

RECEIVED

ORIGINAL
OPEN MEETING



2006 JUN 13 P 12:13

MEMORANDUM

410

AZ CORP COMMISSION
DOCUMENT CONTROL

TO: THE COMMISSION

FROM: Utilities Division

DATE: June 13, 2006

RE: IN THE MATTER OF THE APPLICATION OF COPPER MARKET, INC. FOR APPROVAL OF A CHANGE IN THE PURCHASED GAS ADJUSTOR RATE (DOCKET NO. G-02308A-06-0240)

On April 11, 2006, Copper Market, Inc. ("Copper Market") filed for Commission approval of a \$0.01595 per cubic foot purchased gas adjustor ("PGA") surcharge effective July 2006 through December 2007. On June 9, 2006, Copper Market made a revised filing, requesting that the \$0.01595 per cubic foot increase requested previously as a temporary surcharge be implemented as an increase to the PGA rate, resulting in a new PGA rate of \$0.01874 per cubic foot, with no specific expiration date. Copper Market has indicated that it changed its request because it wanted to avoid a situation after December 2007, where under its initial application the temporary surcharge would have ended, significantly reducing its recoveries and likely resulting in large new undercollections accumulating in 2008.

Copper Market, which is owned by Phelps Dodge, is a small propane distribution system serving approximately 800 customers in Bagdad, Arizona. Copper Market bills its customers on a per cubic foot ("cf") basis, rather than per therm as other Arizona local distribution companies do. For comparison purposes, one therm of propane equals approximately 40 cubic feet. Due to its unique circumstances, when the Commission implemented the banded rolling average PGA mechanism for other Arizona propane and natural gas distribution companies, the Commission exempted Copper Market from this conversion. Therefore, Copper Market's gas cost rate does not change apart from specific action by the Commission to change the rate.

Copper Market's cost of gas reflected in its tariffed rates was last changed in Commission Decision No. 58731 (August 10, 1994). Since that time, Copper Market's practice has been to write off PGA bank balances as they become rather large. As of the end of February 2006, Copper Market reports an undercollected PGA bank balance of \$397,916. Copper Market projects this undercollection to grow to approximately \$480,000 by the end of June 2006. Copper Market's application in this proceeding proposes to fully write off the PGA bank balance as of the end of June 2006. Therefore, any increase in the cost of gas being implemented in this proceeding would only be addressing Copper Market's on-going higher propane prices. While Copper Market's proposed PGA rate increase represents a significant increase in customer bills, Copper Market's willingness to write off the end of June 2006 bank balance avoids a potentially much larger rate increase customers could face.

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.

Copper Market's current cost of gas reflected in its tariffs does not reflect the significant cost increases that have taken place in propane markets in recent years. Copper Market's application proposes to increase the total cost of gas to a level slightly higher than the cost of propane it is currently incurring. Copper Market indicates that their requested PGA rate provides a total cost of gas that is slightly higher than the current cost being incurred because its current contract for propane purchases only lasts until August 2006. When Copper Market renegotiates a new supply contract, the price paid under such a new contract is expected to increase Copper Market's cost per cubic foot from the current level.

Copper Market's current base gas cost is \$0.0128 per cf and current PGA rate is \$0.00279 per cf (approximately \$0.62 per therm for comparison purposes), including \$0.0128 per cf in the base gas cost and \$0.00279 per cf in the PGA rate. Under Copper Market's revised proposal, the total cost of gas would increase in July 2006 to \$0.03154 per cf (approximately \$1.26 per therm for comparison purposes), including \$0.0128 per cf in the base gas cost and \$0.01874 per cf in the PGA rate. It is worth noting that one gallon of propane equals 36.39 cubic feet and forty cubic feet equals approximately one therm of propane. This increase represents slightly more than a doubling of the cost of gas component of Copper Market's rates. Given the recent high propane prices, it is very possible that Copper Market could incur some level of undercollection even if its proposed new PGA rate is adopted. Absent the increased PGA rate, Copper Market projects that its PGA bank balance would go from zero at the beginning of July 2006 to an undercollection of approximately \$280,000 at the end of 2007. A significant upward adjustment to Copper Market's PGA rate is necessary to move it closer to the prevailing price of propane in recent years.

