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OPEN MEETING



2006 JUN -9 P 2:11

MEMORANDUM

AZ CORP COMMISSION
DOCUMENT CONTROL

410

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 9, 2006

RE: IN THE MATTER OF THE APPLICATION OF ENERGY WEST, INC. FOR APPROVAL OF A PURCHASED GAS ADJUSTOR SURCHARGE AND AN INCREASE IN THE BAND ON THE MONTHLY PURCHASED GAS ADJUSTOR RATE (DOCKET NO. G-02696A-06-0290)

On April 28, 2006, Energy West, Inc. ("Energy West") filed for Commission approval of a \$0.3185 per therm purchased gas adjustor ("PGA") surcharge effective July 2006 through June 2007. Energy West also requested Commission approval of an increase in the band on its monthly PGA rate from the current \$0.16 per therm to \$0.40 per therm.

In discussions with Energy West, Staff indicated that it did not believe that this application was the proper venue to pursue a change in the band on the monthly PGA rate, with a rate case being the more appropriate venue for making a substantive change to the mechanics of how the PGA mechanism operates. In response to these discussions, Energy West made a supplemental filing in this docket on May 24, 2006. In this supplemental filing, Energy West indicated that if the Commission did not expand the band on the monthly PGA rate in this proceeding, then Energy West would request an increase in its proposed PGA surcharge from \$0.3185 per therm to \$0.55 per therm for the period of July 2006 through December 2007. Energy West's application notes that it competes against non-public service companies that deliver and supply propane tanks to consumers in the Payson area.

Regarding the request to increase the band on the monthly PGA rate, Staff believes that a rate proceeding is the appropriate time to consider changing this feature of the PGA mechanism. The Commission has recently increased the band on the monthly PGA rate for both Duncan Rural Services and Southwest Gas, but in both cases this action was taken within rate proceedings for each company. Therefore, Staff does not recommend addressing any possible change to the band on the monthly PGA rate in this proceeding. Based on this understanding, Staff will primarily discuss Energy West's surcharge request of \$0.55 per therm that reflects no change in the band on the monthly PGA rate.

Energy West currently has a \$0.1525 per therm PGA surcharge which is set to expire at the end of June 2006. Despite having the current PGA surcharge in place, Energy West's PGA bank balance has increased as propane prices have increased.

Propane market prices have increased significantly in recent years. Propane is produced through the process of refining natural gas and oil, so the high natural gas and oil prices in recent years have driven up propane prices. While natural gas prices have shown significant short-term declines in recent months, propane spot market prices have remained at or near record high levels through late 2005 and into 2006. This is likely due to propane's price linkage to oil prices, which have remained high in 2006. To illustrate the recent increases in propane prices, the Mont Belvieu, Texas pricing hub saw a monthly price of \$0.73736 per gallon in January 2005, but prices have ranged from \$0.91892 per gallon to \$1.13048 per gallon since August 2005, with the April 2006 price at \$1.01611 per gallon. Delivered propane prices tend to be higher in Arizona due to the lack of pipeline infrastructure and the resulting necessity of having supplies trucked into the service territory from Utah and New Mexico.

Energy West projects its PGA bank balance as of the end of June 2006 will be undercollected by \$1,703,296. Absent a new PGA surcharge the PGA bank balance is estimated to approach an undercollection of \$3 million by the end of 2007. Staff has reviewed Energy West's projected gas commodity costs and believes they are reasonable for the purpose of setting a PGA surcharge.

In May 2006, the total cost of gas reflected in Energy West's rates was \$1.2978 per therm (\$0.6248 per therm base cost of gas; \$0.5205 per therm for the monthly PGA rate; and \$0.1525 per therm for the monthly PGA surcharge). If the proposed surcharge is approved, the projected total cost of gas reflected in Energy West's rates in July 2006 would be \$1.7739 per therm (\$0.6248 per therm base cost of gas; \$0.5991 per therm for the monthly PGA rate; and \$0.55 per therm for the monthly PGA surcharge).

