THE PURCHASED GAS ADJUSTMENT: FREQUENTLY ASKED QUESTIONS

What is the Purchased Gas Adjustment?
The Purchased Gas Adjustment (PGA), also known as the Gas Cost Adjustment (GCA), is a mechanism that permits jurisdictional 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?
Four of Kentucky's five large natural gas distribution companies – Louisville Gas and Electric, Atmos Gas, Columbia Gas and Delta Gas – adjust their PGAs every three months. Duke Energy Kentucky adjusts its PGA on a monthly basis. Most smaller gas distribution companies adjust their PGAs quarterly, although some make less frequent adjustments.

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 insures 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 over a 12-month period and adjusted each time the PGA changes.

Why doesn't the PGA drop right away when the wholesale cost of gas declines?
Because most companies adjust costs on a prospective three-month cycle, the PGA will not reflect market fluctuations that occur within that period. Furthermore, because companies purchase gas in advance – either through storage or by contract – those prices also will not necessarily reflect current market prices. The 12-month 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 behind 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.

Does the Kentucky Public Service Commission (PSC) review the PGA amounts for each utility?
Yes. Every PGA filing is reviewed by the PSC to insure 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 PSC 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 PSC. By statute, (KRS 278.274), the PSC 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.

What is the legal authority for the PGA?
The statutory foundations for the PGA are KRS 278.040, which gives the Commission exclusive jurisdiction over the regulation of rates and services of utilities, and KRS 278.030(1), which grants the PSC the authority to set rates that are fair, just and reasonable.