



Consumer Alert

The Gas Cost Recovery (GCR) Charge

You might have seen the **Gas Cost Recovery (GCR)** charge on your natural gas bill and wondered what it was – and whether your natural gas company is billing your account correctly for it. Below are questions and answers related to the GCR charge.

What is the Gas Cost Recovery (GCR) charge?

This charge reflects the cost incurred by your natural gas company* to purchase the gas you use. Through the GCR charge, the company, in turn, charges you the **same price** (per Ccf or Mcf**) it paid for the gas. In accordance with Michigan law, the company is not allowed to make a profit on the sale of natural gas. The Michigan Public Service Commission (MPSC) reviews and approves the GCR charge, and conducts an annual audit of the company's gas purchases and revenues collected to insure the company does not over or under collect for its gas costs.

Why is the GCR charge on my bill so high – even though current natural gas prices are low?

The current GCR factor and charges are not based on the current market price of natural gas, but on your utility company's actual cost of its natural gas supplies. In order to ensure a reliable supply and counteract price fluctuations, gas utilities purchase gas supplies through long-term contracts, short-term contracts and the current spot market for gas. In Michigan, a portion of the gas used during winter months is purchased and put into underground storage during the summer and fall in order to meet high demand during the winter. By the time the gas is actually used (months later) by customers, the current market price of gas may change/differ from when the company purchased the gas. As a result, the gas cost on your bill may be lower or higher than the current market price. However, whether it is higher or lower than market, the price your gas company paid for the gas is the same price you pay when you use it.

If the company doesn't make a profit on the GCR – where does it make its profit?

Because your natural gas company isn't allowed to mark-up the price of the gas it sells you or make a profit on the sale of gas, its profits are based on its investments and are included in the Customer Service and Distribution Charge (discussed below).

There are three primary components to a typical natural gas bill:

- **Customer Service Charge** – A fixed monthly charge that does not vary with the amount of gas used. The Customer Service Charge covers some of the basic costs of providing gas service – including the cost of maintaining and reading meters and administering a billing system.
- **Distribution Charge** – A charge that covers the cost of delivering gas to your home or business – including the cost of storing gas, and the capital and operating costs of the gas distribution and pipeline system. This charge varies with the amount of gas you use each month. Your bill shows the amount of gas used multiplied by this cost per Ccf or Mcf.
- **Gas Cost Recovery (GCR) Charge** – A charge for the cost of the natural gas itself. Again, under Michigan law, your gas company is not allowed to make a profit on the sale of natural gas, and it must charge you the same price it paid for it. This charge varies with the amount of gas you use each month. Your bill shows the amount of gas used multiplied by this cost per Ccf or Mcf.

In addition to these three primary charges, there may be other smaller charges, and your bill will always include Michigan sales tax.

If you look at the three primary components of your bill – Customer Charge, Distribution Charge and GCR – you'll see that the GCR (cost of the actual gas) makes up approximately 80% of the total bill. As always, the best way to reduce your monthly bill is to reduce the amount of natural gas used. The following websites provide excellent tips for conserving natural gas.

<http://www.energysavers.gov/>

<http://www.ase.org/section/audience/consumers/powersmart/>

<http://www.ase.org/content/article/detail/924>

*This consumer alert discusses the GCR charge that appears on bills of full service customers served by natural gas companies regulated by the MPSC. Many Michigan utility customers receive their natural gas supply from an Alternative Gas Supplier (AGS) under the Natural Gas Customer Choice Program. Although some of the GCR pricing principles discussed in this alert also apply to the GCR charges of AGSs, the MPSC does not regulate the GCR charges of AGSs.

**Gas meters typically measure gas by Ccf or Mcf. Ccf equals 100 cubic feet of gas; Mcf equals 1,000 cubic feet of gas.

