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February 13, 2004

Ms. Kris Mayes  
Commissioner  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, Arizona 85007

RE: Unisource Energy Pricing

Dear Ms. Mayes:

Please find enclosed copies of correspondence and letters to the editor regarding pricing by Unisource Energy and their predecessor, Citizens Utilities.

I believe this unwarranted pricing extortion is much deeper than we all realize.

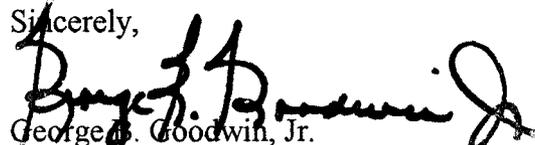
I first took note of a problem in Citizens billing over two years ago. At that time, I noticed a "PGA" charge on my natural gas bill. I do not know if it goes back farther or not. However, I contacted the Arizona Corporation Commission, Citizens Utilities and wrote several letters to the editor of the local paper attempting to get some answers. Unfortunately, I got no answers.

My own gas bill from a year ago this same time increased tremendously, even though I used considerably less gas. Also, Citizens Utilities started adding the PGA cost and then there appeared a PGA Surcharge in addition. In my opinion, this is all simply put, a fraud. We, as citizens of our communities simply cannot tolerate, nor afford these outrageous bills. There comes a time when we have to say, "NO MORE".

Therefore, I am asking that you review my enclosed file and use this information in your decision and rulings to put the brakes on this runaway natural gas pricing.

Thank you for your consideration.

Sincerely,

  
George B. Goodwin, Jr.  
972 Garland Dr.  
Prescott, AZ 86305-5267  
1-928-445-3201

Arizona Corporation Commission  
DOCKETED

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AZ CORP COMMISSION  
DOCUMENT CONTROL

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RECEIVED  
FEB 17 2004  
By \_\_\_\_\_

January 25, 2002

Arizona Corporation Commission  
Utilities Division  
1200 W. Washington  
Phoenix, AZ 85007

RE Citizens Utilities

Gentlemen:

Perhaps you can shed some light on my concerns regarding why you have given permission to Citizens Arizona Gas Utilities to begin charging "PGA Costs".

As I understand it after speaking to a customer representative in Prescott regarding this matter, they seem to be recouping an amount of money they claim to have lost undercharging their customers for past natural gas usage. In other words, they claim they purchased natural gas from their distributor and in turn sold it to their customers for less than they paid. If this is incorrect, perhaps you can enlighten me further.

If this scenario is correct, then please answer me as to why neither their internal accounting practices, or the control of the Arizona Corporation Commission was not alerted to this company's inept business practices. Again, if I understand this whole situation, I believe the Arizona Corporation Commission is acting in an absurd manner to allow this to happen.

My own particular gas usage bill for last month was \$93.14. However, the PGA cost was \$72.48. With a customer charge of \$5.00, taxes, RUCO fees and Arizona Corporation Commission fees, my total bill was \$188.59. This is absolutely ridiculous.

I also understand that this PGA charge is being allowed by you, The Corporation Commission for fifteen (15) months and then with the ability to be renewed by Citizens Utilities at their discretion if they feel it necessary.

May I please request an answer and explanation to my concerns.

Sincerely,

George B. Goodwin Jr.  
972 Garland Dr.  
Prescott, AZ 86305-5267

**Arizona needs to elect  
new commissioners**

**EDITOR:**

I am amazed at the gullibility of the Arizona Corporation commissioners to allow Citizens Gas Company to gouge the people of Arizona with the recent excessive gas price increases.

It seems to be a repeat of the same old garbage that started in 1973 when the Big Boys doubled the price of steel, then other commodities. In 1976, they pulled a new trick on the American people by selling their petroleum products back and forth to each other, with each company adding their profit margin until they doubled, then tripled, the price of gasoline to the consumer, all done under the guise of a fuel shortage.

It seems they are subjecting us to a repeat of the fraud. I don't know what we can do other than to replace some corporate commissioners with people who will have the welfare of Arizona and its people foremost in their minds.

