

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 periodically 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 an as-needed 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. The PGA is looked at monthly to avoid potentially more significant changes that could come from adjusting less frequently. The difference would be greater but could still be positive or negative.

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?

The need for PGA adjustments is reviewed by the Energy Resources Director monthly. If changes in PGA are needed, these changes are submitted to City Manager and announced to council in a press release.

How is the PGA amount 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 retrospective portion of the PGA provides for a "true up" that ensures that customers pay no more or no less for gas than the utility's actual costs. The period of time used for the analysis is the City's fiscal year, which runs from July 1st to June 30th.

If a utility overestimated its costs, the difference is returned to customers by a reduction in the PGA or possibly a negative 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 over the period remaining in the current fiscal year and adjusted each time the PGA changes.

Why doesn't the PGA drop right away when the wholesale cost of gas declines?

The PGA is reviewed monthly. The gas delivered to the City is not billed to customers until the following month, so there is a one-month lag in retrospective calculations. Furthermore, because companies purchase gas in advance – either through storage or by contract – those prices also will not necessarily reflect current market prices. The fiscal year true-up in the PGA corrects for any mismatches between

the amount charged to consumers and the actual gas cost. Over the long term, the PGA will reflect changes in overall natural gas wholesale prices but will lag to some degree. In the final analysis, however, prices paid by consumers will be no more or no less than the amount paid by the distribution company for purchase, storage, and transportation of the gas.

Can the public access PGA information?

Yes. Those documents that do not involve confidential business information become public records.

What is the legal authority for the PGA?

The statutory foundations for the PGA: North Carolina General Statutes Chapter 62 - Public Utilities. Article 7 - Rates of Public Utilities. § 62-133.4 - 4.