

ORIGINAL NEW APPLICATION



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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

2006 JUL 21 A 9:42

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

AZ CORP COMMISSION
DOCUMENT CONTROL

G-02528A-06-0474

IN THE MATTER OF THE APPLICATION OF)	DOCKET NO. G-02528-06-___
DUNCAN RURAL SERVICES CORPORATION)	
FOR APPROVAL OF PURCHASED GAS)	
ADJUSTOR SURCHARGE AND NEW)	APPLICATION FOR PGA
METHODOLOGY)	SURCHARGE AND NEW
_____)	METHODOLOGY

Duncan Rural Services Corporation ("DRSC") hereby respectfully requests the Arizona Corporation Commission (the "Commission") approve a new Purchase Gas Adjustor ("PGA") surcharge and methodology that would allow DRSC to manage its PGA bank balance as close to zero as possible. DRSC requests the authority to apply a negative surcharge of up to 10 cents per therm per month to its prior month's PGA rate to decrease its currently over-collected PGA bank balance, to be effective September 1, 2006. Once the bank balance is near zero, DRSC further requests the authority to set its PGA at a level equal to its current monthly purchased gas cost per therm, plus or minus up to 10 cents per therm every month. This PGA surcharge and methodology is necessary in order to allow for the refund of an over-collection of the PGA bank balance of \$41,800 that exists and continues to grow and to allow DRSC to manage its PGA bank balance as close to zero as possible in the future. In support hereof, DRSC states as follows.

I. THE CURRENT DRSC PGA.

The current DRSC PGA was authorized by the Commission in Decision No. 61225

¹ The PGA bank balance of \$41,800 is calculated as of June 30, 2006.

1 Decision quoted above. Staff believes that “the monthly PGA rate (whole adjustable rate charged
2 for gas cost recovery) shall be calculated as it has been in the past, relying on the mechanical
3 calculation of the 12-month rolling average cost. The only change that results from this ordering
4 paragraph [quoted above] is that the previous 10-cents-per-therm annual bandwidth is changed to
5 now limit the change in the monthly PGA rate charged to customers, i.e., the bandwidth is now a
6 monthly bandwidth.” DRSC reluctantly calculates its PGA in accordance with Staff’s
7 interpretation, but sought Commission clarification of the intent of the Decision.
8

9 DRSC’s current 12-month rolling average cost of gas is equal to \$0.7564 per therm while
10 its cost of purchased gas has decreased to approximately \$0.56 per therm.

11 Under Staff’s interpretation, DRSC’s over-collected bank balance has continued to grow
12 from approximately \$16,000 at the end of March to \$41,800 by the end of June because DRSC’s
13 12-month rolling average cost reacts too slowly to changes in gas prices. Given the fluctuations
14 in gas prices, under any PGA methodology that is based on the 12-month rolling average cost,
15 DRSC’s PGA bank balance will continue to be significantly over or under-collected due to the
16 fact that it uses a 12-month rolling average cost rather than the cost that DRSC is currently
17 incurring.
18

19 DRSC has experienced cash flow problems since its inception and cannot afford to absorb
20 the increases in the gas prices or repay an over-collected bank balance plus interest, even for a
21 short period of time. Historically, DRSC has had to borrow funds from Duncan Valley Electric
22 Cooperative to cover shortfalls and refunds of the PGA bank balance. DVEC is no longer in a
23 financial position to make advances to DRSC. Therefore, DRSC is not able to absorb the
24 fluctuations in the PGA bank balance.
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1 **II. THE PGA SURCHARGE**

2 The ongoing volatility in the cost of natural gas and the current PGA methodology has
3 resulted in an over-collected PGA bank balance for DRSC. As a result of a lack of funds and
4 volatile gas prices, DRSC has not been able to hedge any of its projected gas purchases during the
5 same period. Over the span of a few months, DRSC has gone from facing a considerable shortfall
6 in its recovery of the cost of gas purchased to a considerable over-collection.
7

8 To eliminate this over-collected bank balance, DRSC is requesting a surcharge of up to a
9 negative 10 cents per therm, per month to address its currently over-collected bank balance.
10 DRSC would apply a negative 10 cents to its current PGA as of August 2006. Assuming for
11 example that its current PGA as of August 2006 is \$0.70, DRSC would decrease this amount by
12 10 cents to \$0.60 for September usage. Assuming that DRSC's bank balance continues to be
13 over-collected in September, DRSC would have the ability to decrease the \$0.60 PGA rate by up
14 to 10 cents in the next month to \$0.50 and in each month that follows until its bank balance is
15 near zero. At the point in time that its bank balance is near zero, DRSC would eliminate this
16 surcharge, and on a going forward basis, employ the new methodology explained below.
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19 **III. THE NEW PGA METHODOLOGY**

