

ORIGINAL EXCEPTION

OPEN MEETING AGENDA ITEM



0000031264

BEFORE THE ARIZONA CORPORATION COMMISSION

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2005 SEP 22 P 2:41

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-05-0596

**EXCEPTIONS TO THE
RECOMMENDED ORDER**

UNS Gas, Inc. ("UNS Gas"), by and through undersigned counsel, submits its exceptions to the Recommended Order prepared by Utilities Division Staff in conjunction with its September 12, 2005 Staff Report in this docket. In support of its exceptions, UNS Gas states as follows:

UNS Gas appreciates Staff's prompt attention to the application in this docket, particularly given the time-sensitive nature of the circumstances underlying the application. Any delay in considering this application will exacerbate the problems resulting from the volatile wholesale natural gas markets.

UNS Gas also appreciates Staff's detailed analysis of the issues raised in this docket. However, UNS Gas submits that the Recommended Order should be amended to reduce additional difficulties in the future. While Staff's analysis is correct based on the data UNS Gas provided at the time of the surcharge application, it should be noted that this data pre-dated Hurricane Katrina. In the aftermath of the Hurricane Katrina, natural gas prices increased dramatically and now, in anticipation of the impact of Hurricane Rita, gas prices have surged again this week.

Using estimates that were prepared on September 12, 2005 (the "September 12, 2005 Forecast"), the average forward price for San Juan gas for November 2005 through March 2006 is approximately \$10.75/mmBtu (\$1.075/therm) versus the \$9.50/mmBtu (\$0.95/therm) in UNS Gas' application in this docket. Based on bank balance projections using the September 12, 2005

1 Forecast, Mr. Gray's recommended surcharge would reduce the bank balance to \$7 million in the
2 summer of 2006 (the lowest point it would reach) and it would ultimately result in a bank balance
3 in excess of \$20 million by the following winter. Attached as Exhibit A is a graphical depiction of
4 Staff's surcharge recommendation using the September 12, 2005 Forecast. The September 12,
5 2005 Forecast calculation also takes into account Mr. Gray's reduction of UNS Gas' filed El Paso
6 rate change effect. The bank balance increases would be even more dramatic if Staff's surcharge
7 recommendation was applied using estimates based on this week's Hurricane Rita-related price
8 surge (the "September 20, 2005 Forecast").

9 UNS Gas' proposed surcharge was structured initially to reduce the bank balance to zero
10 after twelve months. However, the combination of Staff's modification to UNS Gas' proposal and
11 the effects of Hurricane Katrina and now Hurricane Rita on wholesale natural gas prices will result
12 in circumstances where the bank balance will not reach zero. The delay in addressing full
13 reduction of the bank balance only further delays the ultimate recovery of these incurred costs.
14 Therefore, UNS Gas proposes that the Staff recommendation for a surcharge be adopted, except
15 that: (i) the \$0.25 per therm surcharge would go into effect two months earlier, i.e. on November
16 1, 2005 (thus eliminating the initial \$0.19 per therm surcharge) and (ii) the \$0.05 per therm
17 surcharge beginning in November 2006 be amended to a \$ 0.17 per therm surcharge beginning
18 November 1, 2006 that would be effective until the bank balance is fully recovered. Attached as
19 Exhibit B is a graphical depiction of the modified Staff recommendation using the September 12,
20 2005 Forecast. Attached as Exhibit C is a graphical depiction of the modified Staff
21 recommendation using the more recent September 20, 2005 Forecast.

22 Therefore, UNS Gas requests that the Recommended Order be amended as follows:

- 23 1. At Page 5, Line 1, DELETE the sentence beginning with "Such a
24 result";
- 25 2. At Page 5, Line 11, REPLACE "there are" WITH "the Staff
26 Report included";
- 27 3. At Page 5, Line 13, DELETE the sentence beginning with
"Attached to this memo,";

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- 4. At Page 5, Line 16, REPLACE "Also attached are" WITH "The Staff Report also included";
- 5. At Page 8, Line 16, REPLACE "the PGA surcharge discussed herein" WITH "a PGA surcharge of \$0.25 per therm to commence on November 1, 2005, and decreasing to \$0.17 per therm on November 1, 2006. The PGA Surcharge of \$0.17 per therm shall remain in effect until the PGA bank balance reaches zero";
- 6. At Page 8, Line 19, REPLACE "as discussed herein and detailed in Finding of Fact No. 33" WITH "of \$0.25 per therm to commence on November 1, 2005, and decreasing to \$0.17 per therm on November 1, 2006. The PGA Surcharge of \$0.17 per therm shall remain in effect until the PGA bank balance reaches zero";
- 7. At Page 8, Line 21, INSERT "IT IS FURTHER ORDERED that the Staff's recommendations in Finding of Fact Nos. 34 and 35 are approved.

