

## **Short 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, and in some cases, natural gas prices increased to over five times what they had been under prior regulations. Prices in the 1970s were higher than they are today.

Because of the conservation and conversion to other forms of energy, a glut of natural gas developed by 1982. Since that time, natural gas prices have remained relatively stable and low. Because the low prices and oversupply of natural gas, production once again declined and only in recent years has supply returned to being in balance with demand.

On the demand side of the pricing equation, there have been recent changes. Large customers that moved from natural gas in the 1970s continue to move back to natural gas because of the low prices in the 1980s. Economic growth has also increased demand.

Since demand is high and supplies are low, prices are up.



Natural gas has been promoted as an environmentally friendly fuel because of low air polluting emissions. Most recently, there has been a dramatic increase in the use of natural gas for generation of electricity. Electric generation currently makes up about 15% of US natural gas consumption. Because many states have passed legislation deregulating the generation of electricity, and because the federal government is trying to pass legislation deregulating the electric industry, utilities are not building large coal-fired generating plants.

The PUC does not have jurisdiction to regulate the price of gas produced in other states. Only the federal government could do that. The PUC has approved incentive plans for utilities to find the lowest gas prices available.

The PUC also encourages consumers to:

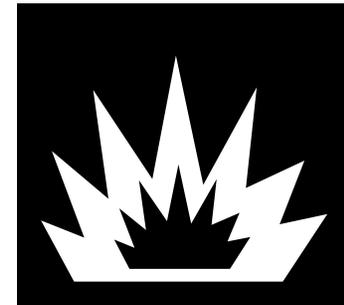
- Conserve natural gas usage whenever possible,
- Use energy efficient appliances,
- Insulate homes for better heat efficiency, and
- Consider using a budget plan with the utility company to even out the monthly cost of utility service.

**Public Utilities Commission  
State Capitol Building  
500 E Capitol  
Pierre SD 57501**

**Call: 1-800-332-1782**

**South Dakota  
Public Utilities Commission**

## **NATURAL GAS COSTS**



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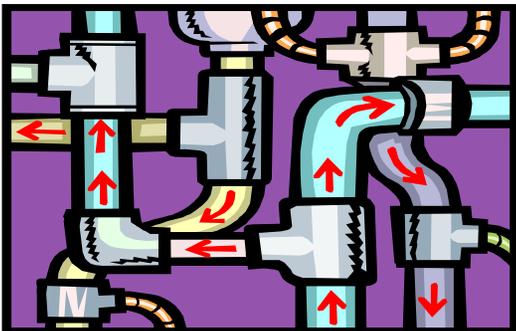
# Primary Natural Gas Costs

## COST OF DELIVERY

Such costs typically include

- Cost of piping
- Maintenance
- Meter reading
- Billing

These rates cannot be changed without Public Utilities Commission (PUC) approval through a formal rate case. When a utility company requests an increase in these costs, the PUC takes about 6 months to analyze all of the data and make a decision.



## COST OF NATURAL GAS

These costs may appear on your billing as “**gas supply**” charge or “**purchased gas**” charge. South Dakota law allows utility companies to pass this cost to customers without profit. This cost is typically updated monthly. It is this cost which has increased dramatically in recent months.

**I n t e r s t a t e**  
**pipeline charges** are regulated by the Federal Energy Regulatory Commission (**FERC**) and are relatively stable costs with infrequent changes over several years.



The cost of the natural gas commodity itself has largely been deregulated by various federal enactments and is subject to pricing by **supply and demand**. Ultimately this charge is paid to producers of natural gas.

Very little natural gas is produced in South Dakota. Much of our gas is produced in the oil producing states in south central United States and significant supplies are produced in Montana, Wyoming and Canada. These regions produce most of the natural gas consumed in the United States.

### For information contact:

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