warm weather pattern, while excellent to live in, provides little opportunity for a large heating load. However, an aggressive strategic plan helps to guide our growth potential while adding new gas markets. Most

notably, Clearwater Gas recently signed an agreement with TECO Peoples Gas that will add approximately 8,000 new customers over the next 10-15 years. In the agreement, Clearwater Gas acquired new territory in Central Pasco County, allowing the company to provide natural gas service to the fast growing Land O' Lakes area.

Clearwater Gas, in business since 1923, is continuing its journey of providing energy in the most safe, reliable, and economical manner possible, providing quality service to customers and helping to build our region.

## Beach Interconnect System Passes First Test

In April, Clearwater Gas completed the final phase of construction of the second fully automatic, natural gas distribution interconnect station in Redington Beach. The interconnect station ties our system with neighboring TECO/Peoples Gas to provide each system with redundancy of supply in case either system experiences a loss of pressure from a dig-in or other event.

The value of the interconnect was proved on June 16<sup>th</sup> when a third party excavator dug-in to a Clearwater Gas 4-inch main that serves the communities of Redington Beach and Indian Shores. Despite the loss of pressure caused by the damage, the interconnect worked as intended, maintaining pressure so our customers did not



The CGS Redington Beach interconnect facility supports service to natural gas customers during low pressure situations.

experience any loss of service while Clearwater Gas crews completed repairs.

On average, Clearwater Gas customers are interrupted less than 30 seconds per year, a 99.999% service reliability rate.

“The interconnect installation is a perfect example of system improvements made by Clearwater Gas to assure reliable natural gas service delivery to our customers,” stated Tom Sewell, Operations Director for Clearwater Gas.

At Clearwater Gas we are proud of our record of service reliability and will continue our efforts to provide the safe, reliable gas service that customers have come to expect from their hometown energy provider.

# Clearwater Gas Receives National Safety Award

Clearwater Gas System was presented the 2005 Safety Management Excellence Award during the American Public Gas Association's (APGA) annual meeting on August 3, 2005 in Halifax, Nova Scotia. The award is presented to member gas companies that exemplify performance excellence in safety management and development of effective safety programs.

Clearwater Gas System was selected over several other member systems for its Third Party Damage Collection and the Natural and Propane Gas Fire Department Training Programs. The success of both safety programs has minimized facility damage and reduced customer outages while eliminating the risk of personal injury to employees, customers and the general public.

"Our Operations Department, led by Tom Sewell, Operations Director, has

developed an aggressive process to pursue third party damage claims. This process has positively impacted our service reliability and safety record. "I am extremely proud of Tom's efforts and our employees who willingly respond to emergencies that have the potential to affect the safety of our customers and the general public," said Chuck Warrington, Managing Director of Clearwater Gas.

Over the past nine years, Clearwater Gas has achieved a 59% collection rate for third party damage claims, aggressively pursuing damage recovery from contractors and individuals who damage underground gas facilities. Clearwater Gas was also recognized for the organizational development and implementation of the "first responder" training course that prepares fire officials throughout its 330 square mile service territory on how to respond to gas emergencies.



As your community energy partner, Clearwater Gas is committed to maintaining the highest safety standards. We routinely inspect and maintain over 700 miles of gas lines in our service territory. Our team of trained and dedicated professionals respond quickly and effectively to any gas emergency within our service territory.

As a safety reminder, Clearwater Gas urges customers to call Sunshine State One Call at (800) 432-4770 at least two full days prior to digging so that utilities may mark any underground facilities. Failure to call is punishable by a minimum fine of \$250 to the homeowner or contractor.

*For complete information on the Underground Facility Damage Prevention and Safety Act, please visit [www.callsunshine.com](http://www.callsunshine.com) on the internet.*

## Managing Director elected FNGA President

Clearwater Gas Managing Director and Executive Officer, Chuck Warrington, was elected President of the Florida Natural Gas Association (FNGA) for 2005-2007 at the FNGA annual convention held in Palm Beach on June 22-24. FNGA is a natural gas industry association whose mission is to advance and promote the sale of natural gas, natural gas appliances and related services in Florida. FNGA members include natural gas utilities, transportation pipelines and vendors in the State of Florida.

Warrington has served as the chairman of the American Public Gas Association, the Florida Municipal Natural Gas Association and the Tampa Bay Chapter of the Florida Engineering Society. He currently serves on the board of directors of the Clearwater Chamber of Commerce and the United Way of Tampa Bay.



# Call the Professionals when Adding New Gas Appliances

By Mike Deegan, South Operations Supervisor

According to the American Public Gas Association approximately 24% of homeowners and businesses use natural gas for its reliability, comfort and convenience.