An average residential customer using 67 therms in January had a bill in January 2006 of \$171.78. Under Energy West's proposed surcharge, it is estimated that an average residential customer in January 2007 using 67 therms would see a bill of \$209.14. This is a total estimated bill increase of 21.74 percent. Of this increase, 15.50 percent is due to the proposed PGA surcharge, with the remainder resulting from the upward movement of the monthly PGA rate over time. Attached is a spreadsheet showing estimated customer bills and projected PGA bank balances through January 2008. The spreadsheet shows this information in cases where there is no surcharge, the Company's proposed surcharge, and a surcharge weighted toward more collection in summer months. Energy West has indicated that even with the \$0.55 per therm in place, its total per therm rate will be competitive with competing propane suppliers in the Payson area.

The average residential monthly therm use for the entire year of 2006/2007 is 31 therms. In January 2006, the average residential monthly usage was 67 therms. Estimated residential customer bills for January 2006 and January 2007 are shown below:

THE COMMISSION

June 9, 2006

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| Bill Component | January 2006 | January 2007 – Company Proposal |
|--|------------------------------|---------------------------------|
| Basic Service Charge | \$5.00 | \$5.00 |
| Margin Rate (\$1.1915 per therm) | \$79.83 | \$79.83 |
| Base Cost of Gas (\$0.6248 per therm) | \$41.86 | \$41.86 |
| Monthly PGA Rate | \$34.87 (\$0.5205 per therm) | \$45.59 (\$0.6805 per therm) |
| PGA Surcharge | \$10.22 (\$0.1525 per therm) | \$36.85 (\$0.55 per therm) |
| Total Bill (excluding taxes) | \$171.78 | \$209.14 |
| Total Percent Increase | | 21.74% |
| Percent Increase Due to Proposed PGA Surcharge | | 15.50% |

Regarding customer notification, Energy West has indicated to Staff that prior to the June 27-28, 2006 Commission Open Meeting, Energy West's propane customers will have been notified of Energy West's application for approval of the PGA surcharge. Energy West has also indicated that it intends to notify customers following any Commission action approving a PGA surcharge.

Staff recommends approval of a \$0.55 per therm surcharge commencing in the July 2006 rates and to be in effect until such time as Energy West's PGA bank balance is reduced to zero or the Commission orders otherwise. Staff further recommends that Energy West provide notification to its customers prior to implementation of the PGA surcharge in July 2006 and that Energy West 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 propane prices.



Ernest G. Johnson
 Director
 Utilities Division

EGJ:RGG:lhmvJMA

ORIGINATOR: Robert Gray

PGA Rate Each Month

| | Jan-06 | Jul-06 | Aug-06 | Sep-06 | Oct-06 | Nov-06 | Dec-06 | Jan-07 | Feb-07 | Mar-07 | Apr-07 | May-07 | Jun-07 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| No Surcharge | | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Revised Company Proposal | | \$0.55 | \$0.55 | \$0.55 | \$0.55 | \$0.55 | \$0.55 | \$0.55 | \$0.55 | \$0.55 | \$0.55 | \$0.55 | \$0.55 |
| Lower Surcharge | | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 |
| Emphasis on Summer | | \$0.65 | \$0.65 | \$0.65 | \$0.65 | \$0.50 | \$0.35 | \$0.35 | \$0.35 | \$0.35 | \$0.40 | \$0.50 | \$0.65 |

| | Jan-07 | Jul-07 | Aug-07 | Sep-07 | Oct-07 | Nov-07 | Dec-07 |
|--------------------------|--------|--------|--------|--------|--------|--------|--------|
| No Surcharge | | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 | \$0.00 |
| Revised Company Proposal | | \$0.55 | \$0.55 | \$0.55 | \$0.55 | \$0.55 | \$0.55 |
| Lower Surcharge | | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 | \$0.45 |
| Emphasis on Summer | | \$0.65 | \$0.65 | \$0.65 | \$0.65 | \$0.50 | \$0.35 |

