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BEFORE THE ARIZONA CORPORATION COMMISSION

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**COMMISSIONERS**  
**JEFF HATCH-MILLER - CHAIRMAN**  
**WILLIAM A. MUNDELL**  
**MARC SPITZER**  
**MIKE GLEASON**  
**KRISTIN K. MAYES**

2005 FEB 23 P 4:42

AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF THE APPLICATION OF  
UNS GAS, INC. FOR APPROVAL OF  
ADJUSTMENT TO PURCHASED GAS  
ADJUSTOR SURCHARGE.

DOCKET NO. G-04204A-05-0046

**NOTICE OF FILING**

UNS Gas, Inc. ("UNS Gas"), through undersigned counsel, hereby files with the Arizona Corporation Commission ("Commission") a copy of letters sent from UNS Gas' representative, Jamieson & Gutierrez to various officials in the UNS Gas service territory.

The letters updated the officials with information regarding UNS Gas' application for approval of an adjustment to its Purchase Gas Adjustor ("PGA") surcharge. Prior to the letters, representatives of UNS Gas met with the officials to discuss the PGA and answer any questions regarding the Commission process for considering UNS Gas' PGA Application.

RESPECTFULLY SUBMITTED this 23<sup>rd</sup> day of February 2005.

ROSHKA HEYMAN & DEWULF, PLC

By   
Raymond S. Heyman  
One Arizona Center  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004  
Attorneys for UNS Gas, Inc.

Arizona Corporation Commission  
**DOCKETED**

FEB 23 2005

DOCKETED BY 

**ROSHKA HEYMAN & DEWULF, PLC**  
ONE ARIZONA CENTER  
400 EAST VAN BUREN STREET - SUITE 800  
PHOENIX, ARIZONA 85004  
TELEPHONE NO 602-256-6100  
FACSIMILE 602-256-6800

- 1 Original and 13 copies of the foregoing  
2 filed this 23<sup>rd</sup> day of February 2005 with:
- 3 Docket Control  
4 Arizona Corporation Commission  
5 1200 West Washington Street  
6 Phoenix, Arizona 85007
- 7 Copy of the foregoing hand-delivered/mailed  
8 this 23<sup>rd</sup> day of February 2005 to:
- 9 Chairman Jeff Hatch-Miller  
10 Arizona Corporation Commission  
11 1200 West Washington Street  
12 Phoenix, Arizona 85007
- 13 Commissioner William A. Mundell  
14 Arizona Corporation Commission  
15 1200 West Washington Street  
16 Phoenix, Arizona 85007
- 17 Commissioner Marc Spitzer  
18 Arizona Corporation Commission  
19 1200 West Washington Street  
20 Phoenix, Arizona 85007
- 21 Commissioner Mike Gleason  
22 Arizona Corporation Commission  
23 1200 West Washington Street  
24 Phoenix, Arizona 85007
- 25 Commissioner Kristin K. Mayes  
26 Arizona Corporation Commission  
27 1200 West Washington Street  
Phoenix, Arizona 85007
- 28 Lyn A. Farmer, Esq.  
29 Chief Administrative Law Judge  
30 Hearing Division  
31 Arizona Corporation Commission  
32 1200 West Washington Street  
33 Phoenix, Arizona 85007

**ROSHKA HEYMAN & DEWULF, PLC**  
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400 EAST VAN BUREN STREET - SUITE 800  
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Christopher C. Kempley, Esq.  
Chief Counsel, Legal Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Ernest G. Johnson  
Director, Utilities Division  
Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

Michelle Livengood  
Tucson Electric Power Company  
One South Church Avenue, Suite 200  
Tucson, Arizona 85701

By Mary Appolito



February 18, 2005

The Honorable Chip Davis  
Yavapai County Board of Supervisors  
10 South Sixth Street  
Cottonwood, AZ 86326

In Re: Unisource Gas

Dear Mr. Davis:

Thanks again for taking the time to meet with us last month about UniSource need to recover natural gas costs. We remain ready to provide you with any information or briefings on the issue.

I wanted to give you an update on our filing with the Arizona Corporation Commission ("ACC"). Yesterday, February 17, the ACC Staff issued its recommendation on our application. You will recall that we requested a surcharge of \$0.06/per therm; Staff recommended \$0.05/therm. Page 2 of Staff's recommendation includes a table showing the impact of their recommendation for the customer; the highest impact Staff foresees is for winter bills in which the ratepayer uses 50% more than the average customer does. That impact would be \$6.00 per month, from \$123.39 to \$129.39. Obviously, a customer using even more than that would see a higher amount.