Jack E. Rose  
Prescott

2-1-02

## Gas price hikes are gouging users

EDITOR:

Mr. Jack L. Rose (Letter to the Editor, Feb. 1) is correct in his belief that we need to clean house with the Arizona Corporation commissioners. Allowing Citizens Utilities to impose the "PGA cost" on our gas bills shows arrogance and lack of concern for the public. I am sure very little thought was given to this matter as they considered it trivial.

In case anyone reading this letter has not looked at your latest gas bill, please do so. On the back side (page 2) you will notice the "PGA cost." Do not faint when you see it. My own additional cost was approximately 78% of the total gas consumption for the entire month.

As I understand this cost; it has to do with the allegation from Citizens Utilities that they were selling natural gas to their customers for less than they were purchasing it from their supplier. Where were their auditors when this was happening? Where were the corporation commissioners when this was happening? Have they heard of checks and balances? I also understand that the Corporation Commission has allowed Citizens Utilities to impose this fee for 15 months and then can extend it if they have not recouped their alleged losses.

Show me a private company that can operate under the auspices of the Arizona Corporation Commission and pull this off. I can guarantee you that a private company that would operate this incompetently would be out of business in no time at all.

George Goodwin  
Prescott

800E-01-2

### Process exists to aid natural gas consumers

EDITOR:

Recently, letters from Mr. Rose and Mr. Goodwin on the natural gas cost increase criticized the Arizona Corporation Commission (ACC) for approving it, and betrayed a misunderstanding of gas cost recovery by Mr. Goodwin:

Gas cost recovery incorporates 12-month averages of actual gas costs, caps on automatic increases, and ACC hearings for increases outside these caps. The ACC, gas utilities, and consumer representatives developed this process. The process provides price stability and gradual price change under normal circumstances, but also provides for prior ACC review of any increases beyond these caps.

For years, gas prices varied within a small range, and this recovery process provided price stability for customers and cost recovery for Citizens. At times, the gas cost adjuster reduced prices, which benefited customers, including these two authors. Last winter, as described in bill inserts, newspaper articles, and on Citizens' website, market prices for natural gas soared to an unprecedented \$1 per therm, while Citizens collected 35 cents per therm for gas costs in the bills, producing \$38 million of unrecovered gas costs.

While Mr. Goodwin believes this calls for "auditors" and "ACC" oversight, it is in fact the way the system protects consumers.

In other states, gas companies recovered these costs imme-

diately, with dramatic price increases of more than \$1 per therm without warning in the middle of winter. In the Arizona process, Citizens absorbed these costs until it won approval to recover them over a 24-month (not 15-month, Mr. Goodwin) period, after documenting the payments to suppliers (not alleged costs), and allowing 3 months of notice to customers that prices would increase.

So gentlemen, contrary to your statements, the process established by the ACC has consumer interests as a central objective. We followed this process with as consumer friendly a result as possible under the extraordinary circumstances.

**Thomas Broderick**  
**Citizens Arizona Gas**  
**Flagstaff**

2-21-02

**It's time to clean up  
Corporation Commission  
EDITOR:**

In response to Mr. Broderick's Feb. 21 letter concerning Citizens Arizona Gas, let me clarify a couple of items.

Mr. Rose's Feb. 1 letter and my Feb. 10 letter both began by stating the ineptness of the Arizona Corporation Commission in allowing Citizens to impose this "PGA" charge on our utility bill.

That fact still remains. The ACC is not doing its job for the benefit of the consumer. And if indeed, as Mr. Broderick states, "The ACC, gas utilities and consumer representatives developed this process," then it definitely needs scrutiny and changes.

The ACC and Citizens must get a better handle on the internal operations of their duties for the benefit of the public. The process as it now stands is not acceptable. If it takes a housecleaning at the ACC, then this is what we need to do for the welfare of the people. Remember this, voters, at the next election.

No one objects to paying their share of utilities they use as they go. We do object to additional charges crammed down our throats after the fact.

And incidentally, Mr. Broderick, my statement of "15 months" and then an extension for recovery of losses came from my discussion with an employee at your Prescott office, and also not refuted by an employee at the ACC in my conversation with them.

