



0000089024

OPEN MEETING

MEMORANDUM RECEIVED

ORIGINAL

TO: THE COMMISSION

FROM: Utilities Division

DATE: September 30, 2008

RE: IN THE MATTER OF THE APPLICATION FOR GRAHAM COUNTY UTILITIES, INC.'S APPLICATION FOR APPROVAL OF A PURCHASED GAS ADJUSTOR SURCHARGE (DOCKET NO. G-02527A-08-0360)

2008 SEP 30 P 3:49
AZ COM. COMMISSION
DOCKET CONTROL

Arizona Corporation Commission
DOCKETED

SEP 30 2008

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On July 16, 2008, Graham County Utilities, Inc. ("Graham" or "the Company") filed for Commission approval of a \$0.345 per therm purchased gas adjustor ("PGA") surcharge, citing increased and volatile natural gas prices. As discussed herein, Graham has twice filed amended applications revising its requested surcharge downward, first to \$0.18, then to \$0.10. These downward revisions reflect current decreases in natural gas prices and new fixed price contracts entered into by the Company.

Purchased Gas Adjustor ("PGA")

Graham has a PGA allowing the Company to recover gas costs that are higher than its base cost of purchased natural gas, or to refund over-collections to customers when gas costs are lower. In order to limit fluctuations in the cost of gas, the monthly PGA is calculated based on a banded 12-month rolling average, meaning that the new PGA rate can not vary by more than \$0.10 from any PGA rate during the previous 12 months.

Bank Balance

Over- or under-collections are tracked and accumulated in a bank balance account with a threshold of \$150,000 (see Decision No. 61225). Staff reviewed Graham's bank balance for the last 32 months and notes that over- and under-collections are almost evenly divided, with 15 months of over-collection and 17 months of under-collection. Over-collections have remained within the threshold during the entire period, while under-collections have exceeded the threshold for seven of the 32 months.

Graham was under-collected in June, July and August of this year. In previous years, Graham was over-collected during those same months, indicating increased under-collection. In its most current fuel adjustor report, for August 2008, Graham reports a negative bank balance of \$40,085, and projects that it will grow to a negative \$432,337 by December 2008.

Graham's application states that Graham's Gas Division "cannot afford to absorb the increases in the gas prices, even for a short period of time." In its most recent amended

application, Graham reports that since October 2007, it has borrowed approximately \$450,000 from Graham County Electric Cooperative, Inc., ("GCEC") to cover natural gas costs. Graham stated that any additional increase in the under-collected PGA balance would require more borrowing from GCEC.

Fixed Price Contracts

Graham's practice has been to buy 50 percent of its gas through fixed price contracts and 50 percent on an index-priced basis. Graham had a fixed price contract for 30 percent of its natural gas at \$6.87 per decatherm that expired February 1, 2008, a 20 percent fixed price contract for \$7.77 per decatherm that expired July 1, 2008 and a 20 percent fixed price contract at \$6.89 per decatherm that expired on September 1, 2008. The expiration of these lower-cost fixed price contracts has contributed to current increase in Graham's gas costs.

On July 11, 2008, prior to filing its initial application, Graham entered into a 12-month contract for 20 percent of its anticipated gas requirements for \$10.98. Graham calculated the originally requested \$0.345 surcharge based on this figure.

On July 25, 2008, Graham entered into a 12-month contract for an additional 20 percent of its anticipated gas requirements, at \$8.94 per decatherm. The Company filed an Amended Application for Surcharge, docketed on August, 12, 2008, informing the Commission that it was revising its surcharge request downward, to \$0.18.

On August 25, 2008, Graham entered into a 12-month contract for 10 percent of its gas at \$7.835 per decatherm, and on September 4, 2008, contracted for another 20 percent at \$7.40. The most recent contract means that, as of November 1, 2008, Graham will be buying 70 percent of its gas through fixed price contracts. Although Graham usually does not commit to buying more than 50 percent of its gas under such contracts, the lower price of the most recent 20 percent contract allowed Graham to decrease the average cost of the natural gas that it buys at fixed prices. After entering into the additional contracts, the Company filed a new Amended Application for Surcharge on September 10, 2008, again revising its surcharge request downward, this time to \$0.10.

