



BEFORE THE ARIZONA CORPORATION COMMISSION

1  
2 JEFF HATCH-MILLER  
Chairman  
3 WILLIAM A. MUNDELL  
Commissioner  
4 MARC SPITZER  
Commissioner  
5 MIKE GLEASON  
Commissioner  
6 KRISTIN K. MAYES  
Commissioner  
7

Arizona Corporation Commission  
**DOCKETED**

OCT 25 2005

DOCKETED BY *KA*

8 IN THE MATTER OF THE APPLICATION }  
9 OF UNS GAS, INC. FOR APPROVAL OF A }  
10 PURCHASED GAS ADJUSTOR }  
11 SURCHARGE }

DOCKET NO. G-04204A-05-0596  
DECISION NO. 68241  
ORDER

12 Open Meeting  
13 October 18 and 19, 2005  
14 Phoenix, Arizona

14 BY THE COMMISSION:

15 FINDINGS OF FACT

- 16 1. UNS Gas, Inc. ("UNS") is engaged in providing natural gas service within portions  
17 of Arizona, pursuant to authority granted by the Arizona Corporation Commission.  
18 2. On August 17, 2005, UNS filed for Commission approval of a \$0.27 per therm  
19 purchased gas adjustor ("PGA") surcharge, effective October 1, 2005.  
20 3. Previously, in Decision No. 67730 (March 31, 2005), the Commission approved a  
21 \$0.03 per therm PGA surcharge, effective until the PGA bank balance reaches zero or the  
22 Commission orders otherwise. This PGA surcharge is still in effect at this time, so therefore UNS'  
23 requested \$0.27 per therm PGA surcharge represents a \$0.24 per therm increase in the PGA  
24 surcharge that customers would see if UNS' request is approved.  
25 4. UNS' application cites the on-going high cost of natural gas as well as the  
26 upcoming increased cost for service on El Paso Natural Gas Company's interstate pipeline system  
27 as factors leading to UNS' filing for the \$0.27 per therm PGA surcharge.  
28 ...

1           5.       UNS has indicated that, absent its requested PGA surcharge, the PGA bank balance  
2 will reach \$25 million in January 2006 and \$45 million in January 2007. The most recent monthly  
3 PGA report filed by UNS shows an undercollected PGA bank balance of \$3,805,459 as of the end  
4 of June 2005.

5           6.       UNS has indicated to Staff that the \$0.27 per therm surcharge request comprises  
6 approximately \$0.19 per therm in the cost of the natural gas commodity, and approximately \$0.08  
7 per therm for the projected increased cost of service on the El Paso Natural Gas Company ("El  
8 Paso") pipeline.

9           7.       Regarding the El Paso portion of the projected cost increase, this refers to the rate  
10 case El Paso filed at the Federal Energy Regulatory Commission ("FERC") on June 30, 2005.  
11 Under FERC rules, El Paso is allowed to implement its proposed rates beginning in January 2006,  
12 subject to refund if the final result of the rate proceeding differs. UNS' projections are based upon  
13 its contracted volume on El Paso and El Paso's new proposed rates.

14           8.       The increased costs for El Paso service result from two primary factors, an increase  
15 in UNS' billing determinants from the level set in the 1996 settlement agreement to the current  
16 contract volume level, and an increase in the rates paid per unit of contract volume. The first  
17 factor, the billing determinant increase, is a certain increase, as resetting the billing determinants is  
18 just part and parcel of a new rate proceeding. The second part, the rate increase per unit of  
19 volume, has some level of uncertainty. Under El Paso's current Firm Transportation ("FT-1")  
20 service, El Paso's monthly reservation rate for Arizona is \$7.99156 per decatherm ("dth"). Under  
21 El Paso's proposed tariffs, an FT-1 shipper, such as UNS, would pay a monthly reservation rate of  
22 \$10.0496 per dth for basic FT-1 service.