3-15-02      **George Goodwin  
Prescott**

3-24-02

**Chamber is organizing  
against electric increase**

LAKE HAVASU CITY — Business leaders opposing a proposed rate hike by Citizens Arizona Electric are loading up for a hearing Monday before the Arizona Corporation Commission.

The Lake Havasu Area Chamber of Commerce says it has collected more than 500 letters of opposition since a public comment session here a few weeks ago.

Citizens has requested a 32.5 percent rate hike over seven years to recoup more than \$99 million in unrecovered wholesale costs.

March 29, 2002

Manager  
Lake Havasu Area Chamber of Commerce  
314 London Bridge Road  
Lake Havasu City, Arizona 86403

Please find enclosed a copy of an article that appeared in the Arizona Republic March 24, 2002 regarding your opposition to a rate increase by Citizens Arizona Electric. I have also enclosed copies of correspondence to the Arizona Corporation Commission and letters to the editor of our local paper.

We too, are unfortunately the recipients of a similar rate increase that has already been imposed on us by Citizens Arizona Gas. I am under the impression that Citizens Arizona Gas and Citizens Arizona Electric are one and the same.

In any case, my purpose for this letter is to possibly exchange ideas on a solution to the Arizona Corporation Commission constantly bowing to the utility companies request for ludicrous rate increases.

If you will please read my enclosures, I'm sure you will understand what we are trying to accomplish. Mainly, to change the absurd actions of the members of the Arizona Corporation Commission and the commissioners themselves if necessary. The commissioners and the utilities are completely out of control and certainly do not have the consumers interests in priority.

Thank you very much for your time and effort.

George B. Goodwin Jr.  
972 Garland Dr.  
Prescott, AZ 86305-5267  
1-928-445-3201

8-7-02

# Citizens seeks to hike gas rates

*But bills could  
come down*

By CHAD SIMPSON  
The Daily Courier

FLAGSTAFF – Citizens Arizona Gas filed a four-binder-thick application Tuesday with the Arizona Corporation Commission (ACC) to increase rates by nearly 74 percent in the line item from which it draws its “profit.”

Since it can take the ACC about a year of regulatory processes before it votes on such applications, the proposed rate increase likely would not go into effect any sooner than the summer of 2003, said Citizens spokesman Tom Broderick.

The proposed increase to the company’s “operating and maintenance” costs would change that line’s charge per therm from 19 cents to 33 cents. However, Broderick said that it was a “strong possibility” that, in a year – even if the ACC approves the rate boost – consumers actually could be paying about a nickel less per therm than they are now.

That’s because the Flagstaff-based natural gas utility, which serves about 122,000 customers in Yavapai County and other parts of the state, gained approval this past October to raise rates temporarily in the “purchased gas adjustment” portion of its bills to recoup approximately \$40 million that it lost during the winter of 2000-01.

While Citizens was paying an unprecedented \$1 per therm in a volatile wholesale market at the time, it could charge customers only 25 cents per therm in the “gas cost” portion of its bills.

## • GAS

From page 1A

Thanks to ACC regulations, gas utilities in Arizona must set “gas cost” rates based on the previous year’s consumption, protecting consumers from the immediate effects of such a spike in wholesale prices. Instead, the purchased gas adjustment makes up the difference over time.

In Citizens’ case, it has recovered about \$28 million of its \$40 million deficit over the past 10 months, putting the company well ahead of its deadline to recoup the costs by September 2003.

Currently, customers are paying a total cost of about 78 cents per therm, Broderick said. A therm equals 100,000 BTUs, and each customer in the Prescott area uses an annual average of between 800 and 900 therms.

Included in the current price per therm, Broderick said, is the “gas cost” (40 cents); the “purchased gas adjustment” (19 cents); and Citizens’ “operating and maintenance” costs (19 cents).

After Citizens recovers its \$40 million – or after the September deadline passes – the 19-cent charge in the “purchased gas adjustment” will disappear,

Broderick said.

So, if the ACC approves the company’s proposed rate increase by this time next year, the total price per therm will rise by 14 cents – just one (warm) month before it will fall by 19 cents.

