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March 22, 2005

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Chairman Jeff Hatch-Miller  
 Commissioner William A. Mundell  
 Commissioner Marc Spitzer  
 Commissioner Mike Gleason  
 Commissioner Kristin K. Mayes

2005 MAR 24 A 8:03

AZ CORP COMMISSION  
DOCUMENT CONTROL

RE: UniSource request for \$.06 per therm surcharge (G-04204A-05-0046)

Dear Commissioners:

I am a customer of UNS Gas in Flagstaff and my comments on this proceeding are:

- 1) Market natural gas prices are higher than what UNS customers have been paying and there are limits on what UNS, the ACC, and consumers can do to mitigate this fact, since gas prices are driven by national and international influences. As undesirable and, in some cases, painful as this fact is, does not change its accuracy. So higher prices are going to be something that consumers, the ACC and UNS will need to plan for over a period of at least a few years, and perhaps indefinitely.
- 2) This surcharge, along with the projected level of the PGA, will produce another year of record highest prices since natural gas came to Northern Arizona in the 1950s, the second time this has happened in the last three years. The last three years under UniSource have been the highest three for gas prices since the 1950s, exceeding the previous highest priced year (2001-2002) by about 20% or more each year.

In this environment, I urge you to require:

**3) Communications**

An aggressive communication campaign similar to what was executed last fall and winter, under order from this Commission and in stark contrast to the shameful effort the previous year for which two UNS senior executives have given public apologies. This campaign should again provide information on projected prices by month, conservation guidance (with correction of one significant error, discussed below), low-income CARES, budget billing, and available social services. It should be timed correctly, so that CARES and budget bill customers have plenty of time to sign up at the appropriate time for the programs. It should include multiple bill inserts, newspaper ads, local TV ads, press releases, and newspaper and TV stories. The program content and schedule should once again be approved in detail, in advance by ACC Staff.

Arizona Corporation Commission

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#### **4) Thermostat setback as effective conservation measure**

The conservation information must correctly advocate thermostat setback as an effective measure to reduce usage and bills. This action can readily save from 10-20% of heating usage compared to leaving a thermostat at a fixed setting at a capital cost of \$0-\$100. In a Flagstaff single family home, the cost of this measure is recovered about half way through the first winter. This winter's UNS inserts described such limitations on this universally accepted measure that following the UNS recommendation made the measure almost completely ineffective. I have been in discussions with the UNS technical expert and the responses have been timely and substantive, but we are not in agreement as I write this letter. When prices are about 20% above the previous highest price in 50 years, the customers should not be confused about a measure that could reduce heating usage by a similar amount.

#### **5) Efficiency programs**

Establish programs to assist customers with weatherization and efficiency. Citizens had a 15% off coupon for weatherization materials that helped the customers who used it, but also helped build awareness for all customers that gas prices would be higher and they should plan for it.

Another program could be one where customers with bills over a certain threshold (\$800 per year?) and below a certain income (\$50,000 per year?) could arrange to get an audit and weatherization services provided by a vendor identified by UNS and pay for it on their gas bills over time (3 years?). The customers could pay for all of it or there could be a sliding scale of payment depending on income. Costs by the company would be put into a deferral account for the 2006 rate case. A carefully designed program that focused on the most cost effective measures could have the reduced gas bill payments pay for the costs of the weatherization. In such a program the most vulnerable people with the poorest efficiency homes could improve that efficiency, have lower annual out-of-pocket costs, with little or no cost to other ratepayers. UNS would have some reduced gas sales, but to a group that also has the highest uncollectables. The company can also identify those with high bills in low-income neighborhoods and contact them directly and not simply rely on these customers to contact them on the program. Costs for the most effective measures could be limited to \$500-\$1000 per house.

#### **6) Gas Procurement**

If gas prices are going to be high and volatile for the foreseeable future, then UNS (and other Arizona gas companies) needs to be accountable for the gas prices it pays and then collects from customers. This involves a review of when they purchased gas and how their hedging program is executed and comparison of the price paid to published indexes and to other opportunities to buy that month's gas. This effort is open to retrospective second-guessing which needs to be avoided, since everyone

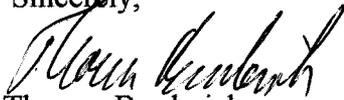
knows when UNS should have purchased gas after the fact, but for everyone it is only a best guess when to buy forward months at any particular moment. I believe that this Commission is the one most capable of avoiding this retrospective second guessing that in the 10 years I have been in Arizona. The goal is to provide stability and also to get lower prices.

Hypothetically, if a company consistently purchased gas for a month at a high end of the price range that was available, that might warrant a disallowance. On the other hand, if they were in the middle that might indicate prudence. If they were lower consistently, this might warrant a financial reward and could serve as a benchmark for other gas companies in the state to use, which could help lower prices for all gas customers.

This is a more aggressive program than is in place now, where such reviews are limited to rate cases. However, with prices as high and volatile as they are now and the ACC and the customers served by UNS and the ACC need to have the best possible purchase practices in effect as early as possible.

I plan to be at the meeting on March 24 and would like to briefly recap the comments in this letter and respond to questions or comments from the Commissioners. I know you have a lot planned for this meeting, but I believe the suggestions I have here will help the ACC lessen the impact of record gas prices, particularly on the vulnerable customers.

Sincerely,



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