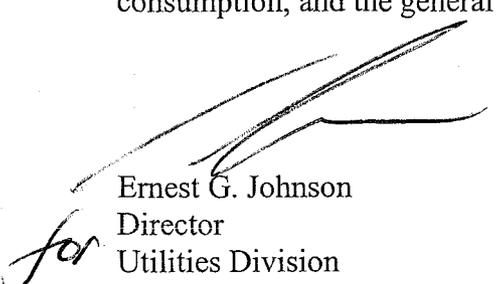
An average residential customer using 3,607 cubic feet (approximately 90 therms) in January had a bill in January 2006 of \$62.48. Under Copper Market's proposed increase to the PGA rate, it is estimated that an average residential customer in January 2007 using 3,607 cubic feet would see a bill of \$120.01, an increase of 92 percent. Attached is a spreadsheet showing estimated customer bills and projected PGA bank balances through January 2008 with the proposed increase in the PGA rate or if no change was made.

Estimated residential customer bills for January 2006 and January 2007 are shown below:

Bill Component	January 2006	January 2007 – Company Proposal
Basic Service Charge	\$3.00	\$3.00
Margin Rate (\$0.0009 per cf)	\$3.25	\$3.25
Base Cost of Gas (\$0.0128 per cf)	\$46.17	\$46.17
PGA Rate	\$10.06 (\$0.00279 per cf)	\$67.59 (\$0.01874 per cf)
Total Bill (excluding taxes)	\$62.48	\$120.01
Total Percent Increase		92.08%

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

Copper Market's current rates reflect the cost of propane in 1994. Since that time, Copper Market has significantly subsidized propane service by writing off undercollected bank balances a number of times. As propane prices have increased significantly in recent years, the rate of increase in the undercollected bank balance has grown quickly. Copper Market's proposal represents a significant rate increase for Copper Market customers, but will still reflect propane rates that are relatively low given market conditions in recent years. Further, Copper Market's willingness to write-off the very large undercollected bank balance as of the end of June 2006 spares its customers from a much larger potential rate increase. Given these circumstances, Staff recommends approval of an increase in Copper Market's PGA rate to \$0.01874 per cubic foot, effective in July 2006. Staff further recommends that Copper Market provide notification to its customers prior to implementation of the PGA rate increase in July 2006 and that Copper Market seek other means as may be available to inform its customers of the PGA rate increase, 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 per cubic foot	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 Change		\$0.00279	\$0.00279	\$0.00279	\$0.00279	\$0.00279	\$0.00279	\$0.00279	\$0.00279	\$0.00279	\$0.00279	\$0.00279	\$0.00279
Proposed PGA Rate Increase		\$0.01874	\$0.01874	\$0.01874	\$0.01874	\$0.01874	\$0.01874	\$0.01874	\$0.01874	\$0.01874	\$0.01874	\$0.01874	\$0.01874
No Change		Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07						
Proposed PGA Rate Increase		\$0.00279	\$0.00279	\$0.00279	\$0.00279	\$0.00279	\$0.00279						
		\$0.01874	\$0.01874	\$0.01874	\$0.01874	\$0.01874	\$0.01874						
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 Change	\$62.48	\$11.98	\$13.73	\$11.96	\$12.62	\$20.30	\$39.34	\$62.48	\$50.51	\$42.30	\$36.93	\$21.67	\$16.86
Proposed PGA Rate Increase	\$62.48	\$20.66	\$24.10	\$20.62	\$21.92	\$37.04	\$74.48	\$120.01	\$96.47	\$80.32	\$69.75	\$39.73	\$30.27
No Change		Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07						
Proposed PGA Rate Increase		\$11.98	\$13.73	\$11.96	\$12.62	\$20.30	\$39.34						
		\$20.66	\$24.10	\$20.62	\$21.92	\$37.04	\$74.48						
Estimated PGA Bank Balance		Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07						
No Change		\$6,639	\$13,201	\$19,904	\$26,886	\$40,526	\$69,248	\$107,559	\$141,283	\$169,557	\$187,990	\$199,927	\$210,754
Proposed PGA Rate Increase		-\$271	-\$538	-\$812	-\$1,096	-\$1,653	-\$2,824	-\$4,386	-\$5,761	-\$6,914	-\$7,666	-\$8,152	-\$8,594
No Change		Jul-07	Aug-07	Sep-07	Oct-07	Nov-07	Dec-07						
Proposed PGA Rate Increase		\$217,392	\$223,955	\$230,658	\$237,639	\$251,279	\$280,002						
		-\$8,865	-\$9,132	-\$9,406	-\$9,690	-\$10,246	-\$11,418						

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

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 COPPER MARKET, INC. FOR)
APPROVAL OF A CHANGE IN THE)
PURCHASED GAS ADJUSTOR RATE)
_____)