The matter has been scheduled for an Open Meeting at the Arizona Corporation Commission on March 24, 2005 at 10:00 a.m. At that meeting, the Commissioners can decide to accept, amend or reject the recommended change. As we committed to you last month, we will keep you informed as this case develops, and when the ACC makes its final decision we will make a very significant outreach to the press and to our customers about the effect and ways to mitigate the impact to bills.

If you need anything regarding this issue, or any other natural gas matter, please do not hesitate to contact either Dennis Nelson, who heads UniSource Energy Services, at (928) 226-2200, or me at (602) 307-5080. Thanks for your time and interest in this issue.

Sincerely,

Paul Walker

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MARC SPITZER  
MIKE GLEASON  
KRISTIN K. MAYES



BRIAN C. McNEIL  
Executive Secretary

**ARIZONA CORPORATION COMMISSION**

February 17, 2005

Mr. Raymond S. Heyman  
Attorney for UNS Gas, Inc.  
One Arizona Center  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004

Dear Mr. Heyman:

Enclosed are the Commission Staff's transmittal memorandum and proposed order for the matter of the application of UNS Gas, Inc. – filing for approval of an adjustment to purchased gas adjustor credit (Docket No. G-04204A-05-0046). This is only a Staff recommendation to the Commission; it has not yet become an order of the Commission. The Commission can decide to accept, amend or reject Staff's proposed order.

This matter is scheduled for Commission deliberation at its Open Meeting scheduled for March 24, 2005, at 10:00 a.m.

If you have any questions about this matter, please contact Steve Irvine of our Staff at (602) 542-0824, or me, at (602) 542-0745.

Sincerely,

A handwritten signature in black ink, appearing to read "EGJ", with a long horizontal line extending to the right.

Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lhm

Enclosures

# OPEN MEETING

## MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: February 17, 2005

RE: IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR APPROVAL OF ADJUSTMENT TO PURCHASED GAS ADJUSTOR SURCHARGE (DOCKET NO. G-04204A-05-0046)

UNS Gas, Inc. ("UNS" or "Company") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("ACC" or "Commission"). On January 25, 2005, UNS filed for Commission approval of a temporary purchased gas adjustor ("PGA") surcharge due to high natural gas prices. The application seeks a surcharge of \$0.06 per therm effective April 1, 2005 and remaining in effect for 12 months.

UNS' approved PGA Tariff RR-1 requires that should the PGA bank balance reach an over or under collection in the amount of \$4,450,000 the Company must file an application for an adjustment within forty-five days of completing the monthly informational filing that illustrates that the threshold has been exceeded, or alternatively contact the ACC to discuss why a PGA rate adjustment is not necessary at the time.

UNS' PGA rates are calculated using a 12 month rolling average. The rolling average has a \$0.10 band that limits the adjustor rate implemented to no more than \$0.10 difference than any PGA rate in the previous 12 months. The monthly PGA rate has been constrained by the \$0.10 band since September of 2004. It is necessary for UNS to seek approval of a surcharge in order to recover the undercollected balance that has developed.

In the recent past UNS has had a surcharge. UNS' most recent surcharge was \$0.1155 authorized by Decision No. 65384 (November 13, 2002). That surcharge ended October of 2004. The surcharge included a "surcharge holiday". Subsequent decisions, Decision No. 66341 (September 30, 2003) and Decision 66861 (March 23, 2004), added a circuit-breaker mechanism to the surcharge. The surcharge holiday and circuit-breaker mechanisms made certain adjustments to the rates in winter months. UNS has not asked for such provisions in this application.

UNS' November PGA filing, dated January 21, 2005, demonstrated that November's ending bank balance had passed the PGA threshold and risen to \$6,575,602 in undercollection. While UNS has not yet formally submitted its January PGA bank balance report to the Commission, the Company has indicated to Staff that a preliminary calculation of December 2004's ending PGA balance shows the balance at approximately \$9,290,000 undercollected.

UNS does not anticipate that its current undercollected balance will be recovered in the next year without a surcharge. The proposed \$0.06 surcharge is designed to reduce the PGA bank balance to zero in the spring of 2006. Contained in Attachment I is a chart that demonstrates the future projected bank balance should no surcharge be implemented. The chart also shows the projected future balance should any of three surcharge options be implemented. These options shown are \$0.04, \$0.05, and \$0.06 per therm. Attachment II demonstrates the effect these surcharge options would have on selected residential customer's monthly bills. The projections are based on historic data, projected therm sales, and projected gas costs.