20 **A. New PGA Methodology.**

21
22 At the time that its bank balance is near zero, DRSC requests that its current PGA
23 methodology that uses the 12 month rolling average no longer be used to calculate its PGA rate.
24 Instead, DRSC requests that it be allowed to change its PGA rate to equal its purchased gas cost.
25 DRSC also requests that it be authorized to add up to plus or minus 10 cents to its current
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1 purchased gas cost in order to manage its PGA bank balance as close to zero as possible. Under
2 DRSC's proposal, DRSC would be able to decrease or increase its PGA rate to equal its
3 purchased cost of gas plus add or subtract up to 10 cents each month in order to manage its PGA
4 bank balance as close to zero as possible. Consequently, as gas prices began to decrease in March
5 of this year, under DRSC's proposal, DRSC would have been able to decrease its PGA rate
6 charged to its customers for April usage from \$0.7622 to its purchased gas cost of \$0.56 per
7 therm plus or minus 10 cents per therm. Under DRSC's PGA methodology, DRSC's projected
8 PGA bank balance would only be over-collected by \$9,000 as stated in Exhibit A attached to this
9 application if this methodology would have been applied in March of this year.
10

11 As a function of its 12-month rolling average cost of gas, DRSC has only been able to
12 slightly decrease its PGA rate charged to its customers from \$0.7749 to \$0.7653 for May usage
13 and from \$0.7653 to \$0.7606 for June usage and from \$0.7606 to \$0.7564 for July usage.
14

15 DRSC believes that the current methodology does not respond to changes in purchased
16 gas costs in a timely fashion. It is unfair that its customers have had to pay a positive \$0.45 cent
17 surcharge for the last six months when under DRSC's proposal, customers could have
18 experienced a more gradual increase and then a decrease in their gas rates. Currently DRSC's
19 customers are waiting for a refund and paying the accumulated interest. Since DRSC is member-
20 owned, DRSC's members are paying themselves interest that is earned on the under-collected
21 PGA bank balance.
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23 The benefits associated with DRSC's proposal include more gradual and accurate price
24 signals than the abrupt, much larger jumps of surcharges, reduced interest charges and an
25 improvement in DRSC's cash flow. Without the requested surcharge and change in the PGA
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1 methodology, the over-collected PGA bank balance will grow from approximately \$41,800 to
2 \$48,000 by the end of July 2006. DRSC submits that, given the current over-collected PGA bank
3 balance and volatile gas prices, the proposed surcharge and methodology is necessary and should
4 be approved now.

5
6 **B. Second Alternative Proposal**

7 In the event that the Commission does not approve the new PGA methodology discussed
8 above, DRSC requests that the 12 month rolling average no longer be used to calculate its PGA
9 rate. DRSC further requests that the Commission approve a methodology whereby that DRSC
10 may change its PGA rate by up to a plus or minus 10 cents per therm, per month in order for
11 DRSC to manage its PGA bank balance as close to zero as possible. While this proposal will not
12 make refunds to customers or decrease DRSC's over-collected PGA bank balance to zero as
13 rapidly as the new PGA methodology discussed above, it would be superior to DRSC's current
14 methodology for the same reasons stated above.
15

16 **C. Impact of the Surcharge on Bills.**

17 Effective August 1, DRSC's customers will experience a decrease in their bills of \$0.10
18 per therm based on their usage and the current purchased gas cost in July. Decreases in
19 subsequent months of up to \$0.10 per therm will occur until such time as DRSC's bank balance
20 reaches zero. Residential customers of DRSC typically use an average 75 therms per month
21 during the winter months (November through March) and 20 therms per month during summer
22 months (April through October). The proposed PGA surcharge of a negative \$0.10 per therm
23 surcharge will result in an average decrease of \$7.50 to a monthly residential bill in the winter
24 and \$2.00 in the summer.
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III. CONCLUSION

DRSC believes that its surcharge and the new PGA methodology requested herein is necessary to refund and recover purchased gas costs in a timely and reasonable manner and is in the public interest.

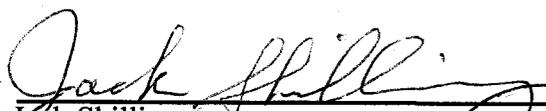
DRSC requests that the determination of this matter be expedited and resolved at the Commission's August 22, 2006 Open Meeting, so that the requested methodology may take effect September 1, 2006.

