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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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JUL 18 2006

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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. G-02528-05-0687
 DUNCAN RURAL SERVICES CORPORATION)
 FOR APPROVAL OF PURCHASED GAS)
 ADJUSTOR SURCHARGE) **PLAN TO ACQUIRE FIXED**
) **PRICE GAS SUPPLIES**
)

Duncan Rural Services Corporation ("DRSC") hereby respectfully submits to the Arizona Corporation Commission (the "Commission") its plan to acquire fixed price natural gas supplies in compliance with Decision No. 68297.

I. THE DRSC PLAN.

Decision No. 68297 requires DRSC by June 30 of each year to file a plan indicating any fixed price supplies that it has acquired for the following winter season and how DRSC plans to hedge its natural gas supplies prior to the following winter heating season. Since the beginning of May, DRSC has been actively preparing this plan and seeking bids for natural gas at a fixed price during the 2006-2007 winter heating season. DRSC has not included in this plan a hedging strategy due to the fact that it does not have the financial ability to buy gas now for the 2006-2007 heating season.

DRSC is currently paying approximately \$5.56 per MMBtu for natural gas on the spot market through July. DRSC asked for bids from its natural gas supplier to provide 50 percent of

1 its historical gas purchased at a fixed contract price for a term of six months and twelve months
2 beginning in August, September and October. DRSC did not consider the twelve month bids
3 because the twelve month bids had a higher price than the six month bids. DRSC's largest users
4 (irrigators) who do not use a significant amount of gas in the winter months, would be forced to
5 pay the significantly higher costs associated with a twelve month contract during the summer
6 months. Some of these irrigators would stop pumping water at the higher twelve month bid
7 price.
8

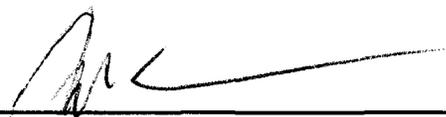
9 The fixed price bids received for a six month contract beginning in August, September
10 and October of 2006 were \$7.12, \$9.53 and \$10.19, respectively. The bids for September and
11 October are significantly higher (approximately \$4.00 to \$4.60 per MMBtu) than the current spot
12 price of \$5.56 per MMBtu. DRSC is still evaluating whether or not to enter into a contract for six
13 months with a fixed price. DRSC needs to choose a contract beginning after summer because it
14 will not penalize DRSC's summer users by paying a significantly higher contract price when the
15 current spot price of gas is \$5.56 per MMBtu. In addition, the six month contract must carry
16 DRSC through the highest usage periods in the winter.
17

18 19 **II. CONCLUSION**

20 DRSC is still evaluating whether or not a plan that includes a fixed price contract for 50
21 percent of its historical gas purchased will significantly lessen the price risk to its customers
22 associated with winter natural gas supplies and purchases. If it can enter into such a contract at a
23 reasonable price after the summer usage period and if future spot prices are greater than the fixed
24 contract price in a given month, DRSC's customers will only pay up to the contract price for the
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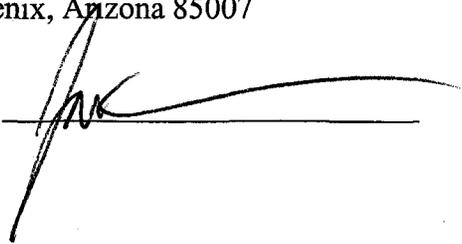
1 contracted 50 percent amount. If future spot gas prices are less than its fixed gas contract price in
2 a given month, then customers will experience savings on all gas purchases above the contracted
3 50 percent amount. DRSC may decide to enter into a fixed price contract if it is in the best
4 interest of its customers and will file this contract with the Director of the Utilities Division
5 within 30 days after its execution.
6

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9 RESPECTFULLY SUBMITTED this 18th day of July 2006.

10
11
12 By 
13 John Wallace
14 Grand Canyon State Electric Cooperative Association
15 120 North 44th Street, Suite 100
16 Phoenix, AZ 85034

17 Original and thirteen (13) copies of
18 Duncan Rural Services Corporation's Plan
19 filed this 18th day of July, 2006 with:

20 DOCKET CONTROL
21 Arizona Corporation Commission
22 1200 West Washington Street
23 Phoenix, Arizona 85007

24 By 
25
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