

OPEN MEETING



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ORIGINAL

MEMORANDUM
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TO: THE COMMISSION 2005 OCT 25 P 3: 02
FROM: Utilities Division AZ CORP COMMISSION
DOCUMENT CONTROL
DATE: October 25, 2005
RE: IN THE MATTER OF THE APPLICATION OF DUNCAN RURAL SERVICES
CORPORATION FOR APPROVAL OF A PURCHASED GAS ADJUSTOR
SURCHARGE (DOCKET NO. G-02528A-05-0687)

On September 30, 2005, Duncan Rural Services Corporation ("Duncan") filed for Commission approval of a \$0.60 per therm purchased gas adjustor ("PGA") surcharge, citing rising natural gas prices as the primary reason. The application requests an implementation date of December 1, 2005.

Duncan is a rural natural gas cooperative in southeastern Arizona with 747 customers as of August 2005. Duncan's application states that the Company cannot absorb the higher natural gas costs for even a short period of time absent relief through a PGA surcharge, given its financial condition.

As of the end of September 2005, Duncan's PGA bank balance was undercollected by \$23,903. Duncan's threshold for the PGA bank balance is \$35,000, so Duncan is currently within the threshold. Duncan projects that absent a PGA surcharge, its bank balance would exceed \$100,000 by the end of December 2005 and approximately \$240,000 by April 2006. Staff has reviewed Duncan's projected gas commodity costs and believes they are reasonable for the purpose of setting a PGA surcharge.

Duncan has indicated to Staff that it has had difficulties in procuring fixed price natural gas contracts and therefore has relied on spot market purchases recently, but that some opportunity does exist to secure fixed price contracts in the future. Reliance on spot market purchases exacerbates the impact of swings in natural gas market prices in comparison to a utility which has hedged some or all of its natural gas supplies. Given its small size, Duncan typically enters into a single supply contract with a single supplier, and at times the Company has difficulty finding suppliers who will sell natural gas to Duncan due to its size. Duncan's supply options are more limited than larger companies such as Southwest Gas, but it is troubling that Duncan is entering the winter heating season with no hedged natural gas supplies. To help avoid such future occurrences, Duncan should provide Staff with a plan by June 30, 2006, and by June 30th of each year indicating any fixed price supplies the Company has acquired for the following winter heating season and how the Company plans to hedge its natural gas supplies prior to the following winter heating season.

It should be noted that Duncan has an on-going general gas rate proceeding, filed April 29, 2005, before the Commission in Docket No. G-02528A-05-0314.

In January 2005, the total cost of gas reflected in Duncan's rates was \$0.535 per therm (\$0.36 per therm base cost of gas and \$0.175 per therm for the monthly PGA rate). In October 2005, the total cost of gas reflected in Duncan's rates is \$0.6098 per therm (\$0.36 per therm base cost of gas and \$0.2498 per therm monthly PGA rate). If the proposed PGA surcharge is approved, the projected total cost of gas reflected in Duncan's rates in January 2006 would be \$1.235 per therm (\$0.36 per therm base cost of gas, \$0.275 per therm monthly PGA rate, and \$0.60 per therm PA surcharge).

Attached is a spreadsheet showing average usage by customer class from September 2004 through August 2005 as well as the monthly revenue generated by Duncan's proposed surcharge or an alternate surcharge structure similar to the one adopted by the Commission in the recent UNS Gas PGA surcharge matter, which shifted some recovery from winter months to summer months.

An average residential customer using 91 therms in January had a bill in January 2005 of \$103.74. Under Duncan's proposed surcharge, it is estimated that an average residential customer in January 2006 using 91 therms would see a bill of \$167.44. Under the alternate PGA surcharge structure, an average residential customer in January 2006 using 91 therms would see a bill of \$149.24.

The alternate surcharge structure does reduce the level of increase facing residential customers in the heart of the winter heating season. On the other hand, non-residential customers who tend to use more natural gas in non-winter months would have to bear significant additional costs which are shifted from residential customers. Additionally, Duncan's financial condition and limited ability to bear very large PGA bank balances make it difficult to shift some portion of cost recovery from the winter 2006-2007 months to the following summer months.

Regarding customer notification, Duncan has indicated to Staff that prior to the November 8-9, 2005, Commission Open Meeting, all of Duncan's gas customers will have been notified of Duncan's application for approval of the \$0.60 per therm PGA surcharge. Duncan has also indicated that it intends to notify customers following any Commission action approving a PGA surcharge.

