GAS COST ADJUSTMENT FILINGS

I. GAS COST ADJUSTMENT CLAUSES

A. Gas distribution utilities are allowed to collect their gas costs through a Gas Cost Adjustment (GCA) mechanism. A utility must have a clause in its tariffs that allows it to change the gas cost component of its rates. Changes to gas cost are made on a quarterly basis or on an as-needed basis when its supplier changes its gas price.

The two types of GCA mechanisms can be described as follows:

1. Quarterly GCA filings—these change the gas cost reflected in rates every three months, according to a schedule set out in the utility's approved tariff. This type of GCA filing is appropriate when the wholesale gas cost is subject to change on a frequent basis – as when it changes to reflect changes in the NYMEX futures prices. The filing must be made 30 days prior to the proposed effective date of the rates; this requirement is also set out in the tariff.

2. As-needed GCA filings—This method of gas cost recovery requires that the utility make a filing to adjust its rates whenever its supplier increases or decreases its rates or when a refund is received. This type of filing is most appropriate when the utility purchases its gas under a fixed-price contract. This calculation of the GCA is simpler than the calculation in a quarterly filing because the exact price is known and no estimates or adjustments are required.

B. Tariff Requirements for a GCA Clause – the tariff provisions for a GCA clause are fairly standard. The clause section of the utility's tariffs will spell out the gas cost components that are recoverable through the GCA. It will also, for a quarterly GCA, set out the calendar quarters that establish the filing cycle under which the utility will make its GCA filings. The clause, in many instances, will also include a provision that permits the utility to make out-of-cycle, or interim, GCA filings under certain circumstances.

II. GCA COMPONENTS

As mentioned earlier, under an 'As-needed' GCA mechanism there's really just one component included in the GCA, and that's all off the components of the known wholesale price stated on a per Mcf basis.

In a quarterly GCA the standard components of the filing are:

A. Expected Gas Cost (EGC): This is an estimate of the gas cost during the upcoming calendar quarter. The utility should get this estimate from its supplier. The name of the supplier and gas cost estimate, shown on a per Mcf basis, are included with the GCA filing. The calculation of the EGC is shown on the filing form developed by the Commission.

B. Supplier Refund Adjustment (RA): This returns refunds from pipelines or gas suppliers to the utility's customers. More often, this is a refund from a pipeline that was allowed to place its proposed rates in effect by FERC, subject to refund. Once FERC approves rates, if those rates are less than what the pipeline had proposed, the pipeline is required to refund the difference because the rates approved by FERC are retroactive to the date the proposed rates were allowed to go into effect.

C. Actual Adjustment (AA): This reconciles the EGC included in rates in a previous quarter with the actual gas cost incurred by the utility during that quarter. Since the EGC is based on an estimate of price, it will rarely match the actual cost of gas incurred for the quarter that it covers. The AA is designed to ensure that the utility ultimately collects its actual cost of gas, no more – and no less. The AA collects under-recoveries or return over-recoveries of gas cost to customers over a 12-month period. Each quarterly AA remains in effect for 4 quarters, so there are always four different AAs to add together to arrive at a Total AA. The AA calculation is shown on the filing form developed by the Commission.

D. Balancing Adjustment (BA): This is used to finish the "true-up" process begun by the AA. It runs for an additional 12-month period following the AA. The BA calculation is shown on the GCA filing form. For small companies, the BA is somewhat impractical because the remaining under- and over-recoveries tend to be very small.

E. Gas Cost Adjustment (GCA): This is the sum of these components, and is added to the base rate to derive the total volumetric retail rate to be charged to customers.

III. GCA FILING CHECKLIST

A. **Fill out front page with filing date and effective date.**

B. **Fill out Schedule II, Expected Gas Cost page.**

C. **Transfer Total Expected Gas Cost to Schedule I.a., calculate EGC.**

D. **Transfer EGC to top of page, Component section, EGC line.**

E. **Fill out Schedule III, Refund Adjustment, if applicable; transfer any RA to Schedule I.b. Be sure any previous quarter RAs are correctly set out. Calculate Total RA, transfer to top Component section.**

F. **Fill out Schedule IV, Actual Adjustment. Calculate current AA.**

G. **Transfer current AA for the reporting period to Schedule I.c.**

H. **Set out three previous quarter AAs under current AA. Calculate Total AA.**

I. **Transfer Total AA to top Component section.**

J. **Fill out Schedule V, Balancing Adjustment, if applicable. Transfer current BA to Schedule I.d., Balance Adjustment for the Reporting Period. Fill in three previous quarter BAs below. Calculate Total BA, transfer to top Component section.**

K. **Add components together to calculate GCR.**

L. **Add GCR rate to base rates to calculate new proposed retail rates to be charged to customers.**

M. **Set out new GCR rate and retail rates on proposed tariff sheet to be included with the GCA filing.**

IV. COMMON ERRORS IN GCA FILINGS

Errors commonly made with a quarterly filing—there are several common errors which occur with the quarterly GCA, which is the most commonly used gas cost recovery mechanism. Some of these errors are:

A. Not understanding that the EGC is calculated by multiplying a per Mcf *estimated* rate times 12-months *historic* purchase volumes and then dividing by 12 months of *historic* sales volumes.

B. Utilities sometimes neglect to calculate, or incorrectly calculate line loss. The line loss calculation as set out in the GCA format is (Purchases – Sales) / Purchases. Sometimes utilities also neglect to adjust the EGC to limit line loss to the maximum allowable of five percent.

C. There can be confusion about which three months to use in the current quarter AA calculation. It should be the calendar quarter that ended three months prior to the effective date of the proposed rates. For example, for rates to be effective April 1, 2001, a filing should be made no later than March 2, 2001; the EGC sales and purchase volumes should be based on 12 months ended December 31, 2000; and the AA should reflect actual gas cost for October, November and December of 2000.

D. A common problem is setting out the previous quarters' AA and BA adjustments on the front summary sheet, where the GCA is calculated. The current AA should be the AA calculated in the current filing. In the above example the filing is made March 2, 2001 for rates to become effective April 1, 2001. The previous quarter AA should be the quarterly AA *approved* by the Commission in the previous filing, for rates to be effective January 1, 2001. With each quarterly filing the AA adjustment shown at the bottom of the previous filing drops out of the calculation of the Total AA, because its 12 months would have concluded.

E. Another problem is not following previous GCA Orders of the Commission. Once there is a signed Commission Order the rates in the Appendix to that Order are the only rates that may legally be charged as of the effective date of that Order. If the approved rates are different than what was proposed, the Order will explain why. The Order should always be read so that mistakes can be corrected in subsequent filings, and so that only the approved rates and GCA components are included in computing later GCA filings.