While he acknowledged that predicting wholesale prices of natural gas on the open market is a “tricky game,” Broderick said that positive market indicators lead Citizens to believe that prices will remain “moderate” for the foreseeable future.

Since most of Arizona’s natural gas comes from wells in North America, Broderick explained, international events do not necessarily affect the price of gas. However, he pointed out that an upward spike in oil prices – as a result of a crisis in the Middle East – could drive users to switch to natural gas, increasing demand and possibly inflating wholesale prices.

Broderick explained that the company is seeking its latest rate increase because the ACC directed it to do so during an open meeting this past fall.

In 2001, Citizens earned revenues of slightly more than \$77 million; however, it earns a “profit,” or rate of return on its investment, of only about

\$1 million per year, which it squeezes out of its “operating and maintenance” line, after expenses.

The fact that the company is earning about one-half of 1 percent annually on its \$200 million investment explains why the company needs to increase its rates, Broderick explained. While he did not immediately know how much that rate of return would increase as part of the company’s recent application, he said it would be less than 10 percent.

Since its latest rate increase to its “operating and maintenance” line in 1996, Citizens has invested about \$166 million into expanding its service areas, building more infrastructure, and upgrading equipment and computer systems. Most of that investment, Broderick said, was to expand service into areas where Citizens would not normally invest, but where the ACC required it to bring service.

Those service extensions, as well as Northern Arizona’s explosive population growth, have increased the company’s total number of customers by 45 percent since 1996, he said.

Contact Chad Simpson at  
csimpson@prescottaz.com.

— NIGHT OUT —

# Citizens Gas looks to cut prices

By CHAD SIMPSON  
The Daily Courier

FLAGSTAFF – Citizens Arizona Gas announced Friday that it will slash natural gas prices this winter.

As part of a deal that the Arizona Corporation Commission (ACC) recently approved, the Flagstaff-based utility will cut prices from between about 15 percent and 30 percent from December through March, said Tom Broderick, a spokesman for Citizens.

Currently, local customers are paying about 78 cents per therm (100,000 BTU) of natural gas. Each customer in the Prescott area uses an average of between 800 and 900 therms each year.

With the announced cuts, customers will pay 66 cents per therm in December and March, and 56 cents per therm in January and February.

According to the ACC, average December bills will drop from \$82 to \$70, average January gas bills will drop from \$92 to \$68, and average February bills will fall from \$74 to \$55.

Average bills in March and April, however, likely will rise slightly as Citizens phases out the price cuts. From April through September, customers will pay 77 cents per therm.

Both the ACC and Broderick pointed out that a particularly chilly winter (as forecasters have projected this one to be) could increase usage, meaning that customers might not immediately notice the savings over what they spent this past winter, which was relatively mild.

"The size of the bill will depend on the

weather," Broderick explained.

In September 2001, customers paid about 59 cents per therm. Effective Oct. 1, 2001, the ACC approved Citizens' request to temporarily add a "purchased gas adjustment" fee of 19 cents per therm to its rates to help the company recoup \$38 million that it spent buying gas – at an unprecedented wholesale cost of \$1 per therm – during the winter of 2000-2001.

While many gas customers across the nation bore the brunt of that year's volatile wholesale market with immediate rate hikes, Arizona customers did not, thanks to ACC regulations that force gas utilities to spread out the impact of those price swings.

Citizens had hoped to recoup the \$38 million by September 2003, but it already has recovered about \$30 million, so the company had some "flexibility" to offer relief to its customers this winter, Broderick said.

Since the winter of 2000-2001, the wholesale cost of gas has dropped dramatically, to about 40 cents per therm, and the company tentatively forecasts that price to remain steady for the next year or two, Broderick said.

Although a war with Iraq could cause a spike in oil prices, which could affect natural gas prices as more users switch to it, Broderick said that Citizens does not get any of its gas from the Middle East, and he believes that any such effect would not be very significant.

With this winter's price cuts, customers basically will experience a reprieve – or a "holiday" – from the temporary 19-cent surcharge during January and February,

and a reduced surcharge in December and March.

"I originally suggested the holiday surcharge relief because I was concerned that the holiday season and the heating season occur when people are struggling to pay their other bills," ACC Chairman Bill Mundell said in a statement.

