



The Public Utilities  
Commission of Ohio



www.PUCO.ohio.gov  
(800) 686-PUCO (7826)

## Gas Cost Recovery (GCR): How it Affects Your Natural Gas Bill

### What is the Gas Cost Recovery?

The Gas Cost Recovery (GCR) is the actual cost of natural gas that a local distribution company (LDC) pays to purchase natural gas for your use. That cost is then passed through to you on a dollar-for-dollar basis with no mark-up or profit to the LDC. Only the actual costs of the natural gas are recovered through this process. The LDC, by law, is not allowed to make a profit on the natural gas. LDCs earn their profits through the *distribution* of gas, not through its purchase and resale.

Typically, the GCR is adjusted either monthly or quarterly depending on your natural gas company and represents the portion of your bill that is affected by changing natural gas prices. If you are participating in a customer choice program and have selected an alternative natural gas supplier, the GCR portion of your bill is replaced by the alternative gas supplier's charge on your bill.

### How is the GCR determined?

The GCR is typically adjusted at least quarterly by the LDC, through a filing with the PUCO, and has four components:

- Expected Gas Cost (EGC) – The EGC is the price the LDC expects to pay for natural gas in the upcoming period. When the GCR is filed on a quarterly basis, the LDC will calculate, to the best of its ability, the expected costs of natural gas for the following three months. Gas costs recoverable through the EGC include the cost of *purchasing* the gas itself as well as the cost of *transporting* the gas from the producing region to the utility's service territory through the interstate pipeline system.
- Actual Adjustment (AA) – The AA represents the difference between the previous EGC that was charged to customers and what the LDC actually paid for the natural gas.
- Balance Adjustment (BA) – The BA is final true-up of previous adjustments.
- Refund and Reconciliation Adjustment (RA) – The RA represents two different components. The *refund* portion consists of any money LDCs receive from the interstate pipelines and other suppliers as a result of past purchases. These usually arise from pipelines issuing refunds to its customers due to Federal Energy Regulatory Commission (FERC) orders issued through court proceedings. *Reconciliations* are the result of PUCO orders following the recommendations of either the financial audits or management/performance audits.

It is important to note that GCR adjustments are not rate increases, and do not reflect any profit for the LDC. They merely represent a true-up of the cost of purchasing natural gas, and can move up or down in any particular period. Consumers who choose to participate in a natural gas choice program will continue to pay these adjustments for a period of 12 months. These adjustments drop off after being signed up with a gas supplier for 12 months.

## **What is the PUCO's role?**

State law mandates the GCR be passed to customers on a dollar-for-dollar basis. The PUCO monitors and audits each change in the GCR to ensure that the LDC is not making a profit through the GCR on the cost of natural gas. The LDC is authorized, by law, to make adjustments (increases or decreases) to the GCR as long as the LDC can show that no profit is included in the adjustments.

The PUCO also audits each LDC's management policies and performance to determine whether it has purchased reliable gas supplies at the lowest possible price. The GCR audit process is necessary because natural gas is a commodity that is bought and sold in the marketplace. The price is determined by the supply and demand of the product, thus requiring a constant review of the process.

To ensure the accuracy of GCR calculations, financial audits are conducted every year. Errors are reconciled through the refund and reconciliation adjustment in subsequent periods. Every two years, a management performance audit is also conducted for the largest LDCs. These audits are conducted with the assistance of qualified professional auditing firms. Any costs that are determined not to be prudent are disallowed and are refunded to the customers through the refund and reconciliation adjustment in future periods.

### **Definition of Terms:**

**Local Distribution Company (LDC):** Your local gas company.

**Pass through [costs]:** The cost of the gas commodity that the utilities pay to producers for natural gas. This cost is then passed on to the customer on a dollar-for-dollar basis with no mark-up.

**Reconciliations:** Established by PUCO orders, reconciliations are the result of recommendations from both financial and managerial audits and represent the reconciling of records to reflect an actual cost for GCR calculations.

**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 any over-or-under recovery in prior periods.

**If you would like to know more about the PUCO or have utility-related questions or concerns,**

**contact the PUCO at:**

**(800) 686-PUCO (7826)**

**(800) 686-1570 (TDD/TTY)**

**In Columbus only:**

**(614) 466-3292**

**(614) 466-8180 (TDD/TTY)**

**[www.PUCO.ohio.gov](http://www.PUCO.ohio.gov)**