WHEREFORE UNS Gas requests that the Commission approve the Recommendation Order with the amendments proposed herein by UNS Gas.

Respectfully submitted this 22nd day of September 2005



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1 Original and 13 copies of the foregoing
2 filed this 22nd day of September 2005 with:

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7 Copy of the foregoing hand-delivered/mailed
8 this 22nd day of September 2005 to:

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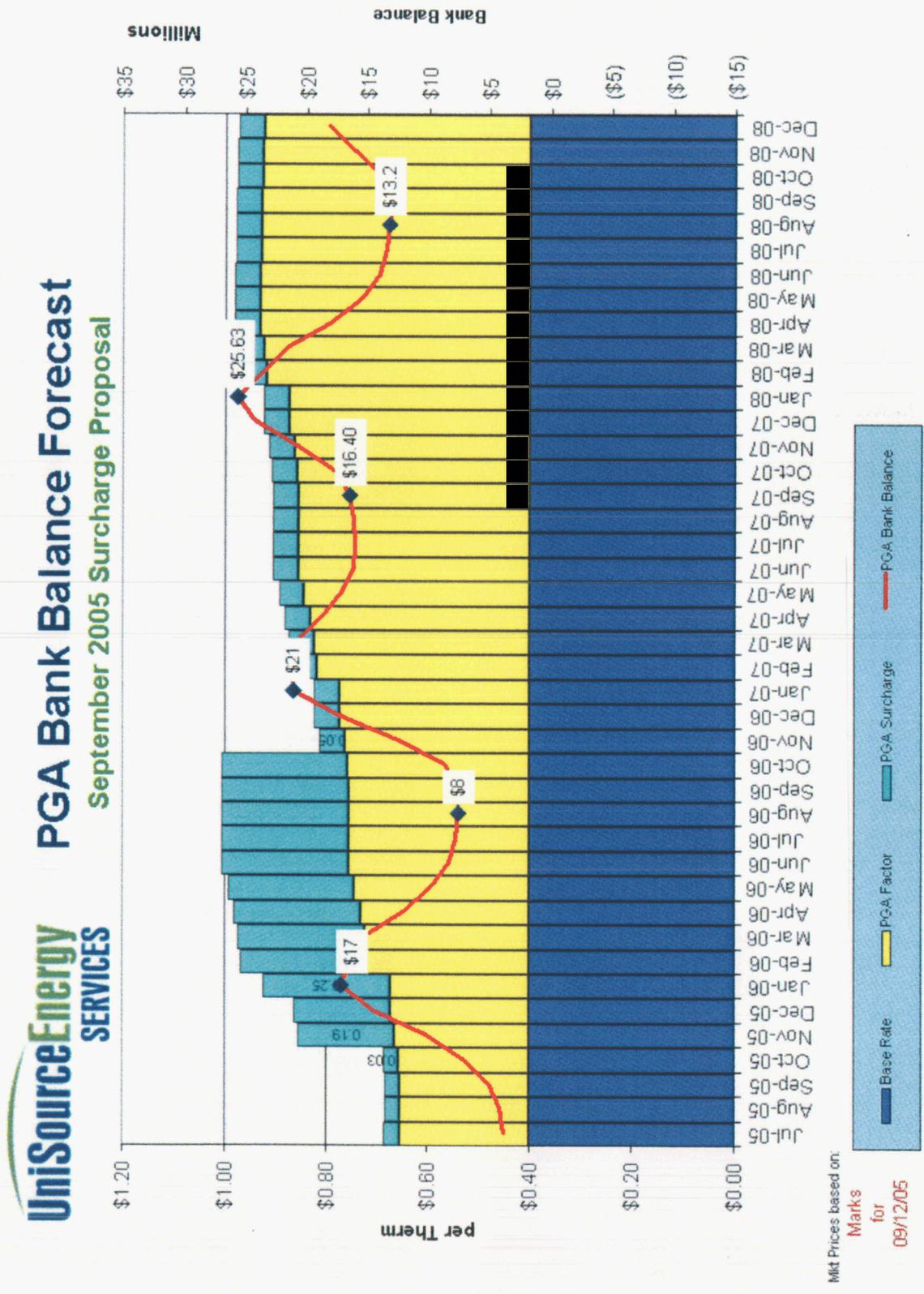
By *Mary Joppolo*