The Company's current 12-month fixed price contracts are summarized, below:

Contract Date	Contract Period	Percent	Price
7/11/2008	9/1/08-8/31/09	20%	\$10.98
7/25/2008	9/1/08-8/31/09	20%	\$8.94
8/25/2008	9/1/08-8/31/09	10%	\$7.835
9/4/2008	11/1/08-10/31/09	20%	\$7.40
	Total	70%	

Entering into fixed price contracts has made Graham's supply of natural gas less subject to the volatility of the gas market, including impacts due to weather. With 70 percent of its

supplies coming from fixed price contracts, costs are also more predictable and less sensitive to current market prices. Graham projected its gas costs at \$8.4670 based on these fixed price contracts and on index-priced gas cost of \$7.40 for the 30 percent not covered by fixed price contracts. (\$7.40 reflects its most recent fixed price contract). At that price, without a surcharge, the bank balance would rise to negative \$432,337 in December 2008 and would remain well above the threshold throughout 2009; the December 2009 bank balance is projected at negative \$293,115, or nearly twice the threshold.

Staff tracked recent market changes in order to establish an alternative projection for the course of Graham's bank balance. Staff's projected commodity price is derived from the Company's fixed price contracts and, for the 30 percent of supplies not covered by fixed price contracts, the spot price reported for the San Juan Basin on September 19 (\$5.495 per decatherm). (The San Juan Basin is the source of Graham's natural gas). Based on the resulting projected price (\$7.8955), Staff estimates that, without a surcharge, Graham would exceed its \$150,000 threshold for under-collection by December and would remain above the threshold through April 2009.

Given the volatility of the natural gas market, significant increases or decreases in the price of natural gas prices are likely and would impact the size of the bank balance and the rate at which it is reduced by the surcharge. Although natural gas prices have recently decreased, current projections indicate that, absent a surcharge, Graham would be significantly over its threshold by December 2008 and would remain above the threshold for a period of anywhere from six months to a year or more.

Natural Gas Rates and Bill Impacts

Currently, the base cost of Graham's gas is \$0.59056 per therm, the margin is \$0.23444, and the September 2008 PGA rate is \$0.22124, making the total cost per therm \$1.04624. If the proposed PGA surcharge of \$0.10 per therm is approved, the projected total cost of gas for customers reflected in Graham's rates as of November 2008 would be \$1.14624 per therm.

Attached is Schedule 1 showing projected average therm usage by Residential customers from November 2008 through October 2009. An evenly applied \$0.10 increase would result in increases ranging from approximately \$1.13 in August to \$9.17 in January. The Company supplied a winter average of 62 therms (November through March), increasing bills by \$6.20, and a summer average of 17 therms (April through October), increasing bills by \$1.70.

Staff prepared an alternate structure (see Schedule 2) showing progressive surcharges (\$0.05, \$0.10, \$0.20, and \$0.25) based on average therm usage by Residential customers. The alternate surcharge structure progresses from a \$0.05 surcharge for the three highest usage months to a \$0.25 surcharge for the three lowest-usage months. For residential customers, this progressive surcharge structure would shift a portion of the increase from higher winter bills to lower summer bills, evening out the impact. But it would also result in lower collections during the specific months when large bank balances are projected to accumulate, potentially keeping

the bank balance over Graham's threshold for additional months. The progressive structure would also impose the highest level of surcharge (\$0.25) on non-residential customers, whose natural gas usage is proportionately higher during the warmer months. In addition, the alternate surcharge structure varies from month to month, which may make the impact of the surcharge difficult for customers to predict. For these reasons, Staff recommends the unvarying \$0.10 surcharge discussed above and detailed in Schedule 1.

Customer Notification

Graham notified its customers of its application for a surcharge and disclosed projected bill impacts based on the \$0.18 surcharge. Graham has not issued a new notification relating to the \$0.10 surcharge requested in its most recent amended application.

Staff has recommended that Graham notify its customers of the Commission's decision regarding its Amended Application for Surcharge. The Notice should indicate whether or not a surcharge was approved and, if so, the amount of the surcharge, along with potential bill impacts at average levels of therm use.

Term of Surcharge

Graham originally requested a surcharge term of 12 months "or if the PGA bank balance reaches zero after February 28, 2009, whichever occurs first." The Company has dropped the request for a surcharge through February 2009, and is now requesting that the \$0.10 surcharge commence November 1, 2008, and continue for a period of 12 months, or until the bank balance reaches zero, whichever occurs first.