DOCKET NO. G-02308A-06-0240
DECISION NO. _____
ORDER

Open Meeting
June 27 and 28, 2006
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Copper Market, Inc. ("Copper Market") is engaged in providing propane service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. On April 11, 2006, Copper Market filed for Commission approval of a \$0.01595 per cubic foot purchased gas adjustor ("PGA") surcharge effective July 2006 through December 2007.
3. On June 9, 2006, Copper Market made a revised filing, requesting that the \$0.01595 per cubic foot increase requested previously as a temporary surcharge be implemented as an increase to the PGA rate, resulting in a new PGA rate of \$0.01874 per cubic foot, with no specific expiration date. Copper Market has indicated that it changed its request because it wanted to avoid a situation after December 2007, where under its initial application the temporary surcharge would have ended, significantly reducing its recoveries and likely resulting in large new undercollections accumulating in 2008.
- ...

1 4. Copper Market, which is owned by Phelps Dodge, is a small propane distribution
2 system serving approximately 800 customers in Bagdad, Arizona.

3 5. Copper Market bills its customers on a per cubic foot ("cf") basis, rather than per
4 therm as other Arizona local distribution companies do. For comparison purposes, one therm of
5 propane equals approximately 40 cubic feet.

6 6. Due to its unique circumstances, when the Commission implemented the banded
7 rolling average PGA mechanism for other Arizona propane and natural gas distribution companies,
8 the Commission exempted Copper Market from this conversion. Therefore, Copper Market's gas
9 cost rate does not change apart from specific action by the Commission to change the rate.

10 7. Copper Market's cost of gas reflected in its tariffed rates was last changed in
11 Commission Decision No. 58731 (August 10, 1994). Since that time, Copper Market's practice
12 has been to write off PGA bank balances as they become rather large.

13 8. As of the end of February 2006, Copper Market reports an undercollected PGA
14 bank balance of \$397,916. Copper Market projects this undercollection to grow to approximately
15 \$480,000 by the end of June 2006. Copper Market's application in this proceeding proposes to
16 fully write off the PGA bank balance as of the end of June 2006. Therefore, any increase in the
17 cost of gas being implemented in this proceeding would only be addressing Copper Market's on-
18 going higher propane prices.

19 9. While Copper Market's proposed PGA rate increase represents a significant
20 increase in customer bills, Copper Market's willingness to write off the end of June 2006 bank
21 balance avoids a potentially much larger rate increase customers could face.

22 10. Propane market prices have increased significantly in recent years. Propane is
23 produced through the process of refining natural gas and oil, so the high natural gas and oil prices
24 in recent years have driven up propane prices. While natural gas prices have shown significant
25 short-term declines in recent months, propane spot market prices have remained at or near record
26 high levels through late 2005 and into 2006. This is likely due to propane's price linkage to oil
27 prices, which have remained high in 2006. To illustrate the recent increases in propane prices, the
28 Mont Belvieu, Texas pricing hub saw a monthly price of \$0.73736 per gallon in January 2005, but

1 prices have ranged from \$0.91892 per gallon to \$1.13048 per gallon since August 2005, with the
2 April 2006 price at \$1.01611 per gallon. Delivered propane prices tend to be higher in Arizona due
3 to the lack of pipeline infrastructure and the resulting necessity of having supplies trucked into the
4 service territory from Utah and New Mexico.

5 11. Copper Market's current cost of gas reflected in its tariffs does not reflect the
6 significant cost increases that have taken place in propane markets in recent years. Copper
7 Market's application proposes to increase the total cost of gas to a level slightly higher than the
8 cost of propane it is currently incurring.

9 12. Copper Market indicates that its requested PGA rate provides a total cost of gas that
10 is slightly higher than the current cost being incurred because their current contract for propane
11 purchases only lasts until August 2006. When Copper Market renegotiates a new supply contract,
12 the price paid under such a new contract is expected to increase Copper Market's cost per cubic
13 foot from the current level.

14 13. Copper Market's current base gas cost is \$0.0128 per cf and current PGA rate is
15 \$0.00279 per cf (approximately \$0.62 per therm for comparison purposes), including \$0.0128 per
16 cf in the base gas cost and \$0.00279 per cf in the PGA rate. Under Copper Market's revised
17 proposal, the total cost of gas would increase in July 2006 to \$0.03154 per cf (approximately \$1.26
18 per therm for comparison purposes), including \$0.0128 per cf in the base gas cost and \$0.01874
19 per cf in the PGA rate. It is worth noting that one gallon of propane equals 36.39 cubic feet and
20 forty cubic feet equals approximately one therm of propane. This increase represents slightly more
21 than a doubling of the cost of gas component of Copper Market's rates.