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EXHIBIT

A

• EXHIBIT A – Staff Proposal Using September 12, 2005 Forecast

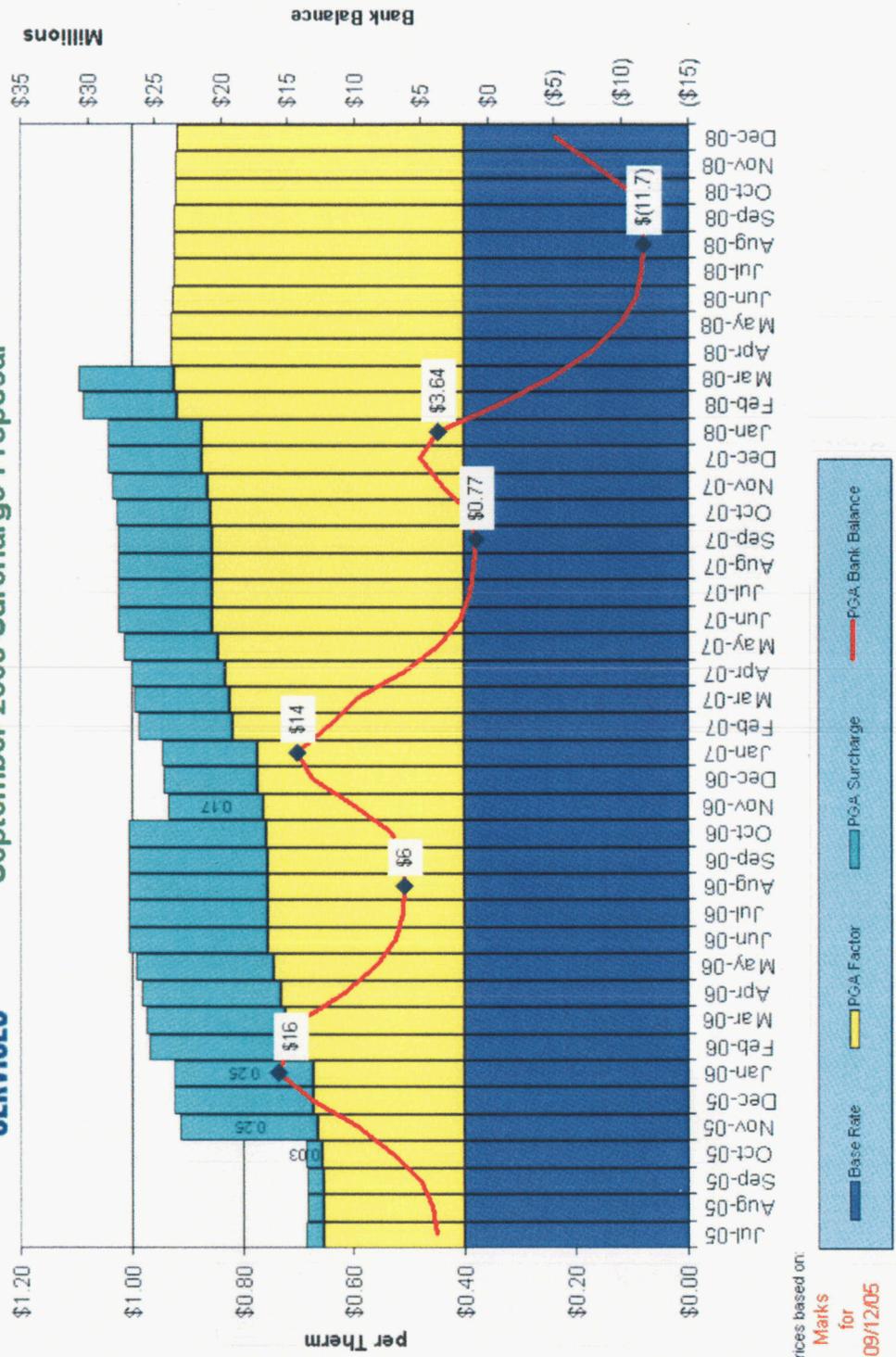


EXHIBIT

B

• EXHIBIT B – Modified Staff Proposal Using September 12, 2005 Forecast

UniSourceEnergy **PGA Bank Balance Forecast**
SERVICES **September 2005 Surcharge Proposal**



Mid Prices based on:
 Marks for
 09/12/05

EXHIBIT

C

• EXHIBIT C – Modified Staff Proposal Using September 20, 2005 Forecast

