



talk about natural gas

November 2009

Natural gas prices

Market prices

Natural gas prices are set in an integrated North American marketplace where the price of natural gas is determined based on supply and demand.

Natural gas supply is influenced by factors such as the number of gas wells that are drilled in North America and the productivity of the wells. Additional gas supply is imported into North America from other countries in liquefied form by tanker. Unconventional gas sources such as coalbed methane are starting to be developed, as well gas from the Arctic.

Natural gas demand is influenced by factors such as economic growth, weather and substitution with oil products. Through substitution, oil prices have a significant impact on natural gas prices.

Market prices also determine Alberta natural gas royalties, which fund important core programs, such as health and education. In 2008-09, \$5.83 billion in royalties were collected on Alberta gas and its by-products. Every 10 cent-per-gigajoule (GJ) increase in the price of natural gas equates to a \$126 million increase in Alberta's annual resource revenue.

Regulated consumer prices

Utilities across Canada use a variety of short-and long-term purchasing options to obtain their natural gas from Alberta at market prices. Most transactions in Alberta are done through the AECO Hub, which averages about 900 trades each day.

Alberta's regulated gas rates are verified by the Alberta Utilities Commission (AUC) monthly, based on a flow through of the market price of gas, with no mark-up on the cost of gas itself.

In Alberta, adjustments for differences between rates and actual costs are made within two months. Other provinces typically review and approve rates less

frequently, evening out market price changes over longer time periods.

Monthly gas rates are more responsive to changes in market prices, so although Alberta gas rates can rise above those in other areas when gas prices are high, they also respond to falling prices faster too.

The cost of transporting the gas is also a factor in prices. For example, transportation adds about a dollar per GJ to the delivered price of gas in Ontario.

According to Statistics Canada, Alberta residential consumers pay approximately 30 per cent less for their natural gas than the average Canadian in other provinces.

For more information, please visit the Department of Energy website: www.energy.alberta.ca.

Options for Albertans

Most Alberta consumers have purchased natural gas at regulated monthly gas rates and can continue to do so or they can purchase gas from a competitive retailer on a contract.

Those who prefer regulated rates, but want steady natural gas bills for budgeting purposes may consider joining their gas provider's budget billing program.

Albertans who want long-term price stability can enter into a contract with a competitive retailer. Retailers typically offer a number of standard purchase options for consumers. For example, retailers offer a fixed rate for terms ranging from one to five years, as well as offering customized contracts for specific client needs.

Regardless of what price option applies, charges for delivering the natural gas are fully regulated.