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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

Arizona Corporation Commission 2008 SEP 10 P 1:13

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

DOCKETED

SEP 10 2008

ALL DOCUMENTS MUST BE  
DOCKETED SEPARATELY

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IN THE MATTER OF THE APPLICATION OF )  
GRAHAM COUNTY UTILITIES, INC. FOR )  
APPROVAL OF PURCHASED GAS ADJUSTOR )  
SURCHARGE )

DOCKET NO. G-02527A-08-0360  
AMENDED APPLICATION  
FOR SURCHARGE

On July 16, 2008 Graham County Utilities, Inc. ("GCU") filed an application with the Arizona Corporation Commission (the "Commission") to approve a new Purchase Gas Adjustor ("PGA") surcharge of \$0.345 per therm to be effective September 1, 2008. Graham hereby amends its application to request the Commission approve a new PGA surcharge of \$0.10 per therm to be effective November 1, 2008 as explained further below. The new PGA surcharge is necessary in order to allow for the recovery of the PGA bank balance that exists and continues to grow. In support hereof, GCU states as follows:

**I. THE GCU GAS PGA.**

The GCU PGA was authorized by the Commission to ameliorate the impact of volatile natural gas prices on both the customer and the utility. The GCU PGA was most recently reviewed and a surcharge approved in Decision No. 68298 (November 14, 2005). GCU's current base cost of purchased gas is \$0.59056 per therm. Its PGA rate as of September 1, 2008 was \$0.22124 per therm. GCU's base cost of gas plus its PGA adjustor is equal to a total of \$0.8188 per therm.

1 GCU's Gas Division cannot afford to absorb the increases in the gas prices, even for a  
2 short period of time. GCU estimates that it will incur a negative margin of approximately  
3 \$50,000 for the twelve month period ending September 30, 2008. Despite the recent decrease in  
4 natural gas prices, without the requested PGA surcharge, the PGA under-collected bank balance  
5 will grow from approximately \$52,171 to \$487,000 by January 2009 as shown on Exhibit A  
6 attached to this application. GCU does not have the financial ability to pay for higher gas prices  
7 now and then wait to collect these higher costs from its customers over the next few years. If no  
8 surcharge is approved, GCU will have to borrow funds from Graham County Electric  
9 Cooperative, Inc. to pay for the higher gas costs. Since October 2007, GCU has already had to  
10 borrow approximately \$450,000 from GCEC for plant investments and to fund its operations.  
11 Given GCU's poor financial condition, GCU will be filing a financing and most likely a rate case  
12 application with the ACC by the end of the year. GCU submits that, given the forecasted under-  
13 collected PGA bank balance and unrelenting high gas prices, the proposed surcharge is necessary  
14 and should be approved now.

## 17 **II. THE NEW PGA SURCHARGE**

### 18 **A. Surcharge Rate.**

19 The ongoing high cost of natural gas will result in an under-collected PGA bank  
20 balance for GCU. GCU had a fixed price contract for 30% of its estimated gas purchases at  
21 \$6.87 per dekatherm that expired on February 1, 2008 and a 20% fixed price contract at \$7.77 per  
22 dekatherm that expired July 1, 2008. GCU currently has a 20% fixed price contract of \$6.89 per  
23 dekatherm that will expire September 1, 2008. GCU's philosophy has been to be at least 50%  
24 fixed priced and 50% index priced for its purchased gas before the winter months. However,  
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26

1 future gas prices are extremely high compared to historical price levels, especially summer  
 2 historical price levels, therefore causing very limited fixed price buying opportunities.  
 3 Consequently, GCU will continue to monitor the futures market so that it can achieve its goal of  
 4 contracting for 50% or more of its purchased gas during the winter months.

5  
 6 GCU is currently paying approximately \$7.52 per MMBtu not including transportation  
 7 costs for natural gas on the spot market through August. GCU asked for bids from its natural gas  
 8 supplier to provide a portion of its historical gas purchased at a fixed contract price for a term of  
 9 six months and twelve months. The following table lists the fixed price purchased gas contracts  
 10 not including transportation costs that GCU has entered into before and after it filed its original  
 11 application on July 16, 2008.

