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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
MARC SPITZER - Chairman
JIM IRVIN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON

Arizona Corporation Commission

DOCKETED

SEP 3⁰ 2003

DOCKETED BY	<i>HR</i>
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DOCKET NO. G-01032E-03-0515

DECISION NO. 66341

IN THE MATTER OF UNS GAS, INC.)
AND CITIZENS COMMUNICATIONS)
COMPANY - FILING FOR APPROVAL OF)
A PURCHASED GAS ADJUSTOR)
SURCHARGE.)

ORDER

Open Meeting
September 19, 2003
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Gas Inc./Citizens Communications Company is certificated to provide natural gas as a public service corporation in the State of Arizona.
2. On July 25, 2003, UNS Gas, Inc. (UNS) and Citizens Communications Company (Citizens), collectively referred to as "Applicants", filed for Commission approval of a new purchased gas adjustor (PGA) surcharge.
3. Unisource Energy is in the process of acquiring Citizens' Northern Arizona and Santa Cruz natural gas divisions. UNS Gas is the name for Citizens' Arizona gas properties once they have become part of Unisource Energy. The acquisition is anticipated to be completed in August 2003.
4. Previously the Commission approved two year PGA surcharges for the Northern Arizona and Santa Cruz Divisions (Decision No. 64054, September 27, 2001). Subsequently in Decision Number 65384 (November 13, 2002) the Commission modified the PGA surcharges to provide a "surcharge holiday" during the winter 2002/2003 heating season. The surcharges approved in Decision Number 64054 and amended in Decision Number 65384 are scheduled to terminate at the end of September 2003.

1 5. As part of the Commission's approval of Unisource's acquisition of Citizens' gas
2 divisions, the Commission approved the merger of the rates of the two divisions, including the
3 PGA mechanisms. Therefore any new PGA surcharge would be a single PGA surcharge
4 applicable to both the Santa Cruz and Northern Arizona areas.

5 6. Applicants' seeks approval of a PGA surcharge of \$0.1155 per therm, effective
6 October 2003 through September 2004 to address the on-going under recovered PGA bank
7 balance. Applicants report that the PGA bank balance is projected to have an under recovery of
8 \$7,152,339 as of October 1, 2003.

9 7. Under the PGA surcharges approved in Decision Number 64054, the overall cost of
10 gas (including the base cost of gas, monthly PGA rate, and PGA surcharge rate) was set at a fixed
11 level of \$0.5935 per therm for the Northern Arizona Division and \$0.6555 per therm for the Santa
12 Cruz Division. Decision Number 65384 reduced the overall cost of gas to \$0.5758 per therm for
13 the Northern Arizona Division and \$0.6210 per therm for the Santa Cruz Division.

14 8. While this approach provided customers with a consistent cost of gas over the given
15 time period, it led to a high level of uncertainty regarding recovery of the undercollected PGA
16 bank balance. The proposed PGA surcharge would not set an overall cost of gas, but would rather
17 set a fixed PGA surcharge amount while allowing the monthly PGA rate to adjust over time, an
18 approach which is consistent with most PGA surcharges the Commission has approved in recent
19 years.

20 9. Staff has reviewed Applicants' projections of recovery under the proposed PGA
21 surcharge and supporting documentation and finds that these projections are reasonable, for the
22 purpose of setting the proposed PGA surcharge level. The projected overall cost of gas in October
23 2003, \$0.5699 per therm under the proposed PGA surcharge, is slightly lower than the current
24 overall costs of gas in the two divisions. This comparison is likely to shift over the proposed 12
25 month period of the surcharge as the monthly PGA changes.

26 10. Applicants project the overall cost of gas under the proposed PGA surcharge to
27 increase to \$0.6145 per therm in January 2004. At such a level in January 2004, and holding the
28 margin and customer charge constant with those recently approved by the Commission, a typical

1 residential customers would pay \$106.93, compared to \$102.70 under the current cost of gas in the
2 Northern Arizona Division and \$107.64 under the current cost of gas in the Santa Cruz Division.
3 Applicants project that the overall cost of gas would continue to increase into the spring of 2004
4 before plateauing and then starting to drop in the summer of 2004.

5 11. It should be noted that during the 2002-2003 winter heating season customers
6 received the benefit of the "surcharge holiday" and also were paying the lower customer charges
7 and margin rates then in effect under Citizens' old tariffs. Therefore customers are likely to see
8 higher bills in the 2003-2004 heating season than they did during the 2002-2003 heating season.

9 12. However, in the Santa Cruz area Applicants' low income discount tariff will be
10 available to natural gas customers for the first time and customers who participate in this tariff will
11 receive substantial relief from what their natural gas bills would otherwise be.

