ORIGINAL

000003490 9

RESIDENTIAL UTILITY CO

RECEIVED

2005 OCT 21 A 9:46

1110 WEST WASHINGTON STREET • SUITE 220 • PHOENIX, ARIZONA 85007 • (602) 364-4835 • FAX: (602) 364-4846

AZ CORP COMMISSION
DOCUMENT CONTROL

Janet Napolitano
Governor

Stephen Ahearn
Director

October 6, 2005

Chairman Jeff Hatch-Miller
Commissioner William A. Mundell
Commissioner Marc Spitzer
Commissioner Mike Gleason
Commissioner Kristin K. Mayes
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 8007

Re: UNS Gas Application for PGA Surcharge (Docket No. G-04204A-05-0596)

Dear Commissioners:

On August 17, 2005, UNS Gas, Inc. filed for increase of its PGA surcharge from the current $0.03 per therm to $0.27 per therm. RUCO does not generally participate in matters before the Commission that merely deal with the implementation of a pre-determined adjustment mechanism structure, and does not seek to intervene in this proceeding, but offers its input in the form of public comment.

UNS's application seeks a surcharge, apparently to address an existing PGA balance, and more notably to address future projected balances. While the application does not indicate what the PGA balance was at the time the application was filed (and makes no statement of whether the account balance exceeds the trigger established for the Company's PGA mechanism of $4.45 million), it does present projections of the balancing account at future dates if no action is taken. However, the application makes no forecast of what the account balance might be if the Commission adopts the requested surcharge. Further, the application gives no indication of how many additional dollars would be recovered under the proposed surcharge. Staff's recommendation likewise evaluates the appropriateness of its proposed surcharge based on the bank balances it will produce in future periods, rather than as a mechanism to collect a particular balance that has been accumulated to date.[1]

The Company's PGA mechanism was designed to operate automatically to recover the Company's purchased gas costs without requiring frequent Commission action. Each month, the PGA rate is automatically adjusted based on the rolling 12 month average of actual purchased gas costs. However, the mechanism does identify an account balance "trigger" point at which the Company is required to seek an adjustment to the automatic PGA recovery or explain to the Commission why such an adjustment is not necessary. Decision No. 61225 (1998). The trigger currently in effect for UNS Gas is $4.45 million, but earlier this year the Commission instructed the Company and Staff to propose a higher trigger point by the end of this year. Decision No. 67730 (March 31, 2005).[2]

RUCO believes that the Commission should only act to modify the automatically changing PGA rate to permit collection of an **actual incurred balance** in the PGA account, and should avoid setting a surcharge to recover some amorphous amount based on inherently uncertain projections of gas costs. Previously, the Commission revised the Company's PGA mechanism to avoid having to rely on forecasts of future gas prices to set the regular PGA recovery amount, and instead set the recovery rate based on an average of the past 12 months actual incurred costs. Decision No. 59399 (November 28, 1995). To the extent the Commission attempts to set a PGA surcharge to target a particular future balance in the account at a particular time, the Commission would be reverting to its previously discarded approach of relying on projected gas costs to set recovery rates.

Generally, a utilities' costs are recovered through base rates, but on occasion the Commission can permit certain narrowly defined costs that are volatile to be recovered through an adjustor mechanism. See Decision No. 56450 (1989) at pg. 6; Decision No. 68176 (September 30, 2005) at pg. 33. In recognition that the Company is as much subject to the whims of the gas market as is any other entity, and that its earnings could be greatly impacted based on market swings of fuel costs, the Commission has established an adjustor mechanism to allow the Company to pass through its actual gas costs automatically. However, by in effect attempting to predict future gas costs in setting recovery amounts, the Commission would be unnecessarily straying beyond the goal of the adjustor mechanism to allow the Company to recover its actual costs on a timely basis.

---

[1] In fact, the Staff Report indicates that the Company's PGA balance at the point of its last monthly filing was approximately $3.8 million, and, like Company's application, makes no reference at all to the trigger point currently in effect.

[2] There is nothing in the record indicating that the Company's PGA bank balance has reached the trigger point of $4.45 million yet. In fact, the graphs attached to the Company's exceptions appear to indicate that the Company does not expect it to do so until sometime later in October or November.

RUCO recommends that the Commission determine the actual balance in the Company's PGA balancing account, and if it believes that such a balance is unlikely to be recovered by the existing PGA mechanism in a timely fashion, it can impose a surcharge to recover all or a portion of that balance more quickly. However, there is no need for the Commission to attempt to predict future gas prices in setting PGA adjustor recoveries. If wholesale gas prices continue to rise, and the Company's PGA balance exceed the trigger amount, it can seek further surcharges.

Given that the Commission's action to allow increased recovery under the PGA mechanism does not constitute a determination that the Company has acted prudently in incurring gas costs, but that it permits recovery of such costs to begin anyway, the Commission should at least insure that any extraordinary surcharges it imposes for gas cost recovery be designed to recover costs actually incurred to date, and not amounts yet to be spent.

In conclusion, RUCO believes that the Commission should limit any PGA surcharge to recovery of a fixed, pre-determined amount of gas costs that the Company has already incurred, and not attempt to design this extraordinary recovery based on projections of an unpredictable and volatile market.

Sincerely,

Stephen Ahearn
Director

cc: Michael Patten
Raymond Heyman
Ernest Johnson

cc: Docket Control
Lyn Farmer
Christopher Kempley