If index-priced gas is available at the Company-estimated \$7.40, the bank balance is projected to be eliminated after August 2009, also terminating the surcharge. If natural gas prices are closer to those currently being reported for San Juan basin, Staff estimates that the bank balance and surcharge would be eliminated after February 2009. The natural gas market remains volatile, and with 30% of its supply not covered by fixed price contracts, large increases or decreases could occur and would impact how quickly the bank balance and surcharge are eliminated. If the proposed 12-month limit is approved, the proposed surcharge would be eliminated after October 2009, whether or not the bank balance was down to zero.

Staff Recommendations

- Staff recommends that a PGA surcharge of \$0.10 be approved.
- Staff recommends that the PGA surcharge commence on November 1, 2008, and continue for a period of 12 months, or until the negative bank balance is eliminated, whichever occurs first.

THE COMMISSION

September 30, 2008

Page 5

- Staff recommends that Graham notify its customers of the amount of the surcharge and of the potential bill impacts at average levels of their use within 30 days of the effective of this decision.

for 

Ernest G. Johnson
Director
Utilities Division

EGJ:JKMK:lh\WVC

ORIGINATOR: Julie McNeely-Kirwan

SCHEDULE 1

BILL IMPACTS --STAFF'S RECOMMENDED SURCHARGE

Bills for Average Residential Therm Use (no surcharge)

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Monthly	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50
Base Cost of Gas	\$0.59056	\$11.39	\$30.08	\$54.16	\$54.07	\$32.14	\$17.04	\$13.00	\$8.55	\$7.39	\$6.69	\$8.24
Margin	\$0.23444	\$4.52	\$11.94	\$21.50	\$21.47	\$6.76	\$5.16	\$3.39	\$2.94	\$2.66	\$3.27	\$3.32
September 2008 PGA	\$0.22124	\$4.27	\$11.27	\$20.29	\$20.26	\$12.04	\$6.38	\$4.87	\$2.77	\$2.51	\$3.09	\$3.13
Total Bill	\$30.68	\$63.79	\$106.45	\$106.29	\$67.45	\$40.68	\$33.54	\$25.64	\$23.60	\$22.35	\$25.10	\$25.30

Bills for Average Residential Therm Use (with \$0.10 surcharge)

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Monthly	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50
Base Cost of Gas	\$0.59056	\$11.39	\$30.08	\$54.16	\$54.07	\$32.14	\$17.04	\$13.00	\$8.55	\$7.39	\$6.69	\$8.24
Margin	\$0.23444	\$4.52	\$11.94	\$21.50	\$21.47	\$6.76	\$5.16	\$3.39	\$2.94	\$2.66	\$3.27	\$3.32
September 2008 PGA	\$0.22124	\$4.27	\$11.27	\$20.29	\$20.26	\$12.04	\$6.38	\$4.87	\$2.77	\$2.51	\$3.09	\$3.13
Proposed Surcharge	\$0.10000	\$1.93	\$5.09	\$9.17	\$9.16	\$5.44	\$2.89	\$2.20	\$1.45	\$1.25	\$1.40	\$1.42
Total Bill	\$32.61	\$68.88	\$115.62	\$115.45	\$72.89	\$43.57	\$35.74	\$27.09	\$24.85	\$23.49	\$26.49	\$26.72

Difference

	\$1.93	\$5.09	\$9.17	\$9.16	\$5.44	\$2.89	\$2.20	\$1.45	\$1.25	\$1.13	\$1.40	\$1.42
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**SCHEDULE 2
STAFF'S ALTERNATE SURCHARGE STRUCTURE**

Bills for Average Residential Therm Use (no surcharge)

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Average Therm Usage	19.29	50.93	91.71	91.56	54.43	28.85	22.02	14.47	12.52	11.33	13.95	14.15
Monthly	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50
Base Cost of Gas	\$0.59056	\$11.39	\$30.08	\$54.16	\$32.14	\$17.04	\$13.00	\$8.55	\$7.39	\$6.69	\$8.24	\$8.36
Margin	\$0.23444	\$4.52	\$11.94	\$21.47	\$12.76	\$6.76	\$5.16	\$3.39	\$2.94	\$2.66	\$3.27	\$3.32
September 2008 PGA	\$0.22124	\$4.27	\$11.27	\$20.29	\$12.04	\$6.38	\$4.87	\$3.20	\$2.77	\$2.51	\$3.09	\$3.13
Total Bill	\$30.68	\$63.79	\$106.45	\$106.29	\$67.45	\$40.68	\$33.54	\$25.64	\$23.60	\$22.35	\$25.10	\$25.30