Currently, the ACC and Citizens are beginning negotiations over Citizens' request to permanently raise its rates by 14 cents per therm in September 2003, which is right about the time the 19-cent surcharge will disappear completely.

Citizens made that request this past August to increase its rate of return on its investment. In 2001, Citizens earned revenues of about \$77 million; however, it earned a rate of return, or "profit," of only about \$1 million. Since its last permanent rate increase in 1996, the company has invested about \$166 million in expanding service, building more infrastructure, and upgrading equipment and computer systems.

With the addition of the 14-cent increase – if the ACC approves it – and the subtraction of the 19-cent surcharge, customers likely will be paying about 73 cents per therm in September 2003, Broderick explained.

Prior to approving the 14-cent increase, the ACC will conduct public comment meetings throughout Citizens' service area, which includes Yavapai County. Citizens currently has more than 122,000 customers.

Contact Chad Simpson at  
[csimpson@prescottaz.com](mailto:csimpson@prescottaz.com).

## Political Notebook

# Citizens' suitor files for less in rate increases

12-1-1998

By CHAD SIMPSON  
The Daily Courier

TUCSON - The utility company that is in the process of buying Citizens Gas has reduced the amounts of two previously requested rate increases.

The Tucson-based UniSource Energy Corp. (NYSE: UNS), parent of Tucson Electric Power Co., filed an application Wednesday with the Arizona Corporation Commission to raise gas rates by 23 percent, versus the 29 percent increase that Citizens requested in an application to the commission this past summer.

In October, UniSource announced its plans to purchase Citizens Communications' (NYSE:CZN, CZB) Arizona-based electric and natural gas systems for \$230 million.

In its application this past summer, Citizens requested that the ACC allow it to per-

manently raise its rates to earn a better rate of return - or profit - on its investment. Although Citizens Gas, which serves about 122,000 customers throughout Northern Arizona and Santa Cruz County, earned revenues of slightly more than \$77 million in 2001, its rate of return totaled about \$1 million.

Since its last permanent rate increase in 1996, Citizens Gas has invested about \$166 million into its gas distribution system.

In October 2001, Citizens gained approval from the ACC to temporarily raise its gas rates to recoup \$40 million that it lost during the winter of 2000-2001.

While Citizens was paying an unprecedented \$1 per therm on a volatile wholesale market at the time, it could charge customers only 25 cents per

See *CITIZENS*, page 20A

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## • CITIZENS

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From page 1A

therm, thanks to ACC regulations which protect customers from such wholesale price spikes.

Citizens planned to recoup the \$40 million by September 2003, but because it has been making up the shortfall quicker than it expected, it agreed in October to provide gas customers with a rate "holiday" this winter, temporarily lowering current rates by between 15 percent and 30 percent.

As part of the application it filed with the ACC on Wednesday, UniSource is still asking for the rate increases, but those increases are less than what Citizens requested. In addition to asking for a lower gas rate increase, UniSource also is asking the ACC to approve a 22 percent increase in electric rates, compared to the 45 percent increase that Citizens previously requested.

If approved, the lowered electric rate increases would save Citizens' 76,500 electric customers about \$25 million per year (compared to the original rate increase request), while the lowered gas rate increase would save gas customers about \$4 million per year (compared to the original request).

"Although some rate relief is required, we're glad we could roll back the requests previously filed with the commission,"

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'We knew it was coming, but we didn't know until today what it would look like.'

**- Heather Murphy,  
ACC spokesperson,  
referring to the appli-  
cation for lowered rate  
increases**

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James Pignatelli, UniSource's chairman, president and CEO, said in a statement.

Heather Murphy, a spokesperson for the ACC, said that the revised application should be good news for Citizens' gas and electric customers.

"We knew it was coming, but we didn't know until today what it would look like," she said of the application for lowered rate increases.

Before approving or not approving the requested rate increases, the ACC will go through the application with a "fine-tooth comb" to make sure that it is justified, Murphy said.

In addition, the purchase agreement between UniSource and Citizens remains subject to ACC approval, as well as federal approvals. UniSource hopes to gain those approvals and complete the acquisition by the middle of 2003.

