



BEFORE THE ARIZONA CORPORATION COMMISSION

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JEFF HATCH-MILLER  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
MARC SPITZER  
Commissioner  
MIKE GLEASON  
Commissioner  
KRISTIN K. MAYES  
Commissioner

Arizona Corporation Commission

DOCKETED

JUN 29 2006

DOCKETED BY 

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. 68815  
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.

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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.

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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
Base Cost of Gas (\$0.0128 per cf)	\$46.17	\$46.17
12 PGA Rate	\$10.06 (\$0.00279 per cf)	\$67.59 (\$0.01874 per cf)
13 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.

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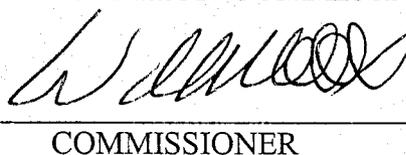


1 IT IS FURTHER ORDERED that Copper Market provide notification to its customers  
2 prior to implementation of the PGA rate increase in July 2006 and that Copper Market seek other  
3 means as may be available to inform its customers of the PGA rate increase, its impact on  
4 customer bills, ways customers can reduce their consumption, and the general issue of rising  
5 propane prices.

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

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

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11 CHAIRMAN

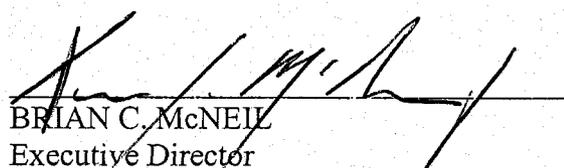
  
COMMISSIONER

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COMMISSIONER

  
COMMISSIONER

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15 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive  
16 Director of the Arizona Corporation Commission, have  
17 hereunto, set my hand and caused the official seal of this  
18 Commission to be affixed at the Capitol, in the City of  
19 Phoenix, this 27th day of June, 2006.

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22 BRIAN C. McNEIL  
23 Executive Director

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25 DISSENT: 

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27 DISSENT: \_\_\_\_\_

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EGJ:BGG:lhm/JMA

1 SERVICE LIST FOR: Copper Market, Inc.  
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