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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

NOV 14 2005

DOCKETED BY 

8 IN THE MATTER OF THE APPLICATION)
9 OF GRAHAM COUNTY UTILITIES, INC.,)
10 FOR APPROVAL OF A PURCHASED GAS)
ADJUSTOR SURCHARGE)

DOCKET NO. G-02527A-05-0670

DECISION NO. 68298

ORDER

11
12 Open Meeting
November 8 and 9, 2005
13 Phoenix, Arizona

14 BY THE COMMISSION:

15 FINDINGS OF FACT

16 1. Graham County Utilities, Inc. ("Graham") is engaged in providing natural gas
17 service within portions of Arizona, pursuant to authority granted by the Arizona Corporation
18 Commission.

19 2. On September 21, 2005, Graham filed for Commission approval of a \$0.585 per
20 therm purchased gas adjustor ("PGA") surcharge, citing rising natural gas prices as the primary
21 reason. The application does not request a specific implementation date, but Graham has indicated
22 to Staff that it is asking to have the surcharge implemented as soon as possible.

23 3. Graham is a rural natural gas cooperative in southeastern Arizona with 4,767
24 customers as of September 2005.

25 4. Graham's application states that the Company does not have sufficient equity or
26 cash to carry a large PGA bank balance such as it may accumulate absent implementation of the
27 proposed PGA surcharge.

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1 5. As of the end of September 2005, Graham's PGA bank balance was undercollected
2 by \$232,035. Graham's threshold for the PGA bank balance is \$150,000, so Graham is currently
3 beyond the threshold.

4 6. Graham indicates in its application that it projects its undercollected bank balance
5 to exceed \$500,000 in December 2005, even with approval of the \$0.585 per therm PGA
6 surcharge.

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

9 8. Graham has indicated to Staff that since the expiration of its gas supply contract at
10 the end of August 2005, it has relied on spot market purchases to meet its natural gas supply needs.
11 Such reliance exacerbates the impact of swings in natural gas market prices in comparison to a
12 utility which has hedged some or all of its natural gas supplies.

13 9. Given its small size, Graham typically enters into a single supply contract with a
14 single supplier. At times, the Company has difficulty finding suppliers who will sell natural gas to
15 Graham due to its size. Graham indicated that it planned to enter into such a contract with a fixed
16 price but that it was waiting for prices to move downward before pursuing such a contract and
17 prices have in fact moved upward.

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

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

25 12. It should be noted that earlier in 2005 Graham completed a general rate case
26 proceeding before the Commission in Decision No. 67748 (April 11, 2005) which resulted in a
27 14.26 percent increase in revenue for Graham.

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1 13. In January 2005, the total cost of gas reflected in Graham's rates was \$0.547 per
2 therm (\$0.421 per therm base cost of gas and \$0.126 per therm for the monthly PGA rate). In
3 October 2005 the total cost of gas reflected in Graham's rates is \$0.647 per therm (\$0.59056 per
4 therm base cost of gas and \$0.05644 per therm monthly PGA rate). If the proposed PGA
5 surcharge is approved, the projected total cost of gas reflected in Graham's rates in January 2006
6 would be \$1.232 per therm (\$0.59056 per therm base cost of gas, \$0.05644 per therm monthly
7 PGA rate, and \$0.585 per therm PGA surcharge).

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

13 15. An average residential customer using 81 therms in January had a bill in January
14 2005 of \$69.51. Under Graham's proposed surcharge, it is estimated that an average residential
15 customer in January 2006 using 81 therms would see a bill of \$131.15. Under the alternate PGA
16 surcharge structure, an average residential customer in January 2006 using 81 therms would see a
17 bill of \$114.86.

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

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

23 18. Additionally, Graham's financial condition and limited ability to bear very large
24 PGA bank balances make it difficult to shift some portion of cost recovery from the winter 2006-
25 2007 months to the following summer months.

26 19. Regarding customer notification, Graham has indicated to Staff that prior to the
27 November 8-9, 2005 Commission Open Meeting, all of Graham's gas customers will have been
28 notified of Graham's application for approval of the \$0.585 per therm PGA surcharge. Graham

1 has also indicated that it intends to notify customers following any Commission action approving a
2 PGA surcharge.

3 20. Graham's situation is exceedingly difficult given its lack of hedged natural gas
4 heading into the winter 2006-2007 heating season as well as its limited ability to bear very large
5 undercollected bank balances. Such a situation makes it very difficult to craft an approach that
6 would reduce the impact of the proposed PGA surcharge during the winter months.

7 21. In light of these circumstances, Staff has recommended approval of a \$0.585 per
8 therm PGA surcharge for a 12-month period from December 2005 through November 2006 and
9 that a reduced \$0.10 per therm PGA surcharge begin in December 2006. The proposed PGA
10 surcharge would be in place until such time as the PGA bank balance reaches zero or the
11 Commission orders otherwise.

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

17 23. Staff has further recommended that Graham provide Staff with a plan by June 30,
18 2006 and by June 30th of each year indicating any fixed price supplies the Company has a acquired
19 for the following winter heating season and how the Company plans to hedge its natural gas
20 supplies prior to the following winter heating season.

21 24. During the Open Meeting, Graham stated that it has purchased half of its winter gas
22 supply at \$9.50 per mcf. Staff's analysis indicates that based upon the new information, the
23 surcharge Graham is now requesting is a \$0.45 per therm PGA surcharge. Graham agreed that a
24 \$0.45 per therm PGA surcharge would be appropriate. Therefore we find that the proposed
25 surcharge should be reduced from \$0.585 per therm to \$0.45 per therm.

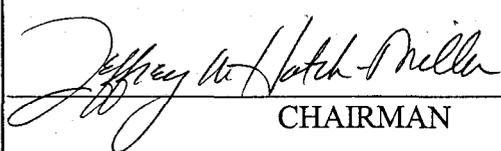
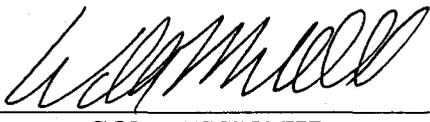
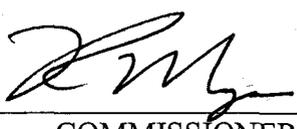
26 CONCLUSIONS OF LAW

27 1. Graham is an Arizona public service corporation within the meaning of Article XV,
28 Section 2, of the Arizona Constitution.

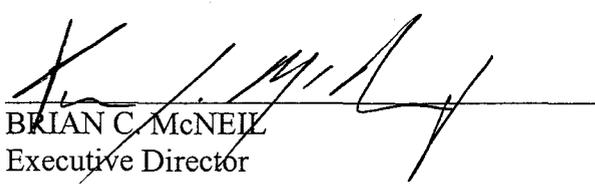
1 IT IS FURTHER ORDERED that Graham provide Docket Control, as a compliance item
 2 in this docket, a plan by June 30, 2006, and by June 30th each year thereafter, indicating any fixed
 3 price supplies the Company has acquired for the following winter heating season and how the
 4 Company plans to hedge 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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 7 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

8
 9  CHAIRMAN  COMMISSIONER
 10
 11  COMMISSIONER  COMMISSIONER  COMMISSIONER
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14 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
 15 Director of the Arizona Corporation Commission, have
 16 hereunto, set my hand and caused the official seal of this
 17 Commission to be affixed at the Capitol, in the City of
 18 Phoenix, this 14th day of November, 2005.

19
 20 
 21 BRIAN C. McNEIL
 22 Executive Director

23 DISSENT: _____

24 DISSENT: _____

25 EGJ:RGG:lh\m\CCK

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