Residential customers of UNS used a monthly average 28 therms in the summer of 2004, April to September. Residential customers are projected to use a monthly average of 74 therms in the winter of 2004-2005, October to March, based on consumption to date this winter and historic data from last winter. The following tables demonstrate the effect on selected residential customers of implementation of a \$0.05 per therm surcharge (rather than UNS' proposed \$0.06 surcharge) in both summer and winter, assuming residential average usage occurs as is projected:

**Table I**  
**Impact on Residential Bills**  
**Summer/ April - September**

Number of Therms Used	Percent of Average Therm Use	Bill Without Surcharge	Bill With \$0.05 Surcharge	Percent Change in Bill
21	75%	\$ 27.06	\$ 28.11	3.88%
28 (average)	100%	\$ 33.86	\$ 35.26	4.15%
35	125%	\$40.43	\$42.18	4.33%
42	150%	\$47.12	\$49.22	4.46%

**Table II**  
**Impact on Residential Bills**  
**Winter/ October - March**

Number of Therms Used	Percent of Average Therm Use	Bill Without Surcharge	Bill With \$0.05 Surcharge	Percent Change in Bill
55	74%	\$ 64.89	\$ 67.64	4.24%
74 (average)	100%	\$ 84.39	\$ 88.07	4.36%
92	124%	\$103.84	\$108.44	4.43%
111	150%	\$123.39	\$129.39	4.48%

The effects that each of three surcharge options would have both on the average residential customer's monthly bill and the effect on customers whose consumption is both higher and lower than the average consumption rate is shown in Attachment III.

THE COMMISSION

February 17, 2005

Page 3

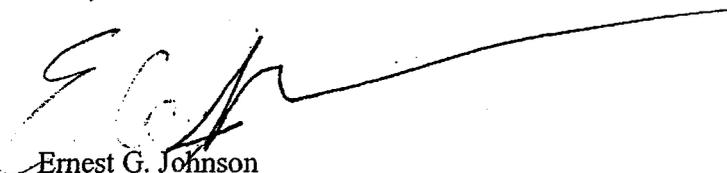
UNS has hedged the price for approximately 60 percent of its current working gas and has hedged approximately 20 percent of its gas for next winter. UNS has explained to Staff its intention to increase the proportion of next winter's hedged gas to approximately 60 percent as the 2005-2006 winter season approaches. As next winter approaches, the portion of UNS' gas supply portfolio which is not hedged will be subject to the market forces that prevail at the time. While customer therm use can be anticipated to a certain degree, weather and market prices that will occur next winter cannot be predicted with certainty.

On February 4, 2005, UNS provided to Staff an example of a bill insert that would be used to inform customers about the surcharge proposal. The bill insert invites customers to contact UNS to comment on the matter. The notice also provides a toll-free number for the Commission which connects with the Consumer Services Section of the Commission should customers want to leave their comments with the Commission. Staff reviewed the insert and found it to be reasonable notice for the proposed surcharge. UNS began sending the notice and given the UNS billing cycles, the bill inserts should reach all customers two weeks or more before March 24, 2005 depending on their individual billing cycle. A copy of the bill insert message is attached as Attachment IV.

Staff's analysis of the PGA balance for the next twelve months, based on current gas rates and projected demand, concludes that the PGA balance will not be reduced to zero by the spring of 2006 without a PGA credit of at least \$0.05. Staff has reviewed projections for future cost, consumption, and other estimations used in determining an appropriate surcharge and finds them reasonable for purposes of setting the credit.

Staff recommends implementation of a \$0.05 credit as it is projected to eliminate the undercollected balance by May of 2005. Staff recommends a \$0.05 surcharge as it balances UNS' interest in reducing its undercollected balance with the customer's interest in price stability.