<b>CONTRACT DATE</b>	<b>CONTRACT PERIOD</b>	<b>PERCENT</b>	<b>PRICE</b>
7/11/2008	September 1, 2008 - August 31, 2009	20%	10.98
7/25/2008	September 1, 2008 - August 31, 2009	20%	8.94
8/25/2008	September 1, 2008 - August 31, 2009	10%	7.835
9/4/2008	November 1, 2008 - October 31, 2009	20%	7.40
<b>CONTRACTED PERCENT AND AVERAGE</b>		<b>70%</b>	<b>8.925</b>

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 18 The contracted prices listed above were used in the PGA bank balance projections  
 19 contained in Exhibit A.

20 As result of GCU's small size, financial condition and higher gas prices, it has not been  
 21 able to hedge any of its projected gas sales during the same period. Consequently GCU is facing  
 22 a considerable shortfall in its recovery of the expected average cost of gas purchased during the  
 23 high-use winter period.

24  
 25 **B. Impact of Surcharge on Residential Bills.**

26 Residential customers of GCU typically use an average 62 therms per month during the

1 winter months (November through March) and 17 therms per month during summer months  
2 (April through October). Under the proposed PGA surcharge, a \$.10 per therm surcharge will  
3 result in an average increase of \$6.20 to a monthly residential bill in the winter and \$1.70 in the  
4 summer.

5 **III. CONCLUSION**

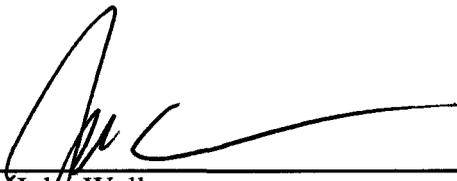
6 GCU believes that the PGA surcharge requested herein is necessary to recover gas costs in  
7 a timely and reasonable manner, before any additional accumulation of an under-collected PGA  
8 bank balance will require an even greater surcharge increase and is in the public interest.

9 To the extent it is necessary to extend any time limitations to allow this matter to be heard  
10 as soon as possible, GCU stipulates through the filing that those time limitations may be  
11 extended.  
12

13 Wherefore, for all the foregoing reasons, GCU requests authorization for a new PGA  
14 surcharge of \$0.10 per therm for the 12-month period effective November 1, 2008 or if the PGA  
15 bank balance reaches zero, whichever occurs first to allow for the recovery of the high natural gas  
16 prices and the resulting under-collected PGA bank balance.  
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20 RESPECTFULLY SUBMITTED this 10<sup>th</sup> day of September 2008.  
21

22  
23  
24 By \_\_\_\_\_

  
John Wallace  
Grand Canyon State Electric Cooperative Association  
120 North 44<sup>th</sup> Street, Suite 100  
Phoenix, AZ 85034

1 Original and thirteen (13) copies of  
2 Graham County Utilities, Inc.'s Application  
filed this 10<sup>th</sup> day of September, 2008 with:

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

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**GRAHAM COUNTY UTILITIES, INC. - GAS  
PURCHASED GAS SURCHARGE ADJUSTOR NEEDED**