12 13. Staff has reviewed other options for addressing the undercollected PGA bank
13 balance and its impacts on customers, including some form of circuit-breaker mechanism, but is
14 not recommending a course of action different from the PGA surcharge proposed by the
15 Applicants. Staff believes the proposed PGA surcharge is a reasonable method of recovering the
16 under recovered PGA bank balance.

17 14. Staff has recommended approval of the filing.

18 15. Staff has further recommended that if the PGA bank balance reaches zero before
19 completion of the twelve month period, the PGA surcharge be discontinued at that time.

20 16. Because customers are likely to see significantly higher gas bills this winter heating
21 season, Applicants should include a special billing insert in English and Spanish that educates
22 customers and promotes Applicants' programs to mitigate the anticipated higher gas bills. These
23 inserts should adequately describe the Applicants' Budget Billing, Low Income Assistance, Energy
24 Efficiency and Renewable Energy programs and encourage customers to contact the Applicants'
25 representatives for more information. These special billing inserts should be included for three
26 successive months, beginning with the October bills.

27 17. In addition to the special billing inserts, Applicants should educate customers and
28 promote Applicants' programs to mitigate the anticipated higher gas bills in its various electronic

1 and print media messages, such as radio, television, and newspaper announcements in English and
2 in Spanish.

3 18. Staff's recommendation is reasonable, except that a circuit-breaker mechanism
4 should be instituted by UNS to reduce the rate impact on residential customers that may occur if
5 there is unseasonably cold weather during the winter heating season of December, January,
6 February, and March. To reduce the rate impact of extreme winter weather on residential
7 customers during the winter heating season, during the months of December, January, February,
8 and March, UNS will not apply the PGA surcharge to a residential customer's usage that exceeds
9 140% of the average residential customer usage, such usage referenced in the attached exhibit.
10 The average residential customer usage will be based on the applicable month's residential usage
11 for the prior four years (1999-2002) and will be calculated separately for residential customers in
12 Santa Cruz County and residential customers in northern Arizona. It is appropriate for the circuit
13 breaker to apply to the residential customer class only and for UNS to continue the PGA surcharge
14 until the PGA bank balance reaches zero.

15 16 CONCLUSIONS OF LAW

17 1. UNS/Citizens is an Arizona public service corporation within the meaning of
18 Article XV, Section 2, of the Arizona Constitution.

19 2. The Commission has jurisdiction over UNS/Citizens and of the subject matter in
20 this filing.

21 3. The Commission, having reviewed the filing and Staff's Memorandum dated
22 August 13, 2003, concludes that it is in the public interest to approve this filing, as modified by the
23 addition of the circuit-breaker mechanism described herein.

24 25 ORDER

26 THEREFORE, IT IS ORDERED that this filing be and is hereby approved as modified by
27 the addition of the circuit-breaker mechanism described herein.

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

3 IT IS FURTHER ORDERED that Applicants shall comply with Findings of Fact 16 and
4 17, to educate customers and promote its programs to mitigate the impact upon its customers of
5 the anticipated higher gas bills this winter.

6 IT IS FURTHER ORDERED that UNS institute a circuit-breaker mechanism as described
7 in Finding of Fact 18 to reduce the rate impact of winter weather on residential customers during
8 the months of December, January, February, and March.

9 IT IS FURTHER ORDERED that UNS may continue the PGA surcharge until the PGA
10 bank balance reaches zero.

11 IT IS FURTHER ORDERED that this Order shall become effective immediately.

12 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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15 CHAIRMAN

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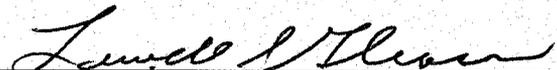
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15 COMMISSIONER

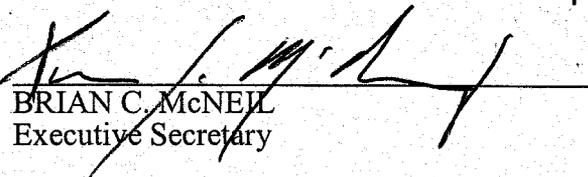
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18 COMMISSIONER

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18 COMMISSIONER

19 IN WITNESS WHEREOF, I, BRIAN C. McNEIL,
20 Executive Secretary of the Arizona Corporation
21 Commission, have hereunto, set my hand and caused the
22 official seal of this Commission to be affixed at the Capitol,
23 in the City of Phoenix, this 30th day of September, 2003.

22 
23 BRIAN C. McNEIL
24 Executive Secretary

25 DISSENT: _____

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27 DISSENT: _____

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SERVICE LIST FOR: UNS Gas Inc. and Citizens Communications Company
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