Staff also recommends that the surcharge be implemented in April of 2005 and be in effect for the earlier of a period of 12 months or until such time as UNS' balance is reduced to zero, whichever comes first.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lmJG

ORIGINATOR: Steve Irvine



February 18, 2005

The Honorable Thomas Thurman  
Yavapai County Board of Supervisors  
1015 Fair Street  
Prescott, AZ 86305

In Re: Unisource Gas

Dear Mr. Thurman:

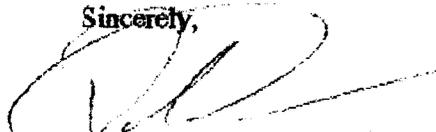
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The matter has been scheduled for an Open Meeting at the Arizona Corporation Commission on March 24, 2005 at 10:00 a.m. At that meeting, the Commissioners can decide to accept, amend or reject the recommended change. As we committed to you last month, we will keep you informed as this case develops, and when the ACC makes its final decision we will make a very significant outreach to the press and to our customers about the effect and ways to mitigate the impact to bills.

If you need anything regarding this issue, or any other natural gas matter, please do not hesitate to contact either Dennis Nelson, who heads UniSource Energy Services, at (928) 226-2200, or me at (602) 307-5080. Thanks for your time and interest in this issue.

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Paul Walker

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Utilities Division

EGJ:SPI:lmh

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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lhmJG

ORIGINATOR: Steve Irvine



February 18, 2005

The Honorable Carol Springer, Chairman  
Yavapai County Board of Supervisors  
1015 Fair Street  
Prescott, AZ 86305

In Re: Unisource Gas

Dear Chairman Springer:

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EGJ:SPI:lm

Enclosures

# OPEN MEETING

## MEMORANDUM

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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lhmvJG

ORIGINATOR: Steve Irvine



February 18, 2005

Mr. John Holmes  
Manager, Coconino County  
219 East Cherry Avenue  
Flagstaff, AZ 86001

In Re: Unisource Gas

Dear Mr. Holmes:

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I wanted to give you an update on our filing with the Arizona Corporation Commission ("ACC"). Yesterday, February 17, the ACC Staff issued its recommendation on our application. You will recall that we requested a surcharge of \$0.06/per therm; Staff recommended \$0.05/therm. Page 2 of Staff's recommendation includes a table showing the impact of their recommendation for the customer; the highest impact Staff foresees is for winter bills in which the ratepayer uses 50% more than the average customer does. That impact would be \$6.00 per month, from \$123.39 to \$129.39. Obviously, a customer using even more than that would see a higher amount.

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Sincerely,



Paul Walker

**COMMISSIONERS**  
JEFF HATCH-MILLER - Chairman  
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BRIAN C. McNEIL  
Executive Secretary

**ARIZONA CORPORATION COMMISSION**

February 17, 2005

Mr. Raymond S. Heyman  
Attorney for UNS Gas, Inc.  
One Arizona Center  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004

Dear Mr. Heyman:

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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lmh

Enclosures

# OPEN MEETING

## MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: February 17, 2005

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THE COMMISSION

February 17, 2005

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Ernest G. Johnson

Director  
Utilities Division

EGJ:SPI:lhvJG

ORIGINATOR: Steve Irvine



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Mr. Ron Walker  
Manager, Mohave County  
809 East Beale Street  
Kingman, AZ 86402

In Re: Unisource Gas

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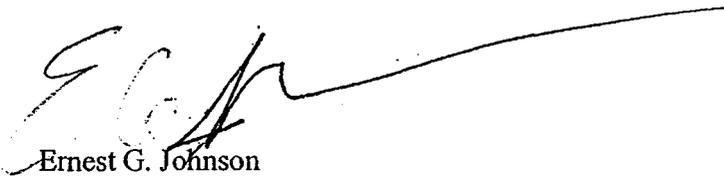
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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lm\JG

ORIGINATOR: Steve Irvine



February 18, 2005

The Honorable Pete Byers, Chairman  
Mohave County Board of Supervisors  
809 East Beale Street  
Kingman, AZ 86402

In Re: Unisource Gas

Dear Chairman Byers:

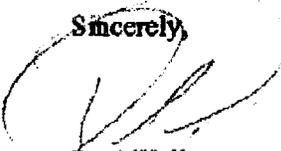
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411 N. Central Ave. Suite 340 Phoenix, AZ 85004  
602-307-5080 FAX 307-0315  
Jamieson and Gutierrez, Inc.

