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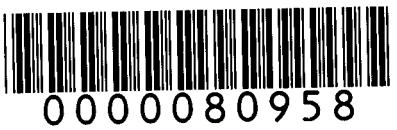

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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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
IN THE MATTER OF THE APPLICATION OF THE ARIZONA ELECTRIC DIVISION OF CITIZENS COMMUNICATIONS COMPANY TO CHANGE THE CURRENT PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE, TO ESTABLISH A NEW PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE BANK, AND TO REQUEST APPROVED GUIDELINES FOR THE RECOVERY OF COSTS INCURRED IN CONNECTION WITH ENERGY RISK MANAGEMENT INITIATIVES.	DOCKET NO. E-01032C-00-0751
IN THE MATTER OF THE APPLICATION OF CITIZENS COMMUNICATIONS COMPANY, ARIZONA GAS DIVISION, FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTIES FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES DESIGNED TO PROVIDE SUCH RATE OF RETURN.	DOCKET NO. G-01032A-02-0598
IN THE MATTER OF THE APPLICATION OF CITIZENS COMMUNICATIONS COMPANY AND UNISOURCE ENERGY CORPORATION FOR APPROVAL FOR THE SALE OF CERTAIN ELECTRIC UTILITY AND GAS UTILITY ASSETS IN ARIZONA, THE TRANSFER OF CERTAIN CERTIFICATES OF CONVENIENCE AND NECESSITY FROM CITIZENS COMMUNICATIONS COMPANY TO UNISOURCE ENERGY CORPORATION, THE APPROVAL OF THE FINANICNG FOR THE TRANSACTIONS AND OTHER RELATED MATTERS.	DOCKET NO. E-01933A-02-0914 E-01032C-02-0914 G-01032A-02-0914

Arizona Corporation Commission
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DOCKETED BY

STAFF'S PROPOSALS CONCERNING GAS PRICE ISSUES IN UES TERRITORY

Arizona Corporation Commission Staff ("Staff") hereby submits the attached proposals concerning gas price issues in Unisource Energy Services ("UES") territory for Commission consideration. This filing is made in response to Chairman Spitzer's March 2, 2004 letter to the Commission in the above-captioned dockets related to these matters.

RESPECTFULLY SUBMITTED this 9th day of March, 2004.

Christopher C. Kempley, Chief Counsel
Janice Alward, Assistant Chief Counsel
Legal Division
Arizona Corporation Commission
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Phoenix, Arizona 85007
(602) 542-3402

The original and 23 copies of the foregoing filed this 9th day of March, 2004, with:

Docket Control
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COPIES of the foregoing were mailed/ this 9th day of March, 2004 to:

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Staff Proposals Concerning Gas Price Issues in Unisource Energy Services Territory

Introduction

On March 2, 2004, Chairman Spitzer filed and docketed a letter concerning natural gas price issues in UES territory. Chairman Spitzer invited the submission of proposals to address escalating gas prices for UES and its customers. Staff has developed several proposals for Commission consideration. These are described below.

UNS Gas PGA Surcharge Scenarios

1. Surcharge Remains in Place – the full surcharge remains in place through October 2004 and this is eliminated.
2. Temporary Removal of Surcharge – the full surcharge is removed for March and April 2004, and then reapplied through December 2004.
3. Immediate Halving of Surcharge – the surcharge is cut in half immediately and then left in place through May 2005.
4. Immediate Elimination of Surcharge – the full surcharge is removed immediately and is not reimposed. Note that this results in a very large on-going under collected bank balance.
5. Temporary Halving of Surcharge – the surcharge is cut in half for March and April 2004, then reimposed at the full level through November 2004.
6. Focusing of Surcharge in Summer – the surcharge for November through April periods, is in effect at the full level in May, September, and October, and is doubled in June, July, and August. The last month the surcharge would be in effect is November 2005.
7. Temporary Removal, Later Reduction of Surcharge – the full surcharge is removed for March and April 2004, the full surcharge is then reapplied through November 2004 and then reduced surcharge of $0.02 per therm is applied through October 2005.
8. Surcharge Removed for April – the full surcharge is in place for March 2004, is eliminated for April 2004, and then reinstated through November 2004.