Estimated Customer Bills (excluding taxes and assessments)

| | Jan-06 | Jul-06 | Aug-06 | Sep-06 | Oct-06 | Nov-06 | Dec-06 | Jan-07 | Feb-07 | Mar-07 | Apr-07 | May-07 | Jun-07 |
|--------------------------|----------|---------|---------|---------|---------|---------|----------|----------|----------|----------|----------|---------|---------|
| No Surcharge | \$171.78 | \$26.74 | \$24.35 | \$26.82 | \$26.88 | \$51.33 | \$135.13 | \$172.29 | \$164.80 | \$137.52 | \$129.88 | \$61.07 | \$33.20 |
| Revised Company Proposal | \$171.78 | \$31.69 | \$28.75 | \$31.77 | \$31.83 | \$61.78 | \$164.28 | \$209.14 | \$200.00 | \$166.12 | \$156.83 | \$73.17 | \$39.25 |
| Lower Surcharge | \$171.78 | \$30.79 | \$27.95 | \$30.87 | \$30.93 | \$59.88 | \$158.98 | \$202.44 | \$193.60 | \$160.92 | \$151.93 | \$70.97 | \$38.15 |
| Emphasis on Summer | \$171.78 | \$32.59 | \$29.55 | \$32.67 | \$32.73 | \$60.83 | \$153.68 | \$195.74 | \$187.20 | \$155.72 | \$149.48 | \$72.07 | \$40.35 |

| | Jul-07 | Aug-07 | Sep-07 | Oct-07 | Nov-07 | Dec-07 |
|--------------------------|---------|---------|---------|---------|---------|----------|
| No Surcharge | \$28.18 | \$25.63 | \$28.26 | \$28.32 | \$54.37 | \$143.61 |
| Revised Company Proposal | \$33.13 | \$30.03 | \$33.21 | \$33.27 | \$64.82 | \$172.76 |
| Lower Surcharge | \$32.23 | \$29.23 | \$32.31 | \$32.37 | \$62.92 | \$167.46 |
| Emphasis on Summer | \$34.03 | \$30.83 | \$34.11 | \$34.17 | \$63.87 | \$162.16 |

Estimated PGA Bank Balance

| | Jul-06 | Aug-06 | Sep-06 | Oct-06 | Nov-06 | Dec-06 | Jan-07 | Feb-07 | Mar-07 | Apr-07 | May-07 | Jun-07 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| No Surcharge | \$1,732,823 | \$1,759,051 | \$1,796,503 | \$1,834,508 | \$1,906,027 | \$2,079,855 | \$2,289,198 | \$2,502,133 | \$2,638,516 | \$2,723,957 | \$2,766,098 | \$2,788,199 |
| Revised Company Proposal | \$1,672,307 | \$1,645,064 | \$1,617,776 | \$1,594,640 | \$1,560,273 | \$1,463,532 | \$1,324,330 | \$1,203,108 | \$1,062,474 | \$890,474 | \$805,751 | \$753,343 |
| Lower Surcharge | \$1,683,310 | \$1,665,789 | \$1,650,272 | \$1,638,253 | \$1,623,137 | \$1,575,591 | \$1,499,761 | \$1,439,294 | \$1,349,027 | \$1,223,835 | \$1,162,177 | \$1,123,317 |
| Emphasis on Summer | \$1,661,304 | \$1,624,339 | \$1,585,281 | \$1,551,028 | \$1,526,150 | \$1,527,465 | \$1,514,673 | \$1,514,628 | \$1,474,393 | \$1,372,566 | \$1,300,033 | \$1,235,850 |

| | Jul-07 | Aug-07 | Sep-07 | Oct-07 | Nov-07 | Dec-07 |
|--------------------------|-------------|-------------|-------------|-------------|-------------|-------------|
| No Surcharge | \$2,807,166 | \$2,824,323 | \$2,850,391 | \$2,877,964 | \$2,930,004 | \$3,055,472 |
| Revised Company Proposal | \$705,738 | \$663,572 | \$618,702 | \$579,033 | \$517,735 | \$360,234 |
| Lower Surcharge | \$1,087,816 | \$1,056,435 | \$1,024,464 | \$997,020 | \$956,330 | \$850,277 |
| Emphasis on Summer | \$1,177,918 | \$1,126,745 | \$1,070,761 | \$1,020,654 | \$970,144 | \$914,656 |