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# OPEN MEETING

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THE COMMISSION

February 17, 2005

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Staff also recommends that the surcharge be implemented in April of 2005 and be in effect for the earlier of a period of 12 months or until such time as UNS' balance is reduced to zero, whichever comes first.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lm\VG

ORIGINATOR: Steve Irvine



February 18, 2005

Mr. Paul Beecher  
Manager, Kingman  
310 North 4<sup>th</sup> Street  
Kingman, AZ 86401

In Re: Unisource Gas

Dear Mr. Beecher:

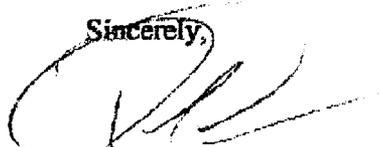
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The matter has been scheduled for an Open Meeting at the Arizona Corporation Commission on March 24, 2005 at 10:00 a.m. At that meeting, the Commissioners can decide to accept, amend or reject the recommended change. As we committed to you last month, we will keep you informed as this case develops, and when the ACC makes its final decision we will make a very significant outreach to the press and to our customers about the effect and ways to mitigate the impact to bills.

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Sincerely,



Paul Walker

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BRIAN C. McNEIL  
Executive Secretary

**ARIZONA CORPORATION COMMISSION**

February 17, 2005

Mr. Raymond S. Heyman  
Attorney for UNS Gas, Inc.  
One Arizona Center  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004

Dear Mr. Heyman:

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This matter is scheduled for Commission deliberation at its Open Meeting scheduled for March 24, 2005, at 10:00 a.m.

If you have any questions about this matter, please contact Steve Irvine of our Staff at (602) 542-0824, or me, at (602) 542-0745.

Sincerely,

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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lmh

Enclosures

# OPEN MEETING

## MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: February 17, 2005

RE: IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR APPROVAL OF ADJUSTMENT TO PURCHASED GAS ADJUSTOR SURCHARGE (DOCKET NO. G-04204A-05-0046)

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UNS' PGA rates are calculated using a 12 month rolling average. The rolling average has a \$0.10 band that limits the adjustor rate implemented to no more than \$0.10 difference than any PGA rate in the previous 12 months. The monthly PGA rate has been constrained by the \$0.10 band since September of 2004. It is necessary for UNS to seek approval of a surcharge in order to recover the undercollected balance that has developed.

In the recent past UNS has had a surcharge. UNS' most recent surcharge was \$0.1155 authorized by Decision No. 65384 (November 13, 2002). That surcharge ended October of 2004. The surcharge included a "surcharge holiday". Subsequent decisions, Decision No. 66341 (September 30, 2003) and Decision 66861 (March 23, 2004), added a circuit-breaker mechanism to the surcharge. The surcharge holiday and circuit-breaker mechanisms made certain adjustments to the rates in winter months. UNS has not asked for such provisions in this application.

UNS' November PGA filing, dated January 21, 2005, demonstrated that November's ending bank balance had passed the PGA threshold and risen to \$6,575,602 in undercollection. While UNS has not yet formally submitted its January PGA bank balance report to the Commission, the Company has indicated to Staff that a preliminary calculation of December 2004's ending PGA balance shows the balance at approximately \$9,290,000 undercollected.

UNS does not anticipate that its current undercollected balance will be recovered in the next year without a surcharge. The proposed \$0.06 surcharge is designed to reduce the PGA bank balance to zero in the spring of 2006. Contained in Attachment I is a chart that demonstrates the future projected bank balance should no surcharge be implemented. The chart also shows the projected future balance should any of three surcharge options be implemented. These options shown are \$0.04, \$0.05, and \$0.06 per therm. Attachment II demonstrates the effect these surcharge options would have on selected residential customer's monthly bills. The projections are based on historic data, projected therm sales, and projected gas costs.

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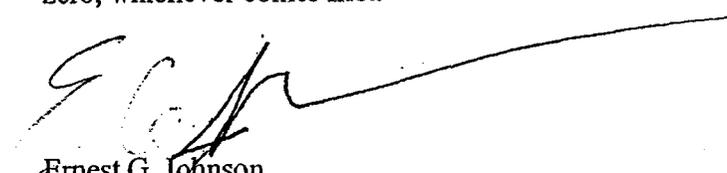
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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:ihm\VG

ORIGINATOR: Steve Irvine



February 18, 2005

Mr. Steve Norwood  
Manager, Prescott  
201 South Cortez Street  
Prescott, AZ 86302

In Re: Unisource Gas

Dear Mr. Norwood:

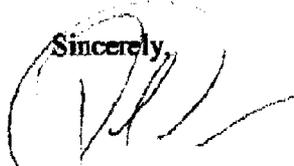
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Paul Walker

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**ARIZONA CORPORATION COMMISSION**