22 14. Given the recent high propane prices, it is very possible that Copper Market could
23 incur some level of undercollection even if its proposed new PGA rate is adopted. Absent the
24 increased PGA rate, Copper Market projects that its PGA bank balance would go from zero at the
25 beginning of July 2006 to an undercollection of approximately \$280,000 at the end of 2007. A
26 significant upward adjustment to Copper Market's PGA rate is necessary to move it closer to the
27 prevailing price of propane in recent years.

28 ...

1 15. An average residential customer using 3,607 cubic feet (approximately 90 therms)
 2 in January had a bill in January 2006 of \$62.48. Under Copper Market's proposed increase to the
 3 PGA rate, it is estimated that an average residential customer in January 2007 using 3,607 cubic
 4 feet would see a bill of \$120.01, an increase of 92 percent. Attached to Staff's Memorandum is a
 5 spreadsheet showing estimated customer bills and projected PGA bank balances through January
 6 2008 with the proposed increase in the PGA rate or if no change was made.

7 16. Estimated residential customer bills for January 2006 and January 2007 are shown
 8 below:

9 Bill Component	January 2006	January 2007 – Company Proposal
10 Basic Service Charge	\$3.00	\$3.00
11 Margin Rate (\$0.0009 per cf)	\$3.25	\$3.25
12 Base Cost of Gas (\$0.0128 per cf)	\$46.17	\$46.17
13 PGA Rate	\$10.06 (\$0.00279 per cf)	\$67.59 (\$0.01874 per cf)
Total Bill (excluding taxes)	\$62.48	\$120.01
Total Percent Increase		92.08%

14
 15 17. Regarding customer notification, Copper Market has indicated to Staff that prior to
 16 the June 27-28, 2006, Commission Open Meeting, Copper Market's propane customers were
 17 notified of Copper Market's application for approval of an increase in the PGA rate. Copper
 18 Market has also indicated that it intends to notify customers following any Commission action
 19 approving a PGA rate increase.

20 18. Copper Market's current rates reflect the cost of propane in 1994. Since that time,
 21 Copper Market has significantly subsidized propane service by writing off undercollected bank
 22 balances a number of times. As propane prices have increased significantly in recent years, the
 23 rate of increase in the undercollected bank balance has grown quickly. Copper Market's proposal
 24 represents a significant rate increase for Copper Market customers, but will still reflect propane
 25 rates that are relatively low given market conditions in recent years. Further, Copper Market's
 26 willingness to write-off the very large undercollected bank balance as of the end of June 2006
 27 spares its customers from a much larger potential rate increase.

28 ...

1 19. Given these circumstances, Staff has recommended approval of an increase in
2 Copper Market's PGA rate to \$0.01874 per cubic foot, effective in July 2006.

3 20. Staff has further recommended that Copper Market provide notification to its
4 customers prior to implementation of the PGA rate increase in July 2006 and that Copper Market
5 seek other means as may be available to inform its customers of the PGA rate increase, its impact
6 on customer bills, ways customers can reduce their consumption, and the general issue of rising
7 propane prices.

8 CONCLUSIONS OF LAW

9 1. Copper Market is an Arizona public service corporation within the meaning of
10 Article XV, Section 2, of the Arizona Constitution.

11 2. The Commission has jurisdiction over Copper Market and over the subject matter
12 of the application.

13 3. The Commission, having reviewed the application and Staff's Memorandum dated
14 June 13, 2006, concludes that it is in the public interest to approve a PGA rate of \$0.01874 per
15 cubic feet effective in July 2006.

16 ORDER

17 IT IS THEREFORE ORDERED that a PGA rate of \$0.01874 per cubic foot be, and hereby
18 is, approved.

19 ...
20 ...
21 ...
22 ...
23 ...
24 ...
25 ...
26 ...
27 ...
28 ...

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

IT IS FURTHER ORDERED that Copper Market provide notification to its customers prior to implementation of the PGA rate increase in July 2006 and that Copper Market seek other means as may be available to inform its customers of the PGA rate increase, 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: Copper Market, Inc.
2 DOCKET NO. G-02308A-06-0240

3 Mr. Marcus Middleton
4 Manager
5 Copper Market, Inc.
6 Post Office Box 245
7 Bagdad, Arizona 86321

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

18

19

20

21

22

23

24

25

26

27

28