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Contact Chad Simpson at  
csimpson@prescottaz.com  
or 445-8179, ext. 2041.

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RUCO

BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

DOCKETED

SEP 27 2001

1  
2 WILLIAM A. MUNDELL  
Chairman  
3 JIM IRVIN  
Commissioner  
4 MARC SPITZER  
Commissioner  
5

DOCKETED BY	VL
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6 IN THE MATTER OF THE APPLICATION OF )  
CITIZENS COMMUNICATIONS COMPANY )  
7 FILING FOR APPROVAL OF PURCHASED GAS )  
ADJUSTOR SURCHARGES AND REVISIONS )  
8 TO TARIFF T-1, TRANSPORTATION OF )  
CUSTOMER-SECURED NATURAL GAS )

DOCKET NO. G-01032A-01-0609

DECISION NO. 64054

ORDER

9  
10 Open Meeting  
September 13, 2001  
11 Phoenix, Arizona

12 BY THE COMMISSION:

13 FINDINGS OF FACT

14 1. Citizens Communications Company ("Citizens") is engaged in providing natural gas  
15 service within portions of Arizona, pursuant to authority granted by the Arizona Corporation  
16 Commission.

17 2. On July 31, 2001, Citizens filed for Commission approval of purchased gas adjustor  
18 ("PGA") surcharges in its Northern Arizona and Santa Cruz gas divisions as well as revisions to Tariff  
19 T-1, Transportation of Customer-Secured Natural Gas ("Tariff T-1").

20 3. Citizens maintains separate PGA bank balances for its Northern Arizona and Santa Cruz  
21 divisions. As of the end of May 2001 the Northern Arizona division had an undercollected PGA bank  
22 balance of \$36,906,303 and the Santa Cruz division had an undercollected PGA bank balance of  
23 \$2,072,018. These undercollected PGA bank balances are a result of the extremely high natural gas  
24 prices which were experienced in 2000 and 2001.

25 4. Citizens' filing requests the implementation of PGA surcharges in the Northern Arizona  
26 and Santa Cruz divisions for a 24 month period, beginning with September 2001.

27 5. Under Citizens' proposal, a fixed overall cost of gas would be set for each division for  
28 the 24 month period covered by the PGA surcharge. The overall cost of gas would be fixed at \$0.5935

1 per therm for the Northern Arizona division and \$0.6555 per therm for the Santa Cruz division during  
2 the 24 month period.

3 6. The overall cost of gas in Citizens' tariffs has three components: the base cost of gas,  
4 the monthly PGA rate, and the PGA surcharge. The base cost of gas is set at \$0.25 per therm for the  
5 Northern Arizona division and \$0.3884 for the Santa Cruz Division.

6 7. Under Citizens' proposal the sum of the monthly PGA rate and the PGA surcharge  
7 would equal the difference between the base cost of gas and the overall cost of gas. For example, in  
8 the Northern Arizona division the sum of the monthly PGA rate and the PGA surcharge would equal  
9 \$0.3435 per therm each month ( $\$0.5935 - \$0.25$ ). Because the monthly PGA rate changes each month,  
10 the PGA surcharge will also change each month. The change in the monthly PGA rate each month  
11 would be matched by an equal and opposite change in the PGA surcharge.

12 8. Under Citizens' projections, the PGA surcharge in the Northern Arizona division would  
13 vary from \$0.1925 to \$0.0923 per therm. The PGA surcharge in the Santa Cruz division would vary  
14 from \$0.25393 to \$0.15393 per therm. However, Citizens' ratepayers would not see this fluctuation  
15 because the overall cost of gas would be held constant during the 24 month period.

16 9. Citizens has indicated that it believes this approach will provide ratepayers with price  
17 stability while allowing Citizens to address its undercollected PGA bank balances. Citizens' proposal  
18 anticipates fully recovering the existing under-collected PGA bank balances at the end of the 24 month  
19 period.

20 10. The second part of Citizens' filing proposes adoption of new language in Citizens' Tariff  
21 T-1, addressing the responsibility of customers moving to transportation service for their share of the  
22 under or over-collected PGA bank balance at the time they leave Citizens' sales service.