February 17, 2005

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# OPEN MEETING

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TO: THE COMMISSION

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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lhvJG

ORIGINATOR: Steve Irvine



February 18, 2005

The Honorable Rowle Simmons  
Mayor of Prescott  
201 South Cortez Street  
Prescott, AZ 86302

In Re: Unisource Gas

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# OPEN MEETING

## MEMORANDUM

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February 17, 2005

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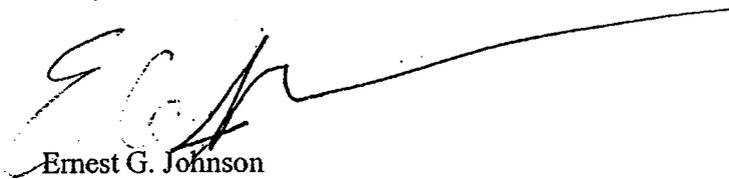
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Staff also recommends that the surcharge be implemented in April of 2005 and be in effect for the earlier of a period of 12 months or until such time as UNS' balance is reduced to zero, whichever comes first.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lhvJG

ORIGINATOR: Steve Irvine



February 18, 2005

Mr. Larry Tarkowski  
Manager, Prescott Valley  
7501 East Civic Circle  
Prescott Valley, AZ 86314

In Re: Unisource Gas

Dear Mr. Tarkowski:

Thanks again for taking the time to meet with us last month about UniSource need to recover natural gas costs. We remain ready to provide you with any information or briefings on the issue.

I wanted to give you an update on our filing with the Arizona Corporation Commission ("ACC"). Yesterday, February 17, the ACC Staff issued its recommendation on our application. You will recall that we requested a surcharge of \$0.06/per therm; Staff recommended \$0.05/therm. Page 2 of Staff's recommendation includes a table showing the impact of their recommendation for the customer; the highest impact Staff foresees is for winter bills in which the ratepayer uses 50% more than the average customer does. That impact would be \$6.00 per month, from \$123.39 to \$129.39. Obviously, a customer using even more than that would see a higher amount.

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Sincerely,



Paul Walker

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JEFF HATCH-MILLER - Chairman  
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MARC SPITZER  
MIKE GLEASON  
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BRIAN C. McNEIL  
Executive Secretary

**ARIZONA CORPORATION COMMISSION**

February 17, 2005

Mr. Raymond S. Heyman  
Attorney for UNS Gas, Inc.  
One Arizona Center  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004

Dear Mr. Heyman:

Enclosed are the Commission Staff's transmittal memorandum and proposed order for the matter of the application of UNS Gas, Inc. – filing for approval of an adjustment to purchased gas adjustor credit (Docket No. G-04204A-05-0046). This is only a Staff recommendation to the Commission; it has not yet become an order of the Commission. The Commission can decide to accept, amend or reject Staff's proposed order.

This matter is scheduled for Commission deliberation at its Open Meeting scheduled for March 24, 2005, at 10:00 a.m.

If you have any questions about this matter, please contact Steve Irvine of our Staff at (602) 542-0824, or me, at (602) 542-0745.

Sincerely,

A handwritten signature in black ink, appearing to read "E.G. Johnson", written over a horizontal line.

Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lhv

Enclosures

# OPEN MEETING

## MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: February 17, 2005

RE: IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR APPROVAL OF ADJUSTMENT TO PURCHASED GAS ADJUSTOR SURCHARGE (DOCKET NO. G-04204A-05-0046)

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UNS' PGA rates are calculated using a 12 month rolling average. The rolling average has a \$0.10 band that limits the adjustor rate implemented to no more than \$0.10 difference than any PGA rate in the previous 12 months. The monthly PGA rate has been constrained by the \$0.10 band since September of 2004. It is necessary for UNS to seek approval of a surcharge in order to recover the undercollected balance that has developed.

In the recent past UNS has had a surcharge. UNS' most recent surcharge was \$0.1155 authorized by Decision No. 65384 (November 13, 2002). That surcharge ended October of 2004. The surcharge included a "surcharge holiday". Subsequent decisions, Decision No. 66341 (September 30, 2003) and Decision 66861 (March 23, 2004), added a circuit-breaker mechanism to the surcharge. The surcharge holiday and circuit-breaker mechanisms made certain adjustments to the rates in winter months. UNS has not asked for such provisions in this application.