23           9.       However, part of El Paso's rate design proposal is that basic FT-1 service will be  
24 much more restricted regarding the operational flexibility a shipper may utilize. Therefore, UNS  
25 projects that it will have to take service under a new, more expensive rate schedule entitled Hourly  
26 No-Notice Transportation Service Three Hour Enhanced Service Option, carrying a monthly  
27 reservation rate of \$11.9715 per dth. It is possible that as the El Paso rate proceeding moves  
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1 forward, that the rates for this new service and other factors could change the amount UNS will  
2 eventually pay per unit of volume, though some level of increase appears inevitable.

3 10. Regarding the \$0.19 per therm portion of the proposed PGA surcharge relating to  
4 higher commodity costs, it is challenging to assess how large a commodity cost increase UNS will  
5 be facing through the 2005-2006 winter heating season and beyond. UNS' price estimates reflect  
6 natural gas which the Company has hedged going forward.

7 11. For the portion of UNS' gas supply portfolio which is not hedged, UNS projected  
8 its gas costs by taking the New York Mercantile Exchange ("NYMEX") natural gas futures  
9 contract prices at the time of the filing and making a downward adjustment to reflect the  
10 differential UNS usually sees between contracting for NYMEX priced supplies and supplies from  
11 the San Juan and Permian basins, where UNS' gas typically comes from. This results in price  
12 projections of between \$8.00 and \$10.00 per decatherm from September 2005 to March 2006,  
13 topping out at nearly \$10.00 in January 2006. From April 2006 through October 2006, UNS  
14 projects spot purchases between \$7.50 and \$8.00 per decatherm, with prices then rising again  
15 going into the 2006-2007 winter heating season.

16 12. It is important to note that natural gas market conditions have shown significant  
17 volatility since UNS' filing on August 17, 2005. Natural gas prices have been at record highs for  
18 much of the past summer and prices jumped significantly in response to Hurricane Katrina.

19 13. Comparing San Juan and Permian spot market prices on August 17th to the most  
20 recent data available for transactions September 9, 2005, both basin spot market prices are higher,  
21 with the San Juan spot price increasing from \$7.82 to \$8.365 per dth and the Permian spot price  
22 increasing from \$8.775 to \$8.94 per dth. Natural gas futures prices have been more volatile than  
23 the spot market prices seen in the San Juan and Permian basins in recent weeks, though some  
24 eastern spot market prices have shown significantly more volatility.

25 14. As the Commission discussed at its September 8, 2005 Natural Gas Forum, the  
26 upcoming winter could see some of the highest sustained natural gas prices since wellhead prices  
27 were deregulated in the 1980s. In such a circumstance, any price projection involving significant  
28 spot market volumes is highly speculative, as unfavorable conditions could push natural gas prices

1 significantly higher than UNS projections or more favorable conditions could move natural gas  
2 prices moderately lower.

3 15. Staff believes that given the information available at this time, UNS' projections of  
4 its cost of natural gas in upcoming months appear reasonable for the purpose of considering UNS'  
5 application for a PGA surcharge.

6 16. Staff recommends implementation of the \$0.19 per therm portion of UNS' PGA  
7 surcharge request related to higher commodity costs, for a 12-month period beginning November 1  
8 2005.

9 17. Regarding the El Paso rate increase costs, Staff believes that any PGA surcharge  
10 related to those costs should be implemented beginning in January 2006, consistent with the time  
11 UNS will actually begin incurring those costs. Further, given that there is some possibility that the  
12 final rates El Paso implements could be some amount lower than the proposed El Paso rates which  
13 go into effect January 1, 2006, Staff believes that implementation of a \$0.06 per therm portion of  
14 the PGA surcharge to reflect higher El Paso costs is reasonable. This represents over three  
15 quarters of the \$0.08 per therm El Paso-related portion of the proposed \$0.27 per therm PGA  
16 surcharge.

17 18. In summary, the combination of the commodity and El Paso portions of the PGA  
18 surcharge as contemplated by Staff would result in the implementation of a \$0.19 per therm PGA  
19 surcharge in November 2005, with the PGA surcharge increasing to \$0.25 per therm in January  
20 2006 and continuing through October 2006.