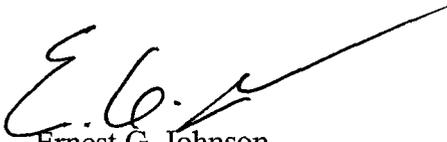
Duncan's situation is exceedingly difficult given its lack of hedged natural gas heading into the winter 2006-2007 heating season as well as its limited ability to bear very large undercollected bank balances. Such a situation makes it very difficult to craft an approach that would reduce the impact of the proposed PGA surcharge during the winter months. In light of these circumstances, Staff recommends approval of a \$0.60 per therm PGA surcharge for a 12-month period from December 2005 through November 2006 and that a reduced \$0.10 per therm PGA surcharge begin in December 2006. The proposed PGA surcharge would be in place until such time as the PGA bank balance reaches zero or the Commission orders otherwise. Staff

THE COMMISSION

October 25, 2005

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further recommends that Duncan provide notification to its customers prior to implementation of the PGA surcharge in December 2005 and that Duncan seek other means as may be available to inform its customers of the PGA surcharge, its impact on customer bills, ways customers can reduce their consumption, and the general issue of rising natural gas prices. Staff further recommends that Duncan provide Staff with a plan by June 30, 2006, and by June 30th of each year indicating any fixed price supplies the Company has acquired for the following winter heating season and how the Company plans to hedge its natural gas supplies prior to the following winter heating season.



Ernest G. Johnson
Director
Utilities Division

EGJ:RGG:lhj\JMA

ORIGINATOR: Robert Gray

Duncan Rural Services Corporation PGA Surcharge Information

Monthly Usage by Customer Class - therms												
	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-04	Oct-04	Nov-04	Dec-04 Total
Residential	67,803	58,160	39,793	30,743	16,084	13,564	14,143	15,397	12,520	13,942	38,979	62,788
Commercial	1,682	2,061	738	20,074	8,401	18,855	27,957	12,255	19,161	11,405	2,099	1,457
Irrigation	3,535	3,052	1,581	1,041	355	89	70	94	130	297	1,874	3,737
Sales - therms	73,020	63,273	42,112	51,858	24,840	32,508	42,170	27,746	31,811	25,644	42,952	67,982
												525,916
Average Monthly Usage - therms												
	Jan-05	Feb-05	Mar-05	Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-04	Oct-04	Nov-04	Dec-04
Residential	91	78	54	42	22	18	19	21	17	19	53	84
Commercial	112	137	49	1,255	525	1,048	1,471	681	958	570	105	97
Irrigation	1,768	1,526	791	521	178	45	35	47	65	149	937	1,869
Surcharge By Month												
	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-05
Duncan Proposed	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60	\$0.60
Alternate PGA Surcharge	\$0.40	\$0.40	\$0.40	\$0.50	\$0.80	\$0.90	\$0.90	\$0.90	\$0.90	\$0.90	\$0.60	\$0.40
Revenue From Surcharge												
	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-05 Total
Duncan Proposed	\$43,812	\$37,964	\$25,267	\$31,115	\$14,904	\$19,505	\$25,302	\$16,648	\$19,087	\$15,386	\$25,771	\$40,789
Alternate PGA Surcharge	\$29,208	\$25,309	\$16,845	\$25,929	\$19,872	\$29,257	\$37,953	\$24,971	\$28,630	\$23,080	\$25,771	\$27,193
												\$314,018
Average Residential Customer Bill Impact - Duncan Proposed \$0.60 per therm surcharge												
	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-05
Customer Charge	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00
Tariffed Rate	\$72.81	\$62.79	\$43.49	\$21.36	\$11.26	\$9.50	\$10.01	\$10.89	\$8.77	\$9.82	\$42.14	\$67.24
Monthly PGA Rate	\$25.03	\$24.50	\$17.70	\$13.76	\$7.26	\$6.12	\$6.78	\$7.41	\$6.24	\$6.82	\$18.82	\$25.75
PGA Surcharge	\$54.61	\$47.09	\$32.62	\$24.93	\$13.15	\$11.09	\$11.69	\$12.71	\$10.23	\$11.46	\$31.60	\$50.43
Total Bill	\$167.44	\$149.39	\$108.81	\$75.05	\$46.67	\$41.71	\$43.48	\$46.00	\$40.24	\$43.10	\$107.56	\$158.42
Average Residential Customer Bill Impact - Alternate PGA Surcharge												
	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-05
Customer Charge	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00	\$15.00
Tariffed Rate	\$72.81	\$62.79	\$43.49	\$21.36	\$11.26	\$9.50	\$10.01	\$10.89	\$8.77	\$9.82	\$42.14	\$67.24
Monthly PGA Rate	\$25.03	\$24.50	\$17.70	\$13.76	\$7.26	\$6.12	\$6.78	\$7.41	\$6.24	\$6.82	\$18.82	\$25.75
PGA Surcharge	\$36.40	\$31.40	\$21.74	\$20.77	\$17.53	\$16.63	\$17.53	\$19.06	\$15.35	\$17.19	\$31.60	\$33.62
Total Bill	\$149.24	\$133.69	\$97.93	\$70.89	\$51.05	\$47.25	\$49.33	\$52.36	\$45.36	\$48.83	\$107.56	\$141.61

