

ORIGINAL

OPEN MEETING



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MEMORANDUM

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Arizona Corporation Commission

DOCKETED

2007 SEP -5 P 2:30

TO: THE COMMISSION

FROM: Utilities Division

SEP 05 2007

AZ CORP COMMISSION  
DOCKET CONTROL

DATE: September 5, 2007

DOCKETED BY 

RE: IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR COMMISSION APPROVAL OF A PURCHASED GAS ADJUSTOR CREDIT OF \$0.02 PER THERM (DOCKET NO. G-04204A-07-0503)

On August 30, 2007, UNS Gas, Inc. ("UNS") filed for Commission approval of a \$0.02 per therm purchased gas adjustor ("PGA") credit to customer bills for a period of October 1, 2007 through April 30, 2008.

UNS passes its purchased gas costs through its PGA mechanism, resulting in a PGA bank balance that changes over time depending on costs incurred by UNS and cost recoveries by UNS. UNS' bank balance currently has a threshold on it of \$4,450,000, wherein if UNS' over-recovered bank balance exceeds this threshold, UNS is required to take action to address the over-recovery in some fashion. On July 18, 2007, UNS made a filing with the Commission, indicating that it had exceeded the threshold, and recommending that no action be taken to address the PGA bank balance.

UNS' current filing indicates that UNS now is recommending implementation of a \$0.02 per therm credit for a period that roughly covers the winter 2007-2008 heating season.

UNS' most recent monthly PGA report shows a reported over-collected PGA bank balance of \$10,755,098 as of the end of June 2007. Natural gas prices in recent months have been relatively stable, with San Juan and Permian basin spot market price indices generally found in the \$5.00 to \$7.00 per decatherm range. These prices are somewhat lower than most price projections had shown, as a result of a number of factors, including mild spring weather, significant liquid natural gas imports, high gas storage inventories, and lack of hurricane activity in the Gulf of Mexico so far in the 2007 hurricane season. As of September 5, 2007, the Gas Daily El Paso -- San Juan daily spot market index is at \$4.615 per decatherm and the El Paso -- Permian daily spot market index is at \$4.82 per decatherm. While natural gas prices have trended downward recently, changes in market conditions, particularly if a major hurricane significantly impacted natural gas infrastructure in the Gulf of Mexico, could place upward pressure on natural gas prices in the coming months. New York Mercantile Exchange ("NYMEX") natural gas futures prices have followed the recent downward trend, with January 2008 futures prices at \$7.858 per decatherm as of September 5, 2007.

THE COMMISSION

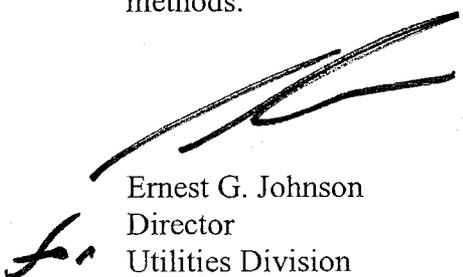
September 5, 2007

Page 2

Applying rates in effect in September 2007, an October 2007 residential customer bill, absent the proposed PGA credit, using an average of 22 therms, is estimated to be \$30.87, not including taxes and other assessments. With the \$0.02 per therm PGA credit in place, the average October 2007 residential customer bill is estimated to be \$30.43, reflecting a \$0.44 or 1.5 percent reduction. A January 2008 residential customer bill, absent the proposed PGA credit, using an average of 107 therms, is estimated to be \$123.07, not including taxes and other assessments. With the \$0.02 per therm PGA credit in place, the average January 2008 residential customer bill is estimated to be \$120.93, reflecting a \$2.14 or 1.8 percent reduction.

Staff has reviewed UNS' projections and believes they are reasonable for the purpose of assessing a possible PGA credit in this proceeding. It is always difficult to gauge possible natural gas market conditions heading into a winter heating season, as weather and other factors can significantly change natural gas market dynamics at any time. But at this time, Staff believes UNS' proposed \$0.02 per therm PGA credit represents a reasonable balance between the interests of returning over-collected PGA bank balance dollars to ratepayers and of avoiding a possible swing to a significantly under-collected PGA bank balance in the near future.