For homes and businesses, from heating water to cooking meals, gas energy is one of the most reliable fuels available. However, it's vitally important that homeowners and business owners safely operate natural gas appliances by following all safety precautions, including the procedure of adding appliances to existing gas loads.

Whenever making a modification such as additional piping or adding gas appliances to an existing gas account, customers need to notify the professionals at Clearwater Gas. The notification alerts Clearwater Gas to visit your location and review the newly added appliance/piping system to insure compliance with applicable safety regulations and gas codes. An inspection by a licensed gas technician may also indicate a reduction in the gas flow and gas pressure regulation, which can create additional demand on a system that is already fully maximized.

A simple comparison to a residential electric service would involve adding electric appliances beyond the wiring sizing/design capacity. The substandard electric distribution system may work temporarily, but may eventually overload the system. Similarly, the use of extension cords may also create resistance and heat, possibly leading to a structural fire.

During the initial gas equipment installation, the gas technician regulates the gas pressure according to meter size and appliance demand. Any alteration to the customer's existing system may require a modification

to our utility metering and pressure regulator system. As a compliance measure, all gas regulators are designed to reduce the distribution pressure from the meter to the piping system with the help of an orifice that maintains a predetermined Cubic Foot per Hour (CFH); allowing the maximum flow rate capacity through the gas meter. As the gas exits the meter and flows through the piping system, it travels to each appliance on separate gas demands, while maintaining a constant pipeline pressure.

For your safety, Clearwater Gas urges customers to call us when adding appliances to current gas systems. If Clearwater Gas is not contacted, a potentially harmful situation may occur causing gas starvation, too much demand and not enough gas supply pressure available. As a result, unsafe conditions may develop, creating hazardous situations such as pilot light extinguishment, erratic appliance performance, incomplete combustion, and the "yellow-tipping" of appliance burners. These conditions can cause the production of Carbon Monoxide (CO), presenting a life-threatening situation.

Keep it safe, when adding gas appliances. Call Clearwater Gas at (727) 669-1958 to make the required meter/regulator upgrades to ensure that you operate a safe and reliable natural gas system.

*All gas appliances and their applicable supplying pipe systems are designed and engineered for optimum safety, performance and efficiency. For your safety, please operate all appliances in accordance with the manufacturer's instructions.*

## contact US

**Gas Sales Showroom**  
(727) 669-1958, Clearwater  
(727) 816-1253, Pasco

**Service and Repair**  
(727) 562-4900, ext. 7419

**Clearwater Customer Service**  
(727) 562-4600

**24-Hour Emergency Line**  
(727) 462-6633

Send your e-mail inquiries to:  
[chris.thorn@clearwatergas.com](mailto:chris.thorn@clearwatergas.com)

**Executive Editor**  
Jim Geary

**Managing Editors**  
Kristi Cheatham  
Chris Thorn

**Editor**  
Lisa Brown

**Website:**  
[www.clearwatergas.com](http://www.clearwatergas.com)

## gas industry news

### ***Vision 21 - the ultimate power Plant concept***

By 2015, the Department of Energy's Office of Fossil Energy plans to develop a fleet of fuel-flexible, multi-product energy plants that boost power efficiencies to 60+ percent, emit virtually no pollutants, and with carbon sequestration releases minimal or no carbon emissions.

Unlike today's single purpose power plants that produce only electricity, a *Vision 21* plant would

produce multiple products and process a wide variety of fuels.

### ***Putting the squeeze on natural gas pipelines.***

A joint effort between Timberline Tool and the U.S. Department of Energy has sped commercialization of the first "keyhole" squeeze-off tool for 4 to 6 inch polyethylene pipe. The tool weighs only 60 pounds and can be managed by a single operator, and can be transported in the back of a pick-up truck. With

this new tool, excavations are kept to a minimum and workers are kept out of the trench. Costs are reduced and job site safety is greatly enhanced.

### ***Natural gas not quite in crisis yet.***

Homeowners, electric utilities and manufacturers will see a steep rise in the amount they pay for natural gas this winter - and that alone may qualify as a crisis for low income families - but analysts do not expect shortages akin to what U.S. motorists experienced with gasoline this summer.

Industry officials say there is, and will be, plenty of natural gas for customers who want it and are willing to pay market prices.

The Natural Gas Supply Association is urging consumers to turn down their thermostats this winter to take the pressure off the market and that will cause prices to fall.

**Sources:** *Associated Press, the American Gas Association and the Department of Energy*



**CERTAIN RESTRICTIONS APPLY.** Coupons are valid only at the Clearwater Gas Showroom and must be presented at time of purchase. This offer may not be combined with other promotional offers. Call Clearwater Gas at (727) 669-1958 for further details. Prior sales excluded.

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