

**COPY
OPEN MEETING**



0000056134

MEMORANDUM

RECEIVED

Arizona Corporation Commission

20 AUG 21 A 8:30

DOCKETED

TO: THE COMMISSION

AUG 21 2003

ARIZONA CORPORATION COMMISSION
DOCUMENT CONTROL

FROM: Utilities Division

DATE: August 21, 2003

DOCKETED BY	<i>CA</i>
-------------	-----------

RE: IN THE MATTER OF UNS GAS, INC. AND CITIZENS COMMUNICATIONS COMPANY - FILING FOR APPROVAL OF A PURCHASED GAS ADJUSTOR SURCHARGE (DOCKET NO. G-01032E-03-0515)

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. 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.

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 No. 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 No. 64054 and amended in Decision No. 65384 are scheduled to terminate at the end of September 2003. As part of the Commission's approval of Unisource's acquisition of Citizens' gas divisions, the Commission approved the merger of the rates of the two divisions, including the PGA mechanisms. Therefore, any new PGA surcharge would be a single PGA surcharge applicable to both the Santa Cruz and Northern Arizona areas.

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

Under the PGA surcharges approved in Decision No. 64054, the overall cost of gas (including the base cost of gas, monthly PGA rate, and PGA surcharge rate) was set at a fixed level of \$0.5935 per therm for the Northern Arizona Division and \$0.6555 per therm for the Santa Cruz Division. Decision No. 65384 reduced the overall cost of gas to \$0.5758 per therm for the Northern Arizona Division and \$0.6210 per therm for the Santa Cruz Division. While this approach provided customers with a consistent cost of gas over the given time period, it led to a high level of uncertainty regarding recovery of the undercollected PGA bank balance. The proposed PGA surcharge would not set an overall cost of gas, but would rather set a fixed PGA

THE COMMISSION

August 21, 2003

Page 2

surcharge amount while allowing the monthly PGA rate to adjust over time, an approach which is consistent with most PGA surcharges the Commission has approved in recent years.

Staff has reviewed Applicants' projections of recovery under the proposed PGA surcharge and supporting documentation and finds that these projections are reasonable, for the purpose of setting the proposed PGA surcharge level. The projected overall cost of gas in October 2003, \$0.5699 per therm under the proposed PGA surcharge, is slightly lower than the current overall costs of gas in the two divisions. This comparison is likely to shift over the proposed 12 month period of the surcharge as the monthly PGA changes. Applicants project the overall cost of gas under the proposed PGA surcharge to increase to \$0.6145 per therm in January 2004. At such a level in January 2004, and holding the margin and customer charge constant with those recently approved by the Commission, a typical residential customers would pay \$106.93, compared to \$102.70 under the current cost of gas in the Northern Arizona Division and \$107.64 under the current cost of gas in the Santa Cruz Division. Applicants project that the overall cost of gas would continue to increase into the spring of 2004 before plateauing and then starting to drop in the summer of 2004.

It should be noted that during the 2002-2003 winter heating season, customers received the benefit of the "surcharge holiday" and also were paying the lower customer charges and margin rates then in effect under Citizens' old tariffs. Therefore, customers are likely to see higher bills in the 2003-2004 heating season than they did during the 2002-2003 heating season. However, in the Santa Cruz area Applicants' low income discount tariff will be available to natural gas customers for the first time and customers who participate in this tariff will receive substantial relief from what their natural gas bills would otherwise be.

Staff has reviewed other options for addressing the undercollected PGA bank balance and its impacts on customers, including some form of circuit-breaker mechanism, but is not recommending a course of action different from the PGA surcharge proposed by the Applicants. Staff believes the proposed PGA surcharge is a reasonable method of recovering the under recovered PGA bank balance. Staff recommends approval of filing. Staff further recommends that if the PGA bank balance reaches zero before completion of the twelve month period, the PGA surcharge be discontinued at that time.



Ernest G. Johnson
Director
Utilities Division

EGJ:RGG:hml/JMA

ORIGINATOR: Rpbert G. Gray

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2
3 MARC SPITZER
Chairman

4 JIM IRVIN
Commissioner

5 WILLIAM A. MUNDELL
Commissioner

6 JEFF HATCH-MILLER
Commissioner

7 MIKE GLEASON
Commissioner

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

DOCKET NO. G-01032E-03-0515

DECISION NO. _____

ORDER

11
12 Open Meeting
13 September 9 and 10, 2003
Phoenix, Arizona

14 BY THE COMMISSION:

15 FINDINGS OF FACT

16 1. UNS Gas, Inc./Citizens Communications Company is certificated to provide
17 natural gas as a public service corporation in the State of Arizona.

18 2. On July 25, 2003, UNS Gas, Inc. ("UNS") and Citizens Communications
19 Company ("Citizens"), collectively referred to as "Applicants", filed for Commission approval
20 of a new purchased gas adjustor ("PGA") surcharge.

21 3. Unisource Energy is in the process of acquiring Citizens' Northern Arizona and
22 Santa Cruz natural gas divisions. UNS Gas is the name for Citizens' Arizona gas properties once
23 they have become part of Unisource Energy. The acquisition is anticipated to be completed in
24 August 2003.

25 4. Previously, the Commission approved two year PGA surcharges for the Northern
26 Arizona and Santa Cruz Divisions (Decision No. 64054, September 27, 2001). Subsequently, in
27 Decision No. 65384 (November 13, 2002) the Commission modified the PGA surcharges to
28 provide a "surcharge holiday" during the winter 2002/2003 heating season. The surcharges

1 approved in Decision No. 64054 and amended in Decision No. 65384 are scheduled to terminate
2 at the end of September 2003.

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

7 6. Applicants' seeks approval of a PGA surcharge of \$0.1155 per therm, effective
8 October 2003 through September 2004 to address the on-going under recovered PGA bank
9 balance. Applicants report that the PGA bank balance is projected to have an under recovery of
10 \$7,152,339 as of October 1, 2003.

11 7. Under the PGA surcharges approved in Decision No. 64054, the overall cost of
12 gas (including the base cost of gas, monthly PGA rate, and PGA surcharge rate) was set at a
13 fixed level of \$0.5935 per therm for the Northern Arizona Division and \$0.6555 per therm for
14 the Santa Cruz Division. Decision No. 65384 reduced the overall cost of gas to \$0.5758 per
15 therm for the Northern Arizona Division and \$0.6210 per therm for the Santa Cruz Division.

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

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

28 ...

1 SERVICE LIST FOR: UNS Gas, Inc. and Citizens Communications Company
2 DOCKET NO. G-03703A-02-0059

3 Mr. Thomas H. Campbell
4 Counsel for Applicants
5 40 North Central Avenue
6 Phoenix, Arizona 85004

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

12 Mr. Ernest G. Johnson
13 Director, Utilities Division
14 Arizona Corporation Commission
15 1200 West Washington
16 Phoenix, Arizona 85007

17
18
19
20
21
22
23
24
25
26
27
28

UniSource Energy Services - Gas
Circuit Breaker - ACC

Average Therms by Month (Last Four Winters)

	Winter			
	Dec	Jan	Feb	Mar
Northern	83	110	95	86
Santa Cruz	68	101	87	70

**Circuit Breaker
140% of Average**

	Winter			
	Dec	Jan	Feb	Mar
Northern	117	154	134	121
Santa Cruz	95	142	122	98