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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 ENERGY WEST, INC. FOR APPROVAL)
 OF A PURCHASED GAS ADJUSTOR)
 SURCHARGE AND AN INCREASE IN THE)
 BAND ON THE MONTHLY PURCHASED)
 GAS ADJUSTOR RATE)

DOCKET NO. G-02696A-06-0290
 DECISION NO. _____
ORDER

Open Meeting
 June 27 and 28, 2006
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Energy West, Inc. ("Energy West") is engaged in providing propane service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. On April 28, 2006, Energy West filed for Commission approval of a \$0.3185 per therm purchased gas adjustor ("PGA") surcharge effective July 2006 through June 2007.
3. Energy West also requested Commission approval of an increase in the band on its monthly PGA rate from the current \$0.16 per therm to \$0.40 per therm.
4. In discussions with Energy West, Staff indicated that it did not believe that this application was the proper venue to pursue a change in the band on the monthly PGA rate, with a rate case being the more appropriate venue for making a substantive change to the mechanics of how the PGA mechanism operates. In response to these discussions, Energy West made a supplemental filing in this docket on May 24, 2006. In this supplemental filing, Energy West indicated that if the Commission did not expand the band on the monthly PGA rate in this

1 proceeding, then Energy West would request an increase in its proposed PGA surcharge from
2 \$0.3185 per therm to \$0.55 per therm for the period of July 2006 through December 2007.

3 5. Energy West's application notes that it competes against non-public service
4 companies that deliver and supply propane tanks to consumers in the Payson area.

5 6. Regarding the request to increase the band on the monthly PGA rate, Staff believes
6 that a rate proceeding is the appropriate time to consider changing this feature of the PGA
7 mechanism. The Commission has recently increased the band on the monthly PGA rate for both
8 Duncan Rural Services and Southwest Gas, but in both cases this action was taken within rate
9 proceedings for each company. Therefore, Staff does not recommend addressing any possible
10 change to the band on the monthly PGA rate in this proceeding.

11 7. Energy West currently has a \$0.1525 per therm PGA surcharge which is set to
12 expire at the end of June 2006. Despite having the current PGA surcharge in place, Energy West's
13 PGA bank balance has increased as propane prices have increased.

14 8. Propane market prices have increased significantly in recent years. Propane is
15 produced through the process of refining natural gas and oil, so the high natural gas and oil prices
16 in recent years have driven up propane prices. While natural gas prices have shown significant
17 short-term declines in recent months, propane spot market prices have remained at or near record
18 high levels through late 2005 and into 2006. This is likely due to propane's price linkage to oil
19 prices, which have remained high in 2006. To illustrate the recent increases in propane prices, the
20 Mont Belvieu, Texas pricing hub saw a monthly price of \$0.73736 per gallon in January 2005, but
21 prices have ranged from \$0.91892 per gallon to \$1.13048 per gallon since August 2005, with the
22 April 2006 price at \$1.01611 per gallon. Delivered propane prices tend to be higher in Arizona
23 due to the lack of pipeline infrastructure and the resulting necessity of having supplies trucked into
24 the service territory from Utah and New Mexico.

25 9. Energy West projects its PGA bank balance as of the end of June 2006 will be
26 undercollected by \$1,703,296. Absent a new PGA surcharge the PGA bank balance is estimated to
27 approach an undercollection of \$3 million by the end of 2007. Staff has reviewed Energy West's

28 ...

1 projected gas commodity costs and believes they are reasonable for the purpose of setting a PGA
2 surcharge.

3 10. In May 2006, the total cost of gas reflected in Energy West's rates was \$1.2978 per
4 therm (\$0.6248 per therm base cost of gas; \$0.5205 per therm for the monthly PGA rate; and
5 \$0.1525 per therm for the monthly PGA surcharge). If the proposed surcharge is approved, the
6 projected total cost of gas reflected in Energy West's rates in July 2006 would be \$1.7739 per
7 therm (\$0.6248 per therm base cost of gas; \$0.5991 per therm for the monthly PGA rate; and \$0.55
8 per therm for the monthly PGA surcharge).