21 19. After this PGA surcharge expires at the end of October 2006, Staff believes there is  
22 some benefit in then implementing a \$0.05 per therm PGA surcharge which would be in effect  
23 until the PGA bank balance reaches zero or the Commission orders otherwise. This would provide  
24 an additional relatively small increment of on-going relief to UNS after the larger PGA surcharge  
25 expires at the end of October 2006, possibly obviating the need for another PGA surcharge filing  
26 in the fall of 2006.

27 20. Staff's proposal would also result in having in effect a short phase-in period for the  
28 PGA surcharge, with the November and December 2005 PGA surcharges of \$0.19 per therm

1 ramping up to the \$0.25 per therm. Such a result is logical in this case given the timing of the El  
2 Paso rate case schedule.

3 21. It should be noted that, apart from the level of the PGA surcharge being approved in  
4 this proceeding, the monthly PGA rate is projected to continue to rise through 2005 and 2006,  
5 subject to the \$0.10 per therm band. Thus the increased cost of gas UNS customers will be seeing  
6 on their bills will be the sum of the higher monthly PGA rate and the year-over-year increase in the  
7 monthly PGA rate.

8 22. UNS' requested implementation date of October 1, 2005, does not provide time for  
9 the Commission to fully consider and act on the filing, so an implementation date of November 1,  
10 2005 (the beginning of the November billing cycle) is more appropriate.

11 23. While Staff is recommending the PGA surcharge design described above, there are  
12 a variety of other possible scenarios that the Commission may wish to consider in addressing  
13 UNS' application. Attached to this memo are pages listing 12 possible scenarios, including UNS'  
14 proposal (Scenario One) and Staff's proposal (Scenario Four). All scenarios assume any PGA  
15 surcharge is implemented starting in November 2005.

16 24. Also attached are sheets showing the PGA bank balance levels under each scenario  
17 for each month, the monthly impact of the PGA surcharge in each month, and the projected  
18 average residential monthly bill each month under each scenario. Staff would note that certain of  
19 these scenarios, such as the "Do Nothing" scenario are provided to illustrate a range of possible  
20 PGA surcharge levels, but in some cases do not appear to address the projected undercollected  
21 PGA bank balance on an on-going basis to the extent which seems to be necessary.

22 25. Under UNS' proposed PGA surcharge, the monthly PGA bank balance is projected  
23 to increase through the winter of 2005-2006, then decline to near zero in the summer of 2006,  
24 before increasing again to approximately \$14.6 million in January 2007. By comparison, Staff's  
25 proposed PGA surcharge follows a roughly similar pattern, though recoveries are shifted a small  
26 amount into the future. However, by January 2007, the projected PGA bank balance under Staff's  
27 proposal is \$16.2 million, within \$1.6 million of where the bank balance would be under UNS'

28 ...

1 proposal, and under Staff's proposal there would still be a \$0.05 per therm surcharge in place to  
2 further address any undercollection.

3 26. The inclusion of a CARES program exemption, as discussed below, would increase  
4 the projected bank balances under any of the possible scenarios, as discussed below for the UNS  
5 and Staff proposals.

6 27. One concern the Commission has expressed in regard to natural gas prices is the  
7 impact of a sizable PGA surcharge on low income customers. Previously, in Decision No. 66861  
8 (March 23, 2004), the Commission exempted UNS customers taking service under the Customer  
9 Assistance Residential Energy Support ("CARES") tariff, which provides a rate discount to low  
10 income customers, from paying the PGA surcharge approved in that decision.

11 28. Staff believes that a similar provision is warranted in this case and recommends that  
12 CARES customers be exempted from paying the PGA surcharge levels approved in this  
13 proceeding. UNS estimates that under its proposed PGA surcharge level, exempting CARES  
14 customers will result in a reduced PGA bank balance collection of \$762,335 over the proposed 12-  
15 month period. Under Staff's proposal, the CARES exemption would reduce the PGA bank  
16 balance collection by approximately \$651,000 over the proposed 12-month period.