To the extent it is necessary to extend any time limitations to allow this matter to be heard at the August 22, 2006 Open Meeting, DRSC stipulates through the filing that those time limitations may be extended.

Wherefore, for all the foregoing reasons, DRSC requests authorization for a new PGA surcharge of up to a negative \$0.10 per month and a new methodology to manage its PGA bank balance as close to zero as possible by setting its PGA at a level equal to its current purchased gas cost per therm, plus or minus up to 10 cents per therm every month for the recovery of the volatile natural gas prices and the resulting over-collected PGA bank balance.

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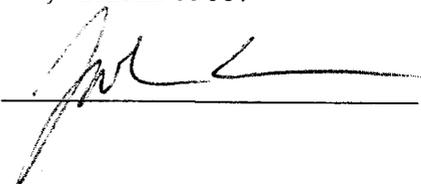
RESPECTFULLY SUBMITTED this 21st day of July 2006.

By 

Jack Shilling
CEO, Duncan Valley Electric Cooperative, Inc.
P.O. Box 440
Duncan, AZ 85534-0440

Original and thirteen (13) copies of
Duncan Rural Services Corporation Application
filed this 21st day of July, 2006
with:

DOCKET CONTROL
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

By 

Date	EXHIBIT A											
	Jan-06	Feb-06	Mar-06	Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06	Oct-06	Nov-06	Dec-06
2006												
1. Beginning Bank Balance	\$47,319.09	\$29,075.41	\$5,789.48	(\$15,884.92)	(\$15,804.11)	(\$15,349.43)	(\$12,378.93)	(\$9,194.19)	\$0.00	\$0.00	\$0.00	\$0.00
2. Cost of Purchased Gas	\$89,714.56	\$31,222.49	\$27,401.57	\$18,751.04	\$15,719.70	\$15,290.64	\$16,500.00					
3. Transportation Cost	(\$22,830.79)	\$980.70	\$2,170.87	\$1,515.74	\$1,205.00	\$1,447.31	\$1,500.00					
4. Total Cost to be Recovered	\$114,202.86	\$61,278.60	\$35,361.92	\$4,381.86	\$1,120.59	\$1,388.52	\$5,621.07	(\$9,194.19)	\$0.00	\$0.00	\$0.00	\$0.00
5. Sales in Therms	76,408	49,598	45,687	39,764	31,667	32,236	32,300					
6. Monthly Gas Purchase Price per Therm	\$0.3600	\$0.3600	\$0.3600	\$0.6060	\$0.6180	\$0.5250	\$0.5570	\$0.0000	\$0.0000	\$0.0000	\$0.0000	\$0.0000
7. Amount Recovered by MGPP	\$27,506.88	\$17,855.28	\$16,447.32	\$24,096.98	\$19,570.21	\$16,923.90	\$17,991.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
9. \$0.10 Adjustment per Therm	\$0.75630	\$0.76100	\$0.76220	(\$0.10000)	(\$0.10000)	(\$0.10000)	(\$0.10000)	\$0.00000	\$0.00000	\$0.00000	\$0.00000	\$0.00000
9a. PGA Rate	\$1.1630	\$1.12100	\$1.12220	\$0.50600	\$0.51800	\$0.42500	\$0.45700	\$0.00000	\$0.00000	\$0.00000	\$0.00000	\$0.00000
10. Amount Recovered by PGA	\$57,787.37	\$37,744.08	\$34,822.63	(\$3,976.40)	(\$3,166.70)	(\$3,223.60)	(\$3,230.00)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
11. Total Amount Recovered by MGPR & PGA	\$85,294.25	\$55,599.36	\$51,269.95	\$20,120.58	\$16,403.51	\$13,700.30	\$14,761.10	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
12. Adjustments												
13. Monthly Subtotal	\$28,908.61	\$5,679.24	(\$15,908.03)	(\$15,738.72)	(\$15,282.92)	(\$12,311.78)	(\$9,140.03)	(\$9,194.19)	\$0.00	\$0.00	\$0.00	\$0.00
Monthly Interest Rate	4.23%	4.55%	4.79%	4.94%	5.05%	5.25%	5.25%					
14. Monthly Interest	\$166.80	\$110.24	\$23.11	(\$65.39)	(\$66.51)	(\$67.15)	(\$54.16)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
15. End of Month Bank Balance	\$29,075.41	\$5,789.48	(\$15,884.92)	(\$15,804.11)	(\$15,349.43)	(\$12,378.93)	(\$9,194.19)					