9 11. An average residential customer using 67 therms in January had a bill in January
10 2006 of \$171.78. Under Energy West's proposed surcharge, it is estimated that an average
11 residential customer in January 2007 using 67 therms would see a bill of \$209.14. This is a total
12 estimated bill increase of 21.74 percent. Of this increase, 15.50 percent is due to the proposed
13 PGA surcharge, with the remainder resulting from the upward movement of the monthly PGA rate
14 over time.

15 12. Attached to Staff's Memorandum is a spreadsheet showing estimated customer bills
16 and projected PGA bank balances through January 2008. The spreadsheet shows this information
17 in cases where there is no surcharge, the Company's proposed surcharge, and a surcharge weighted
18 toward more collection in summer months.

19 13. Energy West has indicated that even with the \$0.55 per therm in place, its total per
20 therm rate will be competitive with competing propane suppliers in the Payson area.

21 14. The average residential monthly therm use for the entire year of 2006/2007 is 31
22 therms. In January 2006, the average residential monthly usage was 67 therms. Estimated
23 residential customer bills for January 2006 and January 2007 are shown below:

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| 1 | Bill Component | January 2006 | January 2007 – Company Proposal |
|---|--|------------------------------|---------------------------------|
| 2 | Basic Service Charge | \$5.00 | \$5.00 |
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| 5 | Monthly PGA Rate | \$34.87 (\$0.5205 per therm) | \$45.59 (\$0.6805 per therm) |
| 6 | PGA Surcharge | \$10.22 (\$0.1525 per therm) | \$36.85 (\$0.55 per therm) |
| 7 | Total Bill (excluding taxes) | \$171.78 | \$209.14 |
| 8 | Total Percent Increase | | 21.74% |
| 9 | Percent Increase Due to Proposed PGA Surcharge | | 15.50% |

10 15. Regarding customer notification, Energy West has indicated to Staff that prior to
 11 the June 27-28, 2006 Commission Open Meeting, Energy West notified its customers of Energy
 12 West's application for approval of the PGA surcharge. Energy West has also indicated that it
 13 intends to notify customers following any Commission action approving a PGA surcharge.

14 16. Staff has recommended approval of a \$0.55 per therm surcharge commencing in the
 15 July 2006 rates and to be in effect until such time as Energy West's PGA bank balance is reduced
 16 to zero or the Commission orders otherwise.

17 17. Staff has further recommended that Energy West provide notification to its
 18 customers prior to implementation of the PGA surcharge in July 2006 and that Energy West seek
 19 other means as may be available to inform its customers of the PGA surcharge, its impact on
 20 customer bills, ways customers can reduce their consumption, and the general issue of rising
 21 propane prices.

22 CONCLUSIONS OF LAW

23 1. Energy West is an Arizona public service corporation within the meaning of Article
 24 XV, Section 2, of the Arizona Constitution.

25 2. The Commission has jurisdiction over Energy West and over the subject matter of
 26 the application.

27 3. The Commission, having reviewed the application and Staff's Memorandum dated
 28 June 9, 2006, concludes that it is in the public interest to approve the PGA surcharge and
 conditions described in Findings of Fact Nos. 16 and 17.

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IT IS FURTHER ORDERED that Energy West provide notification to its customers prior to implementation of the PGA surcharge in July 2006 and that Energy West 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 propane prices.

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 _____ day of _____, 2006.

BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:BGG:lhm\JMA

1 SERVICE LIST FOR: Energy West, Inc.
2 DOCKET NO. G-02696A-06-0290

3 Mr. Todd Wiley
4 Attorney Representing Energy West, Inc.
5 Gallagher and Kennedy, P.A.
6 2575 East Camelback Road
7 Phoenix, Arizona 85016

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

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

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COPY
OPEN MEETING
MEMORANDUM

RECEIVED

2006 JUN -9 P 2:12

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 9, 2006

RE: IN THE MATTER OF THE APPLICATION OF ENERGY WEST, INC. FOR APPROVAL OF A PURCHASED GAS ADJUSTOR SURCHARGE AND AN INCREASE IN THE BAND ON THE MONTHLY PURCHASED GAS ADJUSTOR RATE (DOCKET NO. G-02696A-06-0290)

AZ CORP COMMISSION
DOCUMENT CONTROL

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