UNS' November PGA filing, dated January 21, 2005, demonstrated that November's ending bank balance had passed the PGA threshold and risen to \$6,575,602 in undercollection. While UNS has not yet formally submitted its January PGA bank balance report to the Commission, the Company has indicated to Staff that a preliminary calculation of December 2004's ending PGA balance shows the balance at approximately \$9,290,000 undercollected.

THE COMMISSION

February 17, 2005

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UNS does not anticipate that its current undercollected balance will be recovered in the next year without a surcharge. The proposed \$0.06 surcharge is designed to reduce the PGA bank balance to zero in the spring of 2006. Contained in Attachment I is a chart that demonstrates the future projected bank balance should no surcharge be implemented. The chart also shows the projected future balance should any of three surcharge options be implemented. These options shown are \$0.04, \$0.05, and \$0.06 per therm. Attachment II demonstrates the effect these surcharge options would have on selected residential customer's monthly bills. The projections are based on historic data, projected therm sales, and projected gas costs.

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THE COMMISSION

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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lm\JG

ORIGINATOR: Steve Irvine



February 18, 2005

The Honorable Harvey Skoog  
Mayor of Prescott Valley  
7501 East Civic Circle  
Prescott Valley, AZ 86314

In Re: Unisource Gas

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**ARIZONA CORPORATION COMMISSION**

February 17, 2005

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One Arizona Center  
400 East Van Buren Street, Suite 800  
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# OPEN MEETING

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THE COMMISSION

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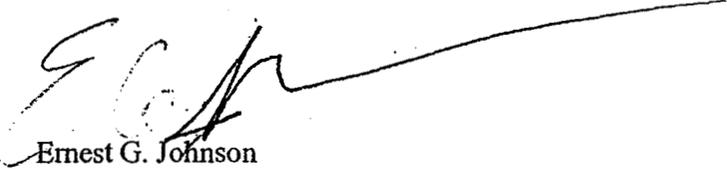
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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lm\VG

ORIGINATOR: Steve Irvine

February 18, 2005

The Honorable Pad Colquitt  
Mayor of Sedona  
102 Roadrunner Drive  
Sedona, AZ 86336

In Re: Unisource Gas

Dear Mayor Colquitt:

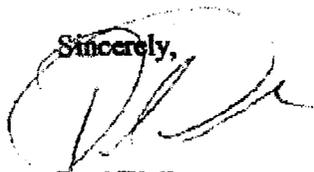
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# OPEN MEETING

## MEMORANDUM

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Staff also recommends that the surcharge be implemented in April of 2005 and be in effect for the earlier of a period of 12 months or until such time as UNS' balance is reduced to zero, whichever comes first.



Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lm\JG

ORIGINATOR: Steve Irvine



February 18, 2005

Mr. Eric Levitt  
City Manager, Sedona  
102 Roadrunner Drive  
Sedona, AZ 86336

In Re: Unisource Gas

Dear Mr. Levitt:

Thanks again for taking the time to meet with us last month about UniSource need to recover natural gas costs. We remain ready to provide you with any information or briefings on the issue.

I wanted to give you an update on our filing with the Arizona Corporation Commission ("ACC"). Yesterday, February 17, the ACC Staff issued its recommendation on our application. You will recall that we requested a surcharge of \$0.06/per therm; Staff recommended \$0.05/therm. Page 2 of Staff's recommendation includes a table showing the impact of their recommendation for the customer; the highest impact Staff foresees is for winter bills in which the ratepayer uses 50% more than the average customer does. That impact would be \$6.00 per month, from \$123.39 to \$129.39. Obviously, a customer using even more than that would see a higher amount.

The matter has been scheduled for an Open Meeting at the Arizona Corporation Commission on March 24, 2005 at 10:00 a.m. At that meeting, the Commissioners can decide to accept, amend or reject the recommended change. As we committed to you last month, we will keep you informed as this case develops, and when the ACC makes its final decision we will make a very significant outreach to the press and to our customers about the effect and ways to mitigate the impact to bills.

If you need anything regarding this issue, or any other natural gas matter, please do not hesitate to contact either Dennis Nelson, who heads UniSource Energy Services, at (928) 226-2200, or me at (602) 307-5080. Thanks for your time and interest in this issue.

Sincerely,

Paul Walker

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**BRIAN C. McNEIL**  
Executive Secretary

**ARIZONA CORPORATION COMMISSION**

February 17, 2005

Mr. Raymond S. Heyman  
Attorney for UNS Gas, Inc.  
One Arizona Center  
400 East Van Buren Street, Suite 800  
Phoenix, Arizona 85004

Dear Mr. Heyman:

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This matter is scheduled for Commission deliberation at its Open Meeting scheduled for March 24, 2005, at 10:00 a.m.

