**Section 525.40 Recoverable Gas Costs**

a) Costs recoverable through the Gas Charge(s) shall include the following:

1) costs of natural gas and any solid, liquid or gaseous hydrocarbons purchased for injection into the gas stream or purchased as feedstock or fuel for the manufacture of gas, or delivered under exchange agreements;

2) costs for storage services purchased;

3) transportation costs related to such natural gas and any solid, liquid or gaseous hydrocarbons and any storage services; and

4) other out-of-pocket direct non-commodity costs, related to hydrocarbon procurement, transportation, supply management, or price management, net of any associated proceeds, and Federal Energy Regulatory Commission-approved charges required by pipeline suppliers to access supplies or services described in subsections (a)(1) through (3) of this Section.

b) Determinations of the Gas Charge(s) shall exclude the estimated cost of gas to be used by the utility, based on the system average cost of gas for the effective month.

c) The cost of gas estimated to be withdrawn from storage during the base period shall be included in the Gas Charge(s).

d) Recoverable gas costs shall be offset by the revenues derived from transactions at rates that are not subject to the Gas Charge(s) if any of the associated costs are recoverable gas costs as prescribed by subsection (a) of this Section. This subsection shall not apply to transactions subject to rates contained in tariffs on file with the Commission, or in contracts entered into pursuant to such tariffs, unless otherwise specifically provided for in the tariff. Taking into account the level of additional recoverable gas costs that must be incurred to engage in a given transaction, the utility shall refrain from entering into any such transaction that would raise the Gas Charge(s).

e) Revenues from penalty charges or imbalance charges, which the Commission has previously approved to prevent unauthorized actions of customers, shall offset gas costs.

f) Revenues from "cash-out" schedules, which the Commission has previously approved for transportation customers' monthly imbalances, shall offset gas costs. Under such schedules, the utility can charge customers for gas used in excess of the amount contracted for, or can refund to customers the avoided cost of gas not taken. Refunds by the utility pursuant to any such "cash-out" schedule shall be treated as gas costs recoverable under this Section.