23 11. Currently Citizens' Tariff T-1 does not contain requirements that customers moving to  
24 transportation service share in the responsibility for the over or under-collection in the PGA bank  
25 balance at that time. In such a situation customers could move on and off of transportation service to  
26 avoid paying for higher gas costs as they are flowed through Citizens' PGA mechanism, given the lag  
27 built into the PGA mechanism. If customers were to move on and off transportation service in this

28 ...

1 manner, Citizens' core customers would bear an inequitable amount of the burden in addressing any  
2 under-collected PGA bank balance.

3 12. Under Citizens' proposal, when a customer moves to transportation service Citizens  
4 would calculate that customer's share of the PGA bank balance, based upon actual historical monthly  
5 gas costs and the customer's monthly usage. Such monthly calculations would cover all months from  
6 the later of either the customer's in service date or the month when the current over or under-collection  
7 in the PGA bank balance began.

8 13. The customer's resulting charge or credit would be paid through 12 equal monthly  
9 payments, including interest at the rate applicable to the PGA bank balance.

10 14. Citizens' proposed PGA surcharge addresses Citizens' undercollected PGA bank balance  
11 while also providing customers with gas cost price stability over the 24 month period. As with all  
12 PGA surcharges, the level they are set at is based upon assumptions regarding consumption and future  
13 gas prices.

14 15. Staff and Citizens will monitor the monthly activity in Citizens' PGA bank balance. If  
15 there is a substantive change in circumstances regarding the PGA bank balance during the 24 month  
16 period, Staff and Citizens will work to address the situation.

17 16. Staff believes that Citizens' PGA surcharge proposal is reasonable, in light of the recent  
18 high natural gas prices.

19 17. Citizens' proposal to add terms to its Tariff T-1 addresses the PGA bank balance  
20 responsibility of customers shifting to transportation service. Absent such a provision, Citizens'  
21 remaining customers could be at risk for additional gas cost charges.

22 18. Staff believes Citizens' proposal is a reasonable approach to addressing a potential  
23 problem.

24 19. Staff has recommended approval of the filing.

25 20. Staff further recommends that if the PGA bank balance reaches zero before completion  
26 of the 24 month period, the PGA surcharge be discontinued at that time.

27 ...

28 ...

CONCLUSIONS OF LAW

- 1
- 2 1. Citizens Communications Company is an Arizona public service corporation with the
- 3 meaning of Article XV, Section 2, of the Arizona Constitution.
- 4 2. The Commission has jurisdiction over Citizens and the subject matter of this docket.
- 5 3. The Commission, having reviewed Staff's Memorandum dated August 15, 2001,
- 6 concludes that it is in the public interest to approve the filing.

ORDER

8 IT IS THEREFORE ORDERED that the filing be and hereby is approved.

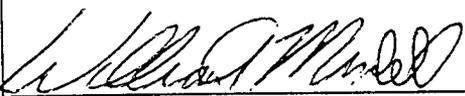
9 IT IS FURTHER ORDERED that if the PGA bank balance reaches zero before completion of  
10 the 24 month period, the PGA surcharge be discontinued at that time.

11 IT IS FURTHER ORDERED that the PGA surcharge will become effective October 1, 2001.

12 IT IS FURTHER ORDERED that this decision shall become effective immediately.

**BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

13

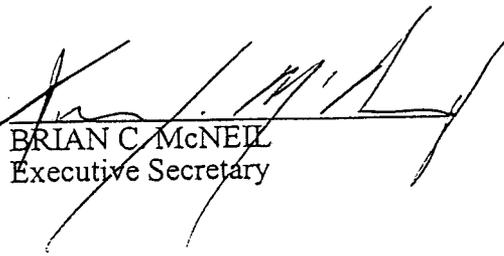
14  *Unavailable for Signature* 

15 \_\_\_\_\_

CHAIRMAN COMMISSIONER COMMISSIONER

16 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,  
17 Executive Secretary of the Arizona Corporation  
18 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 27<sup>th</sup> day of September 2001.