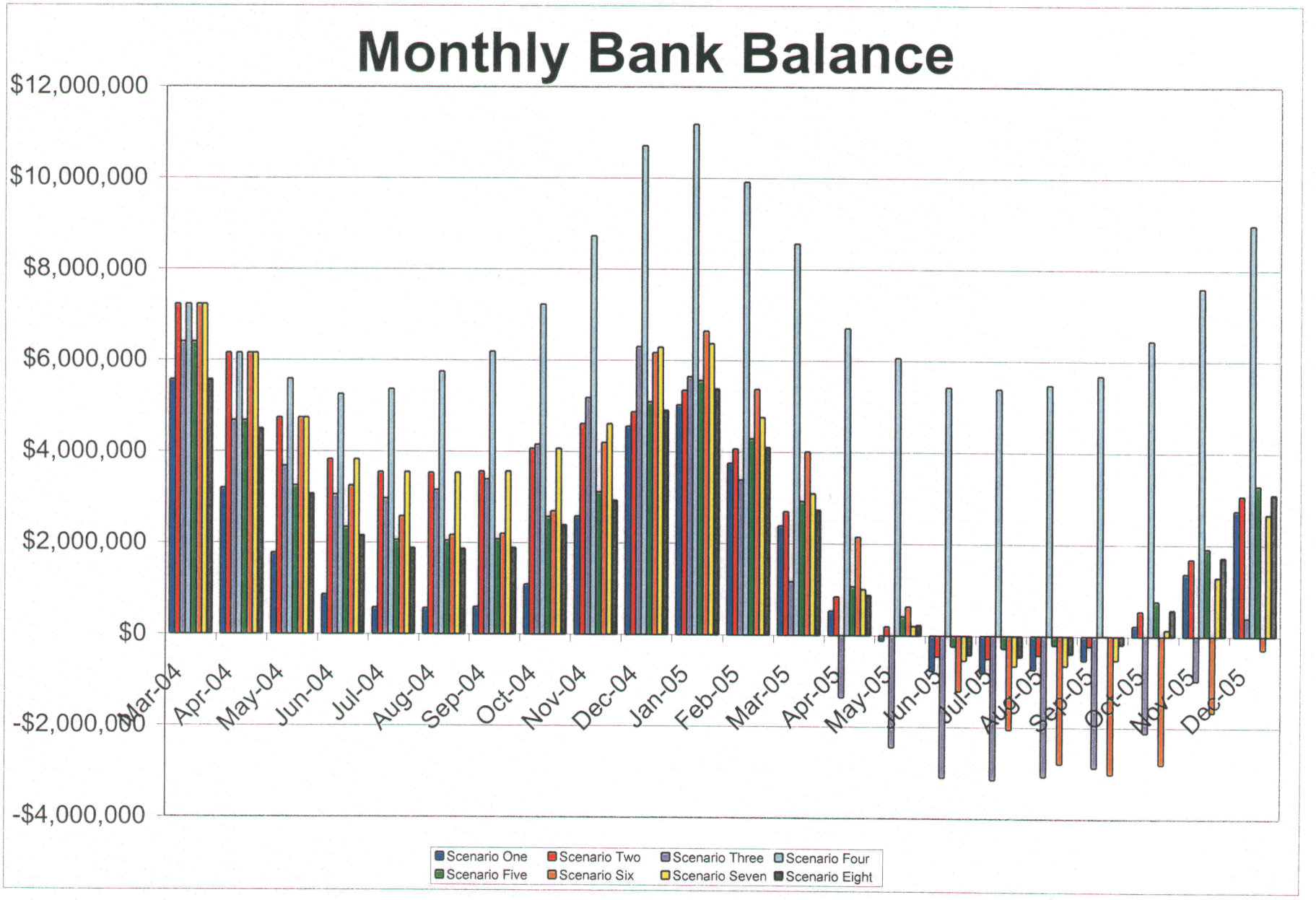
Other Options/Considerations

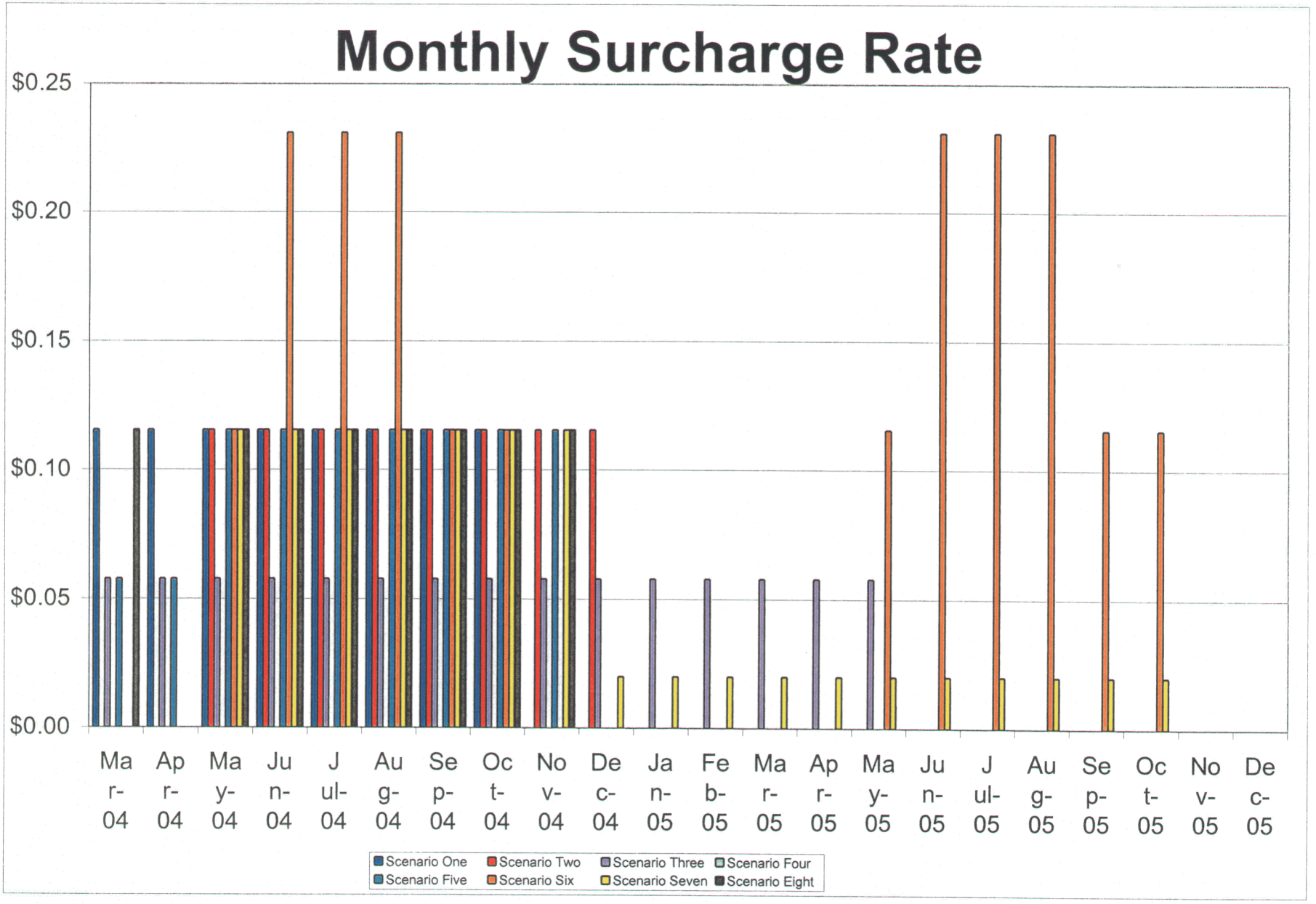
1. Circuit-Breaker Mechanism
   The circuit breaker mechanism could be adjusted in a number of possible ways. The threshold of the existing mechanism could be reduced to a level lower than 140%, which would results in greater surcharge savings for high usage customers and would result in an additional increment of gas costs being deferred to the future for recovery. The circuit breaker could also be adjusted to track individual savings so that each customer's savings during the winter heating season are deferred to be paid in the low use summer months. A further option would be to design some form of customer specific circuit breaker, under which each individual customer's usage would be compared from year to year and if the

customer's usage showed a large increase from one year to the next, the circuit breaker would go into effect.

2. Uncertainties in Estimating PGA Surcharge impacts in the future – The above scenarios are based on the best available projections from Unisource of future inputs to the PGA mechanism. Uncertainties in the future include unexpected shifts in natural gas market prices and changes in weather from year to year and over time, resulting in some level of fluctuation in customer consumption.

3. When the Surcharge Should End – The currently existing surcharge doesn't have a date specific ending time, but rater is set to end when the PGA bank balance reaches zero. If the surcharge is reset in some manner, it will need to be decided whether the ending date should be on a date specific or when the balance reaches zero. Many of the scenarios assume a specific lower level, well below the bank balance threshold, but not require it to reach zero before removing the surcharge.