**EXHIBIT A**

HISTORICAL		NATURAL GAS				TRANSPORTATION				SALES			
MONTH	QUANTITY (MMBtu)	PRICE	EXTENDED (MMBtu)	QUANTITY	PRICE	EXTENDED (MMBtu)	TRANSPORT- ACTION	INTEREST	TOTAL	(THERMS)	PGA RATE	PGA SURCHARGE WITH	PGA SURCHARGE WITHOUT
Jun-07	7,891	6.8634	54,159	124	6.86	850.64	4,569	(283)	59,295	110,864	0.18324	17,274	17,274
Jul-07	7,564	6.7443	51,014	194	6.23	1,208.62	3,599	(338)	55,484	85,544	0.18924	52,171	52,171
Aug-07	7,024	6.294	44,209	235	5.02	1,179.70	3,304	(398)	48,295	77,076	0.20544	48,602	48,602
Sep-07	7,193	6.6587	47,896	193	4.62	891.66	3,426	(487)	51,727	94,948	0.22119	28,059	37,554
Oct-07	11,598	6.6107	76,671	386	5.15	1,987.90	5,583	(438)	83,804	99,585	0.22444	44,089	63,542
Nov-07	22,388	7.1629	160,362	553	6.09	3,367.77	586	(213)	164,103	142,890	0.23734	116,177	149,919
Dec-07	62,588	6.9159	432,850	1,724	6.53	11,257.72	41,369	618	486,094	356,016	0.25084	372,565	441,909
Jan-08	61,965	6.8566	424,869	1,808	6.41	11,589.28	29,865	463	466,786	623,761	0.25364	365,987	487,707
Feb-08	44,262	7.2046	318,890	1,261	7.31	9,217.91	17,544	61	345,712	607,006	0.25364	190,368	382,788
Mar-08	29,870	7.797	232,895	838	8.12	6,804.56	12,882	2	252,583	368,220	0.25364	115,841	345,084
Apr-08	16,882	7.8998	133,365	345	8.31	2,866.95	8,240	(8)	144,464	199,910	0.25364	81,370	330,604
May-08	12,759	8.6323	110,139	372	9.46	3,519.12	6,228	(7)	119,879	155,728	0.27634	48,313	313,119
Jun-08	10,040	9.1935	92,303	303	9.88	2,993.64	4,900	39	100,236	102,857	0.28324	40,716	315,808
Jul-08	9,404	10.46078	98,373	313	11.39	3,565.07	8,155	118	110,211	92,009	0.28924	37,514	321,807
	<b>295,973</b>		<b>2,172,822</b>	<b>8,331</b>		<b>59,241</b>	<b>142,081</b>	<b>(250)</b>	<b>2,373,894</b>	<b>2,920,006</b>			<b>2,920,006</b>
<b>Base Cost of Gas</b>		<b>0.59056</b>			<b>Emergency PGA Needed</b>		<b>0.10000</b>			<b>Interest Rate</b>	<b>2.70%</b>		
<b>PROJECTED</b>													
May-08	10,040	9.1935	92,303	303	9.8800	2,993.64	4,900	39	100,196	102,857	0.18324	17,274	17,274
Jun-08	9,404	10.4608	98,373	313	11.3900	3,565.07	4,590	117	106,528	92,009	0.18924	52,171	52,171
Jul-08	7,024	7.4900	52,610	235	7.4900	1,760.15	3,304	109	57,674	77,076	0.20544	48,602	48,602
Aug-08	7,193	8.4670	60,903	193	8.4670	1,634.13	3,426	63	65,964	94,948	0.22119	28,059	37,554
Sep-08	11,598	8.4670	98,200	386	8.4670	3,268.26	5,583	99	107,052	99,585	0.22444	44,089	63,542
Oct-08	22,388	8.4670	189,559	553	8.4670	4,682.25	9,030	261	203,271	142,890	0.22934	116,177	149,919
Nov-08	62,588	8.4670	529,933	1,724	8.4670	14,597.11	41,369	836	585,898	356,016	0.23734	372,565	441,909
Dec-08	61,965	8.4670	524,658	1,808	8.4670	15,308.34	29,865	799	569,831	623,761	0.25084	365,987	487,707
Jan-09	44,262	8.4670	374,766	1,261	8.4670	10,676.89	21,646	427	407,089	607,006	0.25364	190,368	382,788
Feb-09	29,870	8.4670	252,909	838	8.4670	7,095.35	12,882	260	272,886	368,220	0.25364	115,841	345,084
Mar-09	16,882	8.4670	142,940	345	8.4670	2,921.12	8,240	183	154,101	199,910	0.25364	81,370	330,604
Apr-09	12,759	8.4670	108,030	372	8.4670	3,149.72	6,228	108	117,408	155,728	0.27634	48,313	313,119
May-09	10,040	8.4670	85,009	303	8.4670	2,565.50	4,900	91	92,474	102,857	0.28324	40,716	315,808
Jun-09	9,404	8.4670	79,624	313	8.4670	2,650.17	4,590	84	86,864	92,009	0.28924	37,514	321,807
Jul-09	7,024	8.4670	59,472	235	8.4670	1,989.75	3,304	57	64,766	77,076	0.30544	25,570	317,570
Aug-09	7,193	8.4670	60,903	193	8.4670	1,634.13	3,426	(10)	65,964	94,948	0.32119	(4,541)	296,954
Sep-09			<b>2,506,003</b>	<b>8,331</b>		<b>70,539</b>	<b>151,062</b>	<b>3,197</b>	<b>2,727,604</b>	<b>2,920,006</b>			