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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION
OF DUNCAN RURAL SERVICES
CORPORATION FOR APPROVAL OF A
PURCHASED GAS ADJUSTOR
SURCHARGE

DOCKET NO. G-02528A-05-0687
DECISION NO. _____
ORDER

Open Meeting
November 8 and 9, 2005
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Duncan Rural Services Corporation ("Duncan") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.

2. On September 30, 2005, Duncan filed for Commission approval of a \$0.60 per therm purchased gas adjustor ("PGA") surcharge, citing rising natural gas prices as the primary reason. The application requests an implementation date of December 1, 2005.

3. Duncan is a rural natural gas cooperative in southeastern Arizona with 747 customers as of August 2005.

4. Duncan's application states that the Company cannot absorb the higher natural gas costs for even a short period of time absent relief through a PGA surcharge, given its financial condition.

...

1 5. As of the end of September 2005, Duncan's PGA bank balance was undercollected
2 by \$23,903. Duncan's threshold for the PGA bank balance is \$35,000, so Duncan is currently
3 within the threshold.

4 6. Duncan projects that absent a PGA surcharge, its bank balance would exceed
5 \$100,000 by the end of December 2005 and approximately \$240,000 by April 2006.

6 7. Staff has reviewed Duncan's projected gas commodity costs and believes they are
7 reasonable for the purpose of setting a PGA surcharge.

8 8. Duncan has indicated to Staff that it has had difficulties in procuring fixed price
9 natural gas contracts and therefore has relied on spot market purchases recently, but that some
10 opportunity does exist to secure fixed price contracts in the future. Reliance on spot market
11 purchases exacerbates the impact of swings in natural gas market prices in comparison to a utility
12 which has hedged some or all of its natural gas supplies.

13 9. Given its small size, Duncan typically enters into a single supply contract with a
14 single supplier, and at times the Company has difficulty finding suppliers who will sell natural gas
15 to Duncan due to its size.

16 10. Duncan's supply options are more limited than larger companies such as Southwest
17 Gas, but it is troubling that Duncan is entering the winter heating season with no hedged natural
18 gas supplies.

19 11. To help avoid such future occurrences, Duncan should provide Staff with a plan by
20 June 30, 2006, and by June 30th of each year indicating any fixed price supplies the Company has
21 acquired for the following winter heating season and how the Company plans to hedge its natural
22 gas supplies prior to the following winter heating season.

23 12. It should be noted that Duncan has an on-going general gas rate proceeding, filed
24 April 29, 2005, before the Commission in Docket No. G-02528A-05-0314.

25 13. In January 2005, the total cost of gas reflected in Duncan's rates was \$0.535 per
26 therm (\$0.36 per therm base cost of gas and \$0.175 per therm for the monthly PGA rate). In
27 October 2005, the total cost of gas reflected in Duncan's rates is \$0.6098 per therm (\$0.36 per
28 therm base cost of gas and \$0.2498 per therm monthly PGA rate). If the proposed PGA surcharge

1 is approved, the projected total cost of gas reflected in Duncan's rates in January 2006 would be
2 \$1.235 per therm (\$0.36 per therm base cost of gas, \$0.275 per therm monthly PGA rate, and
3 \$0.60 per therm PGA surcharge).

4 14. Attached to Staff's Memo is a spreadsheet showing average usage by customer
5 class from September 2004 through August 2005 as well as the monthly revenue generated by
6 Duncan's proposed surcharge or an alternate surcharge structure similar to the one adopted by the
7 Commission in the recent UNS Gas PGA surcharge matter, which shifted some recovery from
8 winter months to summer months.

9 15. An average residential customer using 91 therms in January had a bill in January
10 2005 of \$103.74. Under Duncan's proposed surcharge, it is estimated that an average residential
11 customer in January 2006 using 91 therms would see a bill of \$167.44. Under the alternate PGA
12 surcharge structure, an average residential customer in January 2006 using 91 therms would see a
13 bill of \$149.24.