17 29. The table below shows what an average residential customer in January, using 105  
18 therms, paid in January 2005 and is projected to pay in January 2006 under the UNS proposal,  
19 Staff proposal, and Do Nothing scenario.

| Bill Component                          | January 2005 – Actual<br>Bill   | January 2006 – UNS<br>Proposal  | January 2006 –<br>Staff Proposal | January 2006 – Do<br>Nothing Scenario |
|---|---------------------------------|---------------------------------|----------------------------------|---------------------------------------|
| Customer Charge                         | \$7.00                          | \$7.00                          | \$7.00                           | \$7.00                                |
| Tariffed Rate -<br>(\$0.7004 per therm) | \$73.54                         | \$73.54                         | \$73.54                          | \$73.54                               |
| Monthly PGA Rate                        | \$18.15<br>(\$0.1729 per therm) | \$28.27<br>(\$0.2692 per therm) | \$28.27<br>(\$0.2692 per therm)  | \$28.27<br>(\$0.2692 per therm)       |

|   |                   |                |                    |                    |                    |
|---|-------------------|----------------|--------------------|--------------------|--------------------|
| 1 | PGA Surcharge     |                | \$28.35            | \$26.25            | \$3.15             |
| 2 |                   | \$0.00         | (\$0.27 per therm) | (\$0.25 per therm) | (\$0.03 per therm) |
| 3 | <b>Total Bill</b> | <b>\$98.44</b> | <b>\$136.79</b>    | <b>\$134.70</b>    | <b>\$111.66</b>    |
| 4 | Percent Increase  |                |                    |                    |                    |
| 5 | Over Jan. 2005    | NA             | 39.0%              | 36.8%              | 13.4%              |
| 6 | Percent Increase  |                |                    |                    |                    |
| 7 | Over Jan. 2005    | NA             | 39.0%              | 36.8%              | 13.4%              |

8 Note: Bill estimates shown in this memo and attachments do not include taxes and regulatory assessments.

9 30. It is worth noting that of the total increase shown under the UNS and Staff  
10 proposals, roughly one third of that increase is projected to result from the automatic movement  
11 of the monthly PGA rate and the current \$0.03 per therm PGA surcharge as shown under the Do  
12 Nothing scenario, with approximately two thirds being attributable to the increased PGA  
13 surcharge.

14 31. The Commission has placed a strong emphasis on Arizona local distribution  
15 companies, including UNS, conducting strong outreach efforts to try to make customers aware of  
16 what is happening regarding natural gas prices and the rates they pay as well as possible methods  
17 for customers to address the rising cost of natural gas service in Arizona.

18 32. At the Commission's September 8, 2005 Natural Gas Forum, there was a significant  
19 amount of discussion regarding such outreach efforts in light of the impending winter heating  
20 season.

21 33. Staff has recommended approval of a PGA surcharge of \$0.19 per therm effective  
22 in November and December 2005, a PGA surcharge of \$0.25 per therm effective January 2006  
23 through October 2006, and a PGA surcharge of \$0.05 per therm effective from November 2006  
24 until UNS' PGA bank balance reaches zero or the Commission orders otherwise, whichever  
25 comes first.

26 34. We find that the recommendations of Staff and the Company would likely lead to  
27 rate shock, as the greatest increase in the surcharge coincides with the height of the winter heating  
28 season. Therefore, we find that the surcharge should be more even during all four seasons of the

1 year, such that the per therm charge will be \$0.15 in November 2005 through February 2006;  
2 \$0.25 in March 2006 and April 2006; \$0.30 in May 2006 and June 2006; \$0.35 in July 2006  
3 through September 2006; \$0.25 in October 2006 and November 2006; \$0.20 in December 2006  
4 through February 2007; and \$0.25 in March and April of 2007.