If you have any questions about this matter, please contact Steve Irvine of our Staff at (602) 542-0824, or me, at (602) 542-0745.

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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPL:lm

Enclosures

# OPEN MEETING

## MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: February 17, 2005

RE: IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR APPROVAL OF ADJUSTMENT TO PURCHASED GAS ADJUSTOR SURCHARGE (DOCKET NO. G-04204A-05-0046)

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UNS does not anticipate that its current undercollected balance will be recovered in the next year without a surcharge. The proposed \$0.06 surcharge is designed to reduce the PGA bank balance to zero in the spring of 2006. Contained in Attachment I is a chart that demonstrates the future projected bank balance should no surcharge be implemented. The chart also shows the projected future balance should any of three surcharge options be implemented. These options shown are \$0.04, \$0.05, and \$0.06 per therm. Attachment II demonstrates the effect these surcharge options would have on selected residential customer's monthly bills. The projections are based on historic data, projected therm sales, and projected gas costs.

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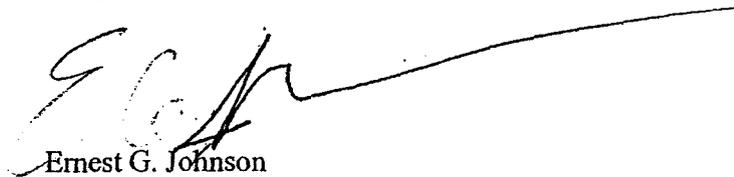
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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lhmVG

ORIGINATOR: Steve Irvine



February 18, 2005

Mr. Brian Mickelsen  
City Manager, Cottonwood  
827 North Main Street  
Cottonwood, AZ 86326

In Re: Unisource Gas

Dear Mr. Mickelsen:

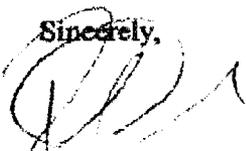
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BRIAN C. McNEIL  
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**ARIZONA CORPORATION COMMISSION**

February 17, 2005

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Utilities Division

EGJ:SPI:lmh

Enclosures

# OPEN MEETING

## MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

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Ernest G. Johnson  
Director  
Utilities Division

EGJ:SPI:lhmvJG

ORIGINATOR: Steve Irvine



February 18, 2005

The Honorable Karen Fann  
Mayor of Chino Valley  
1020 West Palomino  
Chino Valley, AZ 86323

In Re: Unisource Gas

Dear Mayor Fann:

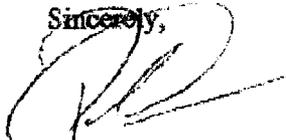
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Paul Walker

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BRIAN C. McNEIL  
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Attorney for UNS Gas, Inc.  
One Arizona Center  
400 East Van Buren Street, Suite 800  
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Enclosures

# OPEN MEETING

## MEMORANDUM

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On February 4, 2005, UNS provided to Staff an example of a bill insert that would be used to inform customers about the surcharge proposal. The bill insert invites customers to contact UNS to comment on the matter. The notice also provides a toll-free number for the Commission which connects with the Consumer Services Section of the Commission should customers want to leave their comments with the Commission. Staff reviewed the insert and found it to be reasonable notice for the proposed surcharge. UNS began sending the notice and given the UNS billing cycles, the bill inserts should reach all customers two weeks or more before March 24, 2005 depending on their individual billing cycle. A copy of the bill insert message is attached as Attachment IV.

Staff's analysis of the PGA balance for the next twelve months, based on current gas rates and projected demand, concludes that the PGA balance will not be reduced to zero by the spring of 2006 without a PGA credit of at least \$0.05. Staff has reviewed projections for future cost, consumption, and other estimations used in determining an appropriate surcharge and finds them reasonable for purposes of setting the credit.

Staff recommends implementation of a \$0.05 credit as it is projected to eliminate the undercollected balance by May of 2005. Staff recommends a \$0.05 surcharge as it balances UNS' interest in reducing its undercollected balance with the customer's interest in price stability.

Staff also recommends that the surcharge be implemented in April of 2005 and be in effect for the earlier of a period of 12 months or until such time as UNS' balance is reduced to zero, whichever comes first.



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