Bills for Average Residential Therm Use (with progressive surcharges \$0.5 - \$0.25)

	Nov-08	Dec-08	Jan-09	Feb-09	Mar-09	Apr-09	May-09	Jun-09	Jul-09	Aug-09	Sep-09	Oct-09
Average Therm Usage	19.29	50.93	91.71	91.56	54.43	28.85	22.02	14.47	12.52	11.33	13.95	14.15
Alt. 1 Surcharge Structure	\$0.20	\$0.10	\$0.05	\$0.05	\$0.10	\$0.10	\$0.10	\$0.20	\$0.25	\$0.25	\$0.25	\$0.20
Monthly	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50	\$10.50
Base Cost of Gas	\$0.59056	\$11.39	\$30.08	\$54.16	\$32.14	\$17.04	\$13.00	\$8.55	\$7.39	\$6.69	\$8.24	\$8.36
Margin	\$0.23444	\$4.52	\$11.94	\$21.47	\$12.76	\$6.76	\$5.16	\$3.39	\$2.94	\$2.66	\$3.27	\$3.32
September 2008 PGA	\$0.22124	\$4.27	\$11.27	\$20.29	\$12.04	\$6.38	\$4.87	\$3.20	\$2.77	\$2.51	\$3.09	\$3.13
Alternate 1	\$0.05-0.25	\$3.86	\$5.09	\$4.58	\$2.72	\$2.89	\$2.20	\$2.89	\$3.13	\$2.83	\$3.49	\$2.83
Total Bill	\$34.54	\$68.88	\$111.04	\$110.87	\$70.17	\$43.57	\$35.74	\$28.53	\$26.73	\$25.19	\$28.58	\$28.13

Difference

Difference	\$3.86	\$5.09	\$4.59	\$4.58	\$2.72	\$2.89	\$2.20	\$2.89	\$3.13	\$2.83	\$3.49	\$2.83
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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)
 FOR GRAHAM COUNTY UTILITIES, INC.,)
 FOR APPROVAL OF A PURCHASED GAS)
 ADJUSTOR SURCHARGE)

DOCKET NO. G-02527A-08-0360
 DECISION NO. _____
ORDER

Open Meeting
 October 15 and 16, 2008
 Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Graham County Utilities, Inc. ("Graham" or "the Company") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. Graham is a rural natural gas cooperative in southeastern Arizona, with 5,054 customers as of June 2008.

3. On July 16, 2008, Graham filed for Commission approval of a \$0.345 per therm purchased gas adjustor ("PGA") surcharge, citing increased and volatile natural gas prices. Graham has twice filed amended applications revising its requested surcharge downward, first to \$0.18, then to \$0.10. These downward revisions reflect current decreases in natural gas prices and new fixed price contracts entered into by the Company.

Purchased Gas Adjustor ("PGA")

4. Graham has a PGA allowing the Company to recover gas costs that are higher than its base cost of purchased natural gas, or to refund over-collections to customers when gas costs

1 are lower. In order to limit fluctuations in the cost of gas, the monthly PGA is calculated based on
2 a banded 12-month rolling average, meaning that the new PGA rate can not vary by more than
3 \$0.10 from any PGA rate during the previous 12 months.

4 Bank Balance

5 5. Over- or under-collections are tracked and accumulated in a bank balance account
6 with a threshold of \$150,000 (see Decision No. 61225). Staff reviewed Graham's bank balance for
7 the last 32 months and notes that over- and under-collections are almost evenly divided, with 15
8 months of over-collection and 17 months of under-collection. Over-collections have remained
9 within the threshold during the entire period, while under-collections have exceeded the threshold
10 for seven of the 32 months.

11 6. Graham was under-collected in June, July and August of this year. In previous
12 years, Graham was over-collected during those same months, indicating increased under-
13 collection. In its most current fuel adjustor report, for August 2008, Graham reports a negative
14 bank balance of \$40,085, and projects that it will grow to negative \$432,337 by December 2008.