14 16. The alternate surcharge structure does reduce the level of increase facing residential
15 customers in the heart of the winter heating season.

16 17. On the other hand, non-residential customers who tend to use more natural gas in
17 non-winter months would have to bear significant additional costs which are shifted from
18 residential customers.

19 18. Additionally, Duncan's financial condition and limited ability to bear very large
20 PGA bank balances make it difficult to shift some portion of cost recovery from the winter 2006-
21 2007 months to the following summer months.

22 19. Regarding customer notification, Duncan has indicated to Staff that prior to the
23 November 8-9, 2005, Commission Open Meeting, all of Duncan's gas customers will have been
24 notified of Duncan's application for approval of the \$0.60 per therm PGA surcharge. Duncan has
25 also indicated that it intends to notify customers following any Commission action approving a
26 PGA surcharge.

27 20. Duncan's situation is exceedingly difficult given its lack of hedged natural gas
28 heading into the winter 2006-2007 heating season as well as its limited ability to bear very large

1 undercollected bank balances. Such a situation makes it very difficult to craft an approach that
2 would reduce the impact of the proposed PGA surcharge during the winter months.

3 21. In light of these circumstances, Staff has recommended approval of a \$0.60 per
4 therm PGA surcharge for a 12-month period from December 2005 through November 2006 and
5 that a reduced \$0.10 per therm PGA surcharge begin in December 2006. The proposed PGA
6 surcharge would be in place until such time as the PGA bank balance reaches zero or the
7 Commission orders otherwise.

8 22. Staff has further recommended that Duncan provide notification to its customers
9 prior to implementation of the PGA surcharge in December 2005 and that Duncan seek other
10 means as may be available to inform its customers of the PGA surcharge, its impact on customer
11 bills, ways customers can reduce their consumption, and the general issue of rising natural gas
12 prices.

13 23. Staff has further recommended that Duncan provide Staff with a plan by June 30,
14 2006 and by June 30th of each year indicating any fixed price supplies the Company has acquired
15 for the following winter heating season and how the Company plans to hedge its natural gas
16 supplies prior to the following winter heating season.

17 CONCLUSIONS OF LAW

18 1. Duncan is an Arizona public service corporation within the meaning of Article XV,
19 Section 2, of the Arizona Constitution.

20 2. The Commission has jurisdiction over Duncan and over the subject matter of the
21 application.

22 3. The Commission, having reviewed the application and Staff's Memorandum dated
23 October 25, 2005, concludes that it is in the public interest to approve the PGA surcharge as
24 discussed herein.

25 ORDER

26 IT IS THEREFORE ORDERED that the purchased gas adjustor surcharge, as discussed
27 herein and detailed in Finding of Fact No. 21, is approved.

28 ...

1 IT IS FURTHER ORDERED that Duncan provide notification to its customers prior to
2 implementation of the PGA surcharge in December 2005, in a form acceptable to Staff, and that
3 Duncan seek other means as may be available to inform its customers of the PGA surcharge, its
4 impact on customer bills, ways customers can reduce their consumption, and the general issue of
5 rising natural gas prices.

6 IT IS FURTHER ORDERED that Duncan shall file with the Commission's Docket Control
7 a copy of the notice it sends to its customers within 30 days of the effective date of this Decision.

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1 IT IS FURTHER ORDERED that Duncan provide Docket Control, as a compliance item, a
 2 plan by June 30, 2006, and by June 30th each year thereafter, indicating any fixed price supplies
 3 the Company has acquired for the following winter heating season and how the Company plans to
 4 hedge its natural gas supplies prior to the following winter heating season.

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

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BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

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CHAIRMAN

COMMISSIONER

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COMMISSIONER

COMMISSIONER

COMMISSIONER

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IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
 Director of the Arizona Corporation Commission, have
 hereunto, set my hand and caused the official seal of this
 Commission to be affixed at the Capitol, in the City of
 Phoenix, this _____ day of _____, 2005.

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BRIAN C. McNEIL
 Executive Director

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DISSENT: _____

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DISSENT: _____

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EGJ:RGG:lhmvJMA

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1 SERVICE LIST FOR: Duncan Rural Services Corporation
2 DOCKET NO. G-02528A-05-0687

3 Mr. Jack Schilling
4 Duncan Valley Electric Cooperative, Inc.
5 Post Office Box 440
6 Duncan, Arizona 85534-0440

7 Mr. Ernest G. Johnson
8 Director, Utilities Division
9 Arizona Corporation Commission
10 1200 West Washington
11 Phoenix, Arizona 85007

12 Mr. Christopher C. Kempley
13 Chief Counsel
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, Arizona 85007

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