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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

Arizona Corporation Commission
DOCKETED
NOV 14 2005
DOCKETED BY KV

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

DOCKET NO. G-02527A-05-0670

DECISION NO. **68298**

ORDER

Open Meeting
November 8 and 9, 2005
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

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

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

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

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

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

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

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

8. Graham has indicated to Staff that since the expiration of its gas supply contract at the end of August 2005, it has relied on spot market purchases to meet its natural gas supply needs. Such reliance 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.

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

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

11. To help avoid such future occurrences, Graham 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.

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

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

14. Attached to the Staff Memo is a spreadsheet showing average usage by customer class from September 2004 through August 2005 as well as the monthly revenue generated by Graham'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.

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

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

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

18. Additionally, Graham'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.

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

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

20. Graham'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.

21. In light of these circumstances, Staff has recommended approval of a $0.585 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.

22. Staff has further recommended that Graham provide notification to its customers prior to implementation of the PGA surcharge in December 2005 and that Graham 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.

23. Staff has further recommended that Graham provide Staff with a plan by June 30, 2006 and by June 30th of each year indicating any fixed price supplies the Company has a 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.

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

CONCLUSIONS OF LAW

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

2. The Commission has jurisdiction over Graham and over the subject matter of the application.

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

ORDER

IT IS THEREFORE ORDERED that the purchased gas adjustor surcharge, as discussed herein and detailed in Finding of Fact No. 24, is approved, through November 2006.

IT IS FURTHER ORDERED that the surcharge shall be reduced to $0.10 per therm, beginning in December 2006 and shall remain in effect until such time as the PGA bank balance reaches zero or the Commission orders otherwise.

IT IS FURTHER ORDERED that Graham provide notification to its customers prior to implementation of the PGA surcharge in December 2005, in a form acceptable to Staff, and that Graham 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.

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

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IT IS FURTHER ORDERED that Graham provide Docket Control, as a compliance item in this docket, a plan by June 30, 2006, and by June 30th each year thereafter, 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 IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

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 14th day of November, 2005.

BRIAN C. McNEIL
Executive Director

DISSENT: ______________________

DISSENT: ______________________

EGJ:RGG:lhm\CCK

SERVICE LIST FOR: Graham County Utilities, Inc.
DOCKET NO. G-02527A-05-0670

Mr. Russ Barney
Graham County Utilities, Inc.
Post Office Drawer B
Pima, Arizona 85543

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Mr. Christopher C. Kempley
Chief Counsel
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007