15 7. Graham's application states that Graham's Gas Division "cannot afford to absorb
16 the increases in the gas prices, even for a short period of time." In its most recent amended
17 application, Graham reports that since October 2007, it has borrowed approximately \$450,000
18 from Graham County Electric Cooperative, Inc., ("GCEC") to cover natural gas costs. Graham
19 stated that any additional increase in the under-collected PGA balance would require more
20 borrowing from GCEC.

21 Fixed Price Contracts

22 8. Graham's practice has been to buy 50 percent of its gas through fixed price
23 contracts and 50 percent on an index-priced basis. Graham had a fixed price contract for 30
24 percent of its natural gas at \$6.87 per decatherm that expired February 1, 2008, a 20 percent fixed
25 price contract for \$7.77 per decatherm that expired July 1, 2008 and a 20 percent fixed price
26 contract at \$6.89 per decatherm that expired on September 1, 2008. The expiration of these lower-
27 cost fixed price contracts has contributed to current increase in Graham's gas costs.

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1 9. On July 11, 2008, prior to filing its initial application, Graham entered into a 12-
2 month contract for 20 percent of its anticipated gas requirements for \$10.98. Graham calculated
3 the originally requested \$0.345 surcharge based on this figure.

4 10. On July 25, 2008, Graham entered into a 12-month contract for an additional 20
5 percent of its anticipated gas requirements, at \$8.94 per decatherm. The Company filed an
6 Amended Application for Surcharge, docketed on August, 12, 2008, informing the Commission
7 that it was revising its surcharge request downward, to \$0.18.

8 11. On August 25, 2008, Graham entered into a 12-month contract for 10 percent of its
9 gas at \$7.835 per decatherm, and on September 4, 2008, contracted for another 20 percent at \$7.40.
10 The most recent contract means that, as of November 1, 2008, Graham will be buying 70 percent
11 of its gas through fixed price contracts. Although Graham does not usually commit to buying
12 more than 50 percent of its gas under such contracts, the lower price of the most recent 20 percent
13 contract allowed Graham to decrease the average cost of the natural gas it buys at fixed prices.
14 After entering into the additional contracts, the Company filed a new Amended Application for
15 Surcharge on September 10, 2008, again revising its surcharge request downward, this time to
16 \$0.10.

17 12. The Company's current 12-month fixed price contracts are summarized, below:

Contract Date	Contract Period	Percent	Price
7/11/2008	9/1/08-8/31/09	20%	\$10.98
7/25/2008	9/1/08-8/31/09	20%	\$8.94
8/25/2008	9/1/08-8/31/09	10%	\$7.835
9/4/2008	11/1/08-10/31/09	20%	\$7.40
	Total	70%	

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23 13. Entering into fixed price contracts has made Graham's supply of natural gas less
24 subject to the volatility of the gas market, including impacts due to weather. With 70 percent of its
25 supplies coming from fixed price contracts, costs are also more predictable and less sensitive to
26 current market prices. Graham projected its gas costs at \$8.4670 based on these fixed price
27 contracts and on index-priced gas cost of \$7.40 for the 30 percent not covered by fixed price
28 contracts. (\$7.40 reflects its most recent fixed price contract). At that price, without a surcharge,

1 the bank balance would rise to negative \$432,337 in December 2008 and would remain well above
2 the threshold throughout 2009; the December 2009 bank balance is projected at negative \$293,115,
3 or nearly twice the threshold.

4 14. Staff tracked recent market changes in order to establish an alternative projection
5 for the course of Graham's bank balance. Staff's projected commodity price is derived from the
6 Company's fixed price contracts and, for the 30 percent of supplies not covered by fixed price
7 contracts, the spot price reported for the San Juan Basin on September 19 (\$5.495 per decatherm).
8 (The San Juan Basin is the source of Graham's natural gas). Based on the resulting projected price
9 (\$7.8955), Staff estimates that, without a surcharge, Graham would exceed its \$150,000 threshold
10 for under-collection by December and would remain above the threshold through April 2009.

11 15. Given the volatility of the natural gas market, significant increases or decreases in
12 the price of natural gas prices are likely and would impact the size of the bank balance and the rate
13 at which it is reduced by the surcharge. Although natural gas prices have recently decreased,
14 current projections indicate that, absent a surcharge, Graham would be significantly over its
15 threshold by December 2008 and would remain above the threshold for a period of anywhere from
16 six months to a year or more.

17 Natural Gas Rates and Bill Impacts

18 16. Currently, the base cost of