19

20 

21 BRIAN C. McNEIL  
Executive Secretary

24 DISSENT: \_\_\_\_\_

25 SMO.BGG:bsl/

26 Originator: Bob Gray

27  
28

1 SERVICE LIST FOR: Citizens Communications Company

2 DOCKET NO. G-01032A-01-0609

3

4 Mr. Carl W. Dabelstein  
5 Vice President, Regulatory Affairs  
6 Citizens Communications Company  
7 2901 North Central Avenue, Suite 1660  
8 Phoenix, Arizona 85012

9 Mr. Christopher C. Kempley  
10 Chief Counsel  
11 Arizona Corporation Commission  
12 1200 West Washington  
13 Phoenix, Arizona 85007

14 Mr. Steven M. Olea  
15 Acting Director, Utilities Division  
16 Arizona Corporation Commission  
17 1200 West Washington  
18 Phoenix, Arizona 85007

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## COMMISSION NEWS

ARIZONA CORPORATION COMMISSION  
1200 W. WASHINGTON STREET  
PHOENIX, AZ 85007

**TO:** EDITORS, NEWS DIRECTORS

**DATE:** February 27, 1

**FOR:** IMMEDIATE RELEASE

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### ACC REPORTS DECLINE IN CITIZENS PURCHASED GAS ADJUSTOR

The Arizona Corporation Commission has taken an in depth look at Citizens' Purchased Gas Adjustor (PGA) and projects that Citizens customers in Northern Arizona will see an immediate decline in the effective natural gas rate.

The PGA is a standard mechanism used by gas utilities across the country to recover the difference between the cost of natural gas assumed in the rates and the cost at which the utility is actually able to procure natural gas.

"Our office has received hundreds of calls from concerned customers, and has looked into this matter closely," Commissioner-Chairman Jim Irvin said. "There are a couple of things I'd like to point out. First, consumers will benefit immediately from the expiration of a three-and-a-half cent per therm surcharge that expired on January 31. Additionally, we're expecting to see a further decline in the price of natural gas, which will result in further reductions for consumers."

In Citizens' last rate case, the Commission set natural gas rates based on an assumption that Citizens could procure gas at 17 cents per therm. Because the cost of gas fluctuates due to numerous economic variables, the Commission also instituted a Purchased Gas Adjustor (PGA) to allow Citizens to recover the difference between the actual price of gas and the assumed price included in the rates. The Company does not realize any profit through the PGA, as it is solely a cost recovery mechanism. This practice, which is common throughout the United States, allows customers to benefit from any cost savings that the Company may experience, such as those realized by consumers in 1992 through 1996.

Citizens' PGA is based on a rolling 12-month average of natural gas prices in an attempt to insulate gas customers from possible rate shock that could result from wild fluctuations in the market. The Commission also requires Citizens to keep a running bank balance of the over-recovery or under-recovery of the cost of natural gas through the PGA mechanism.

"However, this method has not been as good as once thought to be, and the ACC is looking at other alternatives to stabilize gas prices to Citizens customers to prevent the rate shock customers experienced over the last two winters," Irvin continued.

History shows that Citizens was able to procure gas at less than the assumed rate during the period from 1992 through 1996 and thus over-collected the bank balance. Therefore, Citizens was required to refund over \$20 million to its Arizona customers.

In 1996, various economic factors caused the current volatility in the price of natural gas. For example utilities in the eastern United States began to compete for natural gas from the San Juan and Permian Basins normally marketed only to Western utilities. Furthermore, there was a significant change in the demand for natural gas as a result of a contract issue with a major California provider.

This volatility perpetuated into 1997, and an investigation by the Commission's Utilities Division show that the price of natural gas over the last 12 months has ranged from 15 to 41 cents per therm. Due to a lag caused by the PGA mechanism's 12-month average, Citizens customers paid effectively only 14 cents per therm on their January 1997 bills, though the price of gas was actually 23 cents per therm at that time.

Though both Citizens and the Commission's Utilities Division are projecting that the under-recovered bank balance will fall to an acceptable level around April of this year, the Commission continues to investigate improved cost recovery methods to ensure that rate payers are not subjected to additional rate shock.