5 35. Staff's recommendation that customers enrolled in the CARES program be  
6 exempted from paying the surcharge approved in this proceeding is appropriate and will be  
7 adopted.

8 36. We are also concerned about the impact that such a large increase in UNS Gas  
9 Company's surcharge could have on individuals' ability to pay their bills during the height of the  
10 winter heating season. Therefore, UNS Gas is prohibited from conducting disconnections not  
11 related to operational safety concerns from December 1, 2005 until March 30, 2006. Any  
12 exceptions to the prohibition shall be determined in conjunction with Staff.

13 37. Staff has further recommended that UNS engage in an immediate, highly visible  
14 and meaningful public relations campaign, in consultation with Staff, to inform its customers of  
15 (1) the specific details of the PGA surcharge level(s) approved in this proceeding and how it  
16 benefits customers now rather than later to recover natural gas costs; (2) the impact of the PGA  
17 surcharge level(s) on customer bills; (3) general natural gas price circumstances leading to the  
18 PGA surcharge; and (4) ways in which UNS' customers can try to manage the higher rates they  
19 are facing. Heavy emphasis should be placed on promoting programs such as budget billing  
20 (especially during the time of year that it would be most beneficial to customers to apply), the  
21 CARES program, and ways to reduce consumption.

22 38. UNS shall implement a deferred payment plan for those individuals who are  
23 struggling to pay their bills but who commit to payment of their bills over a reasonable period of  
24 time, or who demonstrate that they have secured bill payment assistance from a government  
25 agency, a Community agency, a charity or a faith-based institution. The time period for recovery  
26 of the deferred payment shall be established by the Company in conjunction with Staff.

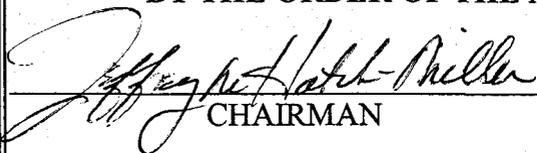
27 CONCLUSIONS OF LAW

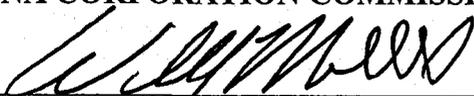


1 IT IS FURTHER ORDERED that UNS engage in an immediate, highly visible and  
 2 meaningful public relations campaign, in consultation with Staff, to inform its customers of (1) the  
 3 specific details of the PGA surcharge level(s) approved in this proceeding and how it benefits  
 4 customers now rather than later to recover natural gas costs; (2) the impact of the PGA surcharge  
 5 level(s) on customer bills; (3) general natural gas price circumstances leading to the PGA  
 6 surcharge; and (4) ways in which UNS' customers can try to manage the higher rates they are  
 7 facing. Heavy emphasis should be placed on promoting programs such as budget billing  
 8 (especially during the time of year that it would be most beneficial to customers to apply), the  
 9 CARES program, and ways to reduce energy usage.

10 IT IS FURTHER ORDERED that this Order shall become effective immediately.

11  
 12 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

13   
 14 CHAIRMAN

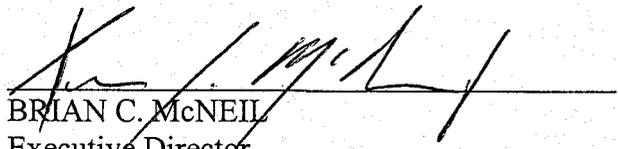
  
 14 COMMISSIONER

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 16 COMMISSIONER

17 COMMISSIONER

  
 17 COMMISSIONER

18 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive  
 19 Director of the Arizona Corporation Commission, have  
 20 hereunto, set my hand and caused the official seal of this  
 21 Commission to be affixed at the Capitol, in the City of  
 22 Phoenix, this 25<sup>th</sup> day of October, 2005.

22   
 23 BRIAN C. McNEIL  
 24 Executive Director

25 DISSENT: 

26 DISSENT: \_\_\_\_\_  
 27

28 EGJ:BGG:lhm\KL

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