

Natural Gas Production

Most of the natural gas consumed in the country has historically been produced in the south central United States, Montana, Wyoming and Canada. More recently, advanced drilling techniques have resulted in the development of very significant gas production in non-traditional areas such as the East Coast, Midwest and the Bakken Formation in North Dakota. The Federal Energy Regulatory Commission has jurisdiction over the rates and regulations of interstate transmission facilities and service used to transport the gas from well fields to utilities' distribution facilities. These are relatively stable costs with infrequent changes over several years.

Being Energy Smart with Natural Gas

Natural gas is often promoted as an environmentally-friendly fuel because of low air polluting emissions. There has been an increase in the use of natural gas for generation of electricity. Electric generation currently makes up about 30 percent of natural gas consumption in the United States. To help reduce energy bills, the PUC encourages consumers to:

- Conserve natural gas usage whenever possible,
- Use energy efficient appliances,
- Insulate homes for better heat efficiency, and
- Consider using a budget plan with the utility company to even out the monthly cost of utility service.



South Dakota

**PUBLIC
UTILITIES
COMMISSION**

**Natural Gas
Costs**



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Natural Gas Utilities in South Dakota

There are three investor-owned utility companies that provide natural gas service to specific geographic areas in South Dakota. These companies are owned by investors and are managed as private enterprises. The South Dakota Public Utilities Commission has regulatory authority, including ratemaking authority, over these investor-owned natural gas utilities: MidAmerican Energy Co., Montana-Dakota Utilities Co. and NorthWestern Energy.

The communities of Crooks, Garretson, Humboldt and Watertown are served by municipally-owned natural gas utilities and are not regulated by the PUC.

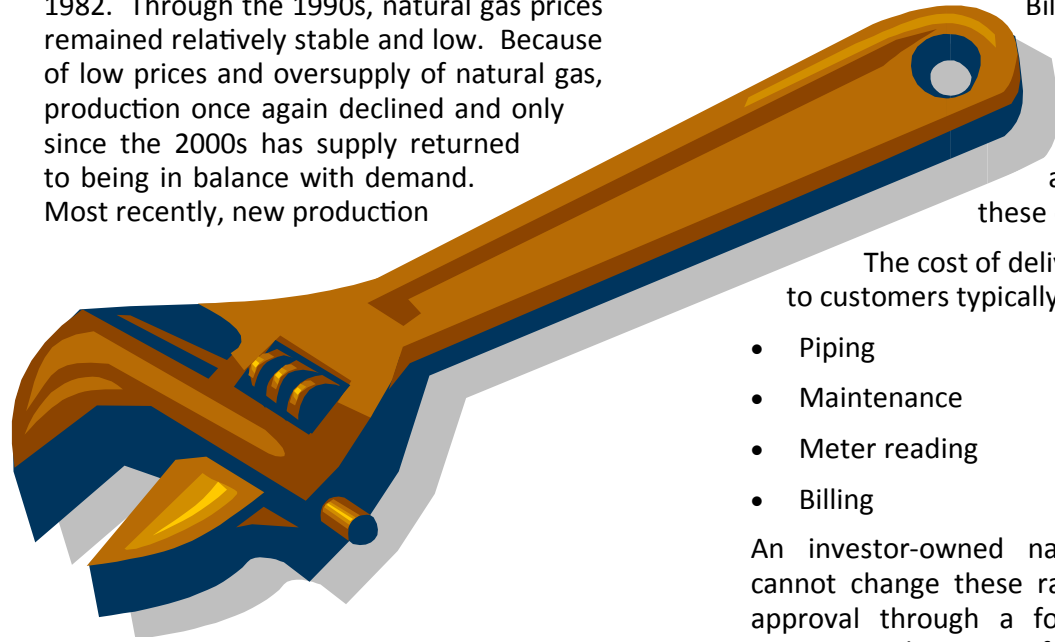
History of Natural Gas Pricing

Prior to the late 1970s, the producer price of natural gas was regulated by the federal government. At that time, the price was held down to the historical cost of drilling and producing natural gas. As inflation caused the cost of producing gas to increase, the prices allowed by regulators failed to keep up and drilling and production slowed significantly.

As a result, by 1977 a severe gas shortage existed. Many industrial and commercial customers were forced to convert to other fuels because gas was not available. Federal regulators then changed the pricing regulations to allow supply and demand to set prices, and in some cases, natural gas prices increased

to more than five times what they had been under prior regulations. At times, prices in the 1970s were higher than they are today.

Because of increased production and conservation and conversion to other forms of energy, a glut of natural gas developed by 1982. Through the 1990s, natural gas prices remained relatively stable and low. Because of low prices and oversupply of natural gas, production once again declined and only since the 2000s has supply returned to being in balance with demand. Most recently, new production



methods have lowered the gas commodity price and many believe lower prices will remain for the foreseeable future.

On the demand side of the pricing equation, there have been changes. Large customers that moved from natural gas in the 1970s continue to move back to natural gas because of the low prices. Use of gas to generate electricity has also increased demand.

Primary Natural Gas Costs

The consumer cost of natural gas includes a number of factors such as the commodity price, delivery charge, transmission fee and taxes, for example.

Billing statements consumers receive from their natural gas provider include a breakdown of these charges.

The cost of delivering natural gas to customers typically includes:

- Piping
- Maintenance
- Meter reading
- Billing

An investor-owned natural gas utility cannot change these rates without PUC approval through a formal ratemaking process. The cost of the natural gas commodity itself is subject to pricing by supply and demand. Additional supplies discovered in the East Coast and Midwest in recent years have contributed to commodity price declines. This cost may appear on your bill as the “gas supply” charge or “purchased gas” charge and is typically updated monthly. South Dakota law allows the utility companies to pass this cost through to customers without profit. Ultimately this charge is paid to producers of natural gas.