Purchased Gas Adjustment (PGA): A Brief Explanation

What is the Purchased Gas Cost Adjustments?
The Purchased Gas Cost Adjustment (PGA) is a rate that is authorized by the Public Service Commission (PSC) for natural gas utilities that purchase all, or a portion, of their gas supply. The PGA is based on the price that a utility pays to acquire natural gas. The PGA does not include any profit for the utility. Only the costs for acquiring natural gas are recovered through this process.

Does the PSC Regulate the Price That Producers Charge the Gas Utilities?
The PSC does not regulate the price that producers charge for natural gas. The market determines producer prices. The PSC does make sure that the gas utilities make prudent purchasing decisions. The utility must be able to show the PSC that it did everything possible to obtain reliable gas supply at the lowest possible market price.

When does the PGA go into effect?
Typically, the PGA is established once a year. Under PSC rules, the PGA is reviewed by the Commission in the fall and a new rate is established to go into effect on November 1 of each year. This schedule can be modified if there are extreme fluctuations in gas prices or if unusual circumstances justify a correction of the PGA before the next November.

How is the PGA determined?
The PGA is determined based on a projection of expected gas prices for the period November 1 of each year, through October 31 of the following year. In addition, there is a true-up of the actual costs incurred by the utility during the year compared to the previous year’s projections. If the actual costs turned out to be higher or lower than those projections, the amount of overage or underage is subtracted from or added to next year’s projections.

Do the utilities have any incentive to reduce their purchased gas costs or maintain there pipeline to minimize line losses?
Any gas utility that is seeking to increase its rates due to increased purchased gas costs must meet a three part test before any increase is allowed. In order to meet this test, the utility must prove:

1. That dependable, lower-priced supplies are not readily available from other sources;

2. That contracts between the utility and its suppliers for purchase of gas are negotiated at arms length and are not detrimental to its customers; and

3. that the utility has let out bids for the purchase of a substantial quantity of natural gas supplied to its customers.

In addition, the PSC requires that any lost or unaccounted for gas that exceeds 8% for large utilities and 10% for small utilities is excluded from the PGA calculation so that customers do not have to pay for excess lost or unaccounted for gas.

The PSC staff reviews each utility’s management policies and performance to determine whether
it has purchased reliable gas supplies at the lowest possible price and issues a report and recommendation to the Commission at the time of the utility’s request for a PGA change.
Some Common Terms Used in PGA Filings and Proceedings:

**Over-recovery of costs:** When the actual gas costs are less than the expected gas cost that were predicted and collected by the company, the gas utility is said to have “over-recovered” its gas costs. The over-recovery is subtracted from the gas utility’s next PGA.

**Purchased Gas Costs:** The cost of the natural gas commodity and pipeline delivery costs that the utilities pay to producers and natural gas pipelines. This cost is passed on to the customer on a dollar for dollar basis with no mark-up.

**True-up mechanism:** A mechanism that is used to ensure that there is no over-or-under recovery of gas purchasing costs. This mechanism corrects for any over or under recovery in prior periods.

**Under-recovery of costs:** When the actual gas costs turn out to be more than the expected gas cost that were predicted and collected by the company, the utility is said to have “under recovered” its gas costs. The under-recovery is added to the utility’s next PGA.