Monthly Bank Balance
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$0
-$2,000,000
-$4,000,000
Mar-04
Apr-04
May-04
Jun-04
Jul-04
Aug-04
Sep-04
Oct-04
Nov-04
Dec-04
Jan-05
Feb-05
Mar-05
Apr-05
May-05
Jun-05
Jul-05
Aug-05
Sep-05
Oct-05
Nov-05
Dec-05
Scenario One
Scenario Two
Scenario Three
Scenario Four
Scenario Five
Scenario Six
Scenario Seven
Scenario Eight


Monthly Surcharge Rate
$0.25
$0.20
$0.15
$0.10
$0.05
$0.00
Mar-04
Apr-04
May-04
Jun-04
Jul-04
Aug-04
Sep-04
Oct-04
Nov-04
Dec-04
Jan-05
Feb-05
Mar-05
Apr-05
May-05
Jun-05
Jul-05
Aug-05
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Nov-05
Dec-05
Scenario One
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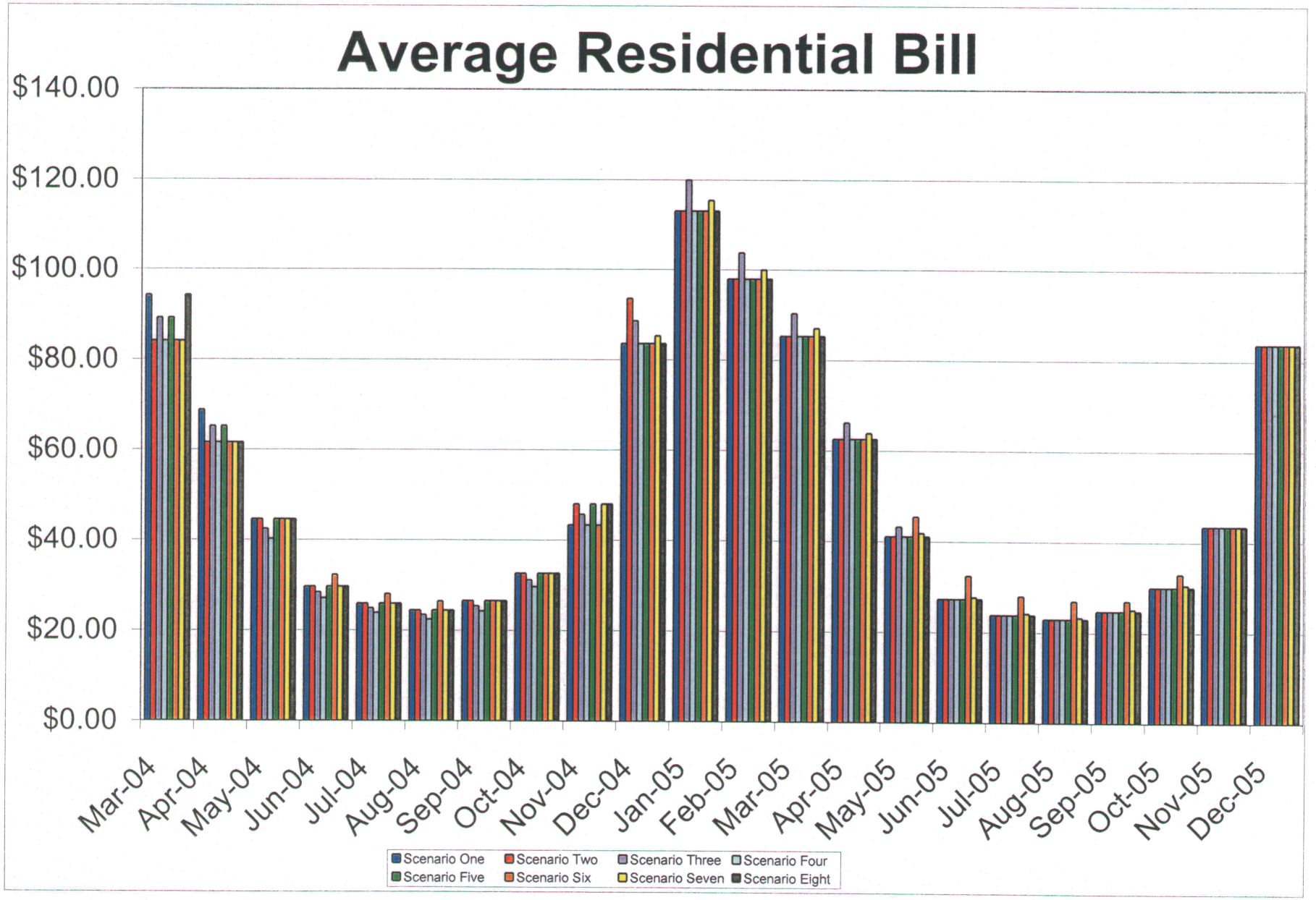
Average Residential Bill
$140.00
$120.00
$100.00
$80.00
$60.00
$40.00
$20.00
$0.00
Mar-04
Apr-04
May-04
Jun-04
Jul-04
Aug-04
Sep-04
Oct-04
Nov-04
Dec-04
Jan-05
Feb-05
Mar-05
Apr-05
May-05
Jun-05
Jul-05
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Oct-05
Nov-05
Dec-05
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Scenario Six
Scenario Seven
Scenario Eight