Staff recommends that a \$0.02 per therm PGA credit be approved for the period of October 2007 through April 2008. Staff further recommends that UNS notify its customers of the Commission's approval of a PGA credit via customer bill inserts and other available methods.



Ernest G. Johnson  
Director  
Utilities Division

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ORIGINATOR: Robert Gray

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

MIKE GLEASON  
Chairman  
WILLIAM A. MUNDELL  
Commissioner  
JEFF HATCH-MILLER  
Commissioner  
KRISTIN K. MAYES  
Commissioner  
GARY PIERCE  
Commissioner

IN THE MATTER OF THE APPLICATION )  
OF UNS GAS INC. FOR COMMISSION )  
APPROVAL OF A PURCHASED GAS )  
ADJUSTOR CREDIT OF \$0.02 PER THERM )

DOCKET NO. G-04204A-07-0503  
DECISION NO. \_\_\_\_\_  
ORDER

Open Meeting  
September 18 and 19, 2007  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Gas, Inc. ("UNS") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On August 30, 2007, UNS filed for Commission approval of a \$0.02 per therm purchased gas adjustor ("PGA") credit to customer bills for a period of October 1, 2007 through April 30, 2008.

3. UNS passes its purchased gas costs through its PGA mechanism, resulting in a PGA bank balance that changes over time depending on costs incurred by UNS and cost recoveries by UNS. UNS' bank balance currently has a threshold on it of \$4,450,000, wherein if UNS' over-recovered bank balance exceeds this threshold, UNS is required to take action to address the over-recovery in some fashion.

...

1           4.       On July 18, 2007, UNS made a filing with the Commission, indicating that it had  
2 exceeded the threshold, and recommending that no action be taken to address the PGA bank  
3 balance.

4           5.       UNS' current filing indicates that UNS now is recommending implementation of a  
5 \$0.02 per therm credit for a period that roughly covers the winter 2007-2008 heating season.

6           6.       UNS' most recent monthly PGA report shows a reported over-collected PGA bank  
7 balance of \$10,755,098 as of the end of June 2007.

8           7.       Natural gas prices in recent months have been relatively stable, with San Juan and  
9 Permian basin spot market price indices generally found in the \$5.00 to \$7.00 per decatherm range.  
10 These prices are somewhat lower than most price projections had shown, as a result of a number of  
11 factors, including mild spring weather, significant liquid natural gas imports, high gas storage  
12 inventories, and lack of hurricane activity in the Gulf of Mexico so far in the 2007 hurricane  
13 season.

14           8.       As of September 5, 2007, the Gas Daily El Paso – San Juan daily spot market index  
15 is at \$4.615 per decatherm and the El Paso – Permian daily spot market index is at \$4.82 per  
16 decatherm.

17           9.       While natural gas prices have trended downward recently, changes in market  
18 conditions, particularly if a major hurricane significantly impacted natural gas infrastructure in the  
19 Gulf of Mexico, could place upward pressure on natural gas prices in the coming months.

20           10.      New York Mercantile Exchange (“NYMEX”) natural gas futures prices have  
21 followed the recent downward trend, with January 2008 futures prices at \$7.858 per decatherm as  
22 of September 5, 2007.

23           11.      Applying rates in effect in September 2007, an October 2007 residential customer  
24 bill, absent the proposed PGA credit, using an average of 22 therms, is estimated to be \$30.87, not  
25 including taxes and other assessments. With the \$0.02 per therm PGA credit in place, the average  
26 October 2007 residential customer bill is estimated to be \$30.43, reflecting a \$0.44 or 1.5 percent  
27 reduction.

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IT IS FURTHER ORDERED that UNS notify its customers of the Commission's approval of a PGA credit via customer bill inserts and other available methods.

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

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

CHAIRMAN	COMMISSIONER	
COMMISSIONER	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I DEAN S. MILLER, Interim Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this \_\_\_\_\_ day of \_\_\_\_\_, 2007.

\_\_\_\_\_  
DEAN S. MILLER  
Interim Executive Director

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

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

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SERVICE LIST FOR: UNS Gas, Inc.  
DOCKET NO. G-04204A-07-0503

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