

FAQ Regarding Natural Gas Prices

How is the price of natural gas determined?

The natural gas commodity has been substantially deregulated by various federal enactments and is therefore subject to pricing by supply and demand. The cost is determined by the market. The commission does not regulate the wholesale price of natural gas.

What is the PGA on my bill?

Utility companies are allowed by state law to file rates recovering costs for wholesale natural gas purchased. These costs are the Purchased Gas Adjustment portion of your bill. These costs are passed through to customers dollar-for-dollar as the utility is not allowed to profit from them. These costs are separate from base rates on your utility bill. Base rates allow the utility to recover expenses and investment in providing service, including the infrastructure necessary to provide and maintain the utility's natural gas system.

Why are natural gas prices rising?

First, it is an issue of supply and demand. Warmer than normal weather across the nation this summer resulted in increased natural gas usage for electric generation as people used more electricity cooling their homes. With natural gas prices in other countries at even higher levels than the United States, liquefied natural gas (LNG) exports are high. Additional natural gas usage for electric generation and LNG exports, along with production losses due to hurricanes, have resulted in low national storage inventory as we head into the winter season. These combined factors are driving natural gas prices higher throughout the country.

Is this in addition to the increased natural gas costs experienced in February 2021?

Yes. Freezing cold temperatures in much of the United States in the second and third weeks of February 2021 caused unprecedented demand for natural gas resulting in extreme prices for wholesale natural gas. During this cold stretch, customers with natural gas heat were using more to keep their homes and businesses warm, and consumers with electric heat were also using more electricity, causing electric companies to use more natural gas in the generation of electricity. This historic increase in natural gas demand caused related historic increases in natural gas prices during this period.

Due to the historic nature of these events and significant associated costs, the commission worked with the South Dakota natural gas utilities to mitigate this impact for customers. Each utility's Purchased Gas Adjustment works differently, and each utility's impact was unique. Utilities began recovering the February cold weather costs this spring and will continue to recover these costs into the winter months.

What can I expect my natural gas bills to cost this winter?

South Dakota natural gas utilities are estimating natural gas prices for this upcoming winter to be near \$6 per MMBtu, compared to prices in the \$2-3 range last winter. Customers have benefitted from low gas prices for the last several years, so this year's gas prices may come with sticker shock. The higher-than-normal natural gas prices anticipated for this winter combined with the residual effects of the unprecedented natural gas prices experienced in February 2021, could result in average winter bills at

levels not seen in well over 10 years. In fact, bills could double compared to what they were a year ago during the winter months.

South Dakota natural gas utilities are currently projecting bill increases for average residential customers of over 100% at certain times this winter compared to bills last winter. On average for the months of November through March, residential customers can expect to see bill increases ranging from 50% to more than 100% compared to the 2020-2021 heating season. This means if your natural gas bill last December was \$60, this December it could be around \$120, assuming the same usage. These are only projections and actual bill impacts may end up being higher or lower than what utilities are projecting. Bill impacts will vary from utility to utility and will also vary for each individual customer depending on usage, which is highly dependent on the weather.

What do utility providers do to lessen the financial impact to the customer of rising prices?

The utilities aim to mitigate price increases for customers by purchasing a portion of the supply needed throughout the year at fixed prices. Companies also utilize storage withdrawals during winter months, when available. For utilities with hedging programs, if profits are realized those will also help offset higher costs.

What steps can I take to reduce my natural gas usage?

Consumers can reduce their natural gas usage by setting their thermostats to a lower temperature, installing a programmable thermostat, maintaining natural gas appliances, changing furnace filters, and conserving hot water (if using natural gas for water heating).

What are my options if I cannot afford to pay my increased natural gas bills?

You should first talk with a representative of your utility company to ask about your options. That may be moving to a budget or balanced billing plan if your utility offers that, to help level out your monthly payments so you can better budget and pay for them. There may be local organizations that can help you pay for your spike in natural gas costs. Another option is to seek assistance from the South Dakota Department of Social Services' Low Income Energy Assistance program, <https://dss.sd.gov/economicassistance/energyassistance/>

Will my electricity bill increase this winter also?

Natural gas prices may impact electricity prices as well since some electric generation plants use natural gas for fuel. However, the impact will depend on several factors, most of all each utility's reliance on natural gas for creating electricity this winter.