

THE PURCHASED GAS ADJUSTMENT: FREQUENTLY ASKED QUESTIONS

What is the Purchased Gas Adjustment?

The Purchased Gas Adjustment (PGA), is a mechanism that permits natural gas distribution utilities to regularly adjust the price of natural gas supplied to consumers to reflect the utility's cost of purchasing that gas and transporting it via pipeline to their system.

Why is the PGA necessary?

By federal law, the wholesale price of natural gas is unregulated and fluctuates with market conditions. The PGA enables utilities to adjust on a regular basis the amount they charge their customers to reflect the actual cost of the gas used by those customers. Without the PGA, natural gas distribution companies would have to adjust their base rates much more frequently and those adjustments would be much greater.

Do utilities earn a profit on the PGA?

No. The PGA serves strictly as a mechanism for reflecting the costs of natural gas and pipeline transportation costs on a dollar-for-dollar basis.

How often does the PGA change?

Utilities in Wisconsin adjust their PGAs every month.

How is the PGA and True-up amounts determined?

The PGA includes both prospective and retrospective calculations. The largest portion of the PGA represents a company's best estimate of its natural gas costs for the next period. This amount is based on the known costs of gas it has contracted to buy during that time and gas it has already purchased and will withdraw from storage, as well as the estimated cost of gas that will be purchased at market prices during the period. It also includes the cost of storage and pipeline transportation for that gas. Because this amount includes estimates, it usually turns out to be either above or below the actual cost in any given period. The True-up portion of the PGA process provides for a "true up" that ensures that customers pay no more or no less for gas than the utility's actual costs. If a utility overestimated its costs, the difference is returned to customers by a reduction in the PGA. Conversely, if market conditions lead to an underestimation of costs, the company recovers the difference through an increase in the PGA. In order to reduce the size of fluctuations in the PGA, the true-up portion is spread a 3-month or 12-month period and adjusted each time the PGA changes.

Does the Wisconsin Public Service Commission (PSCW) review the PGA amounts for each utility?

Yes. Every PGA filing is reviewed by the PSC to ensure that the price consumers pay for natural gas reflects appropriate estimates of future costs, based on published indices of future wholesale prices, and after-the-fact true-ups based on the utility's actual costs.

How does the PSCW know if the PGA accurately reflects gas costs for a utility?

Utilities are required to fully document all of their natural gas costs, including purchase, storage and transportation. This includes providing contracts and other materials to the PSCW. By statute,

the PSCW has the authority to review a natural gas utility's purchasing practices and disallow costs that are the result of imprudent purchasing practices.

Can the public access PGA information?

Yes. Those documents provided to the PSC that do not involve confidential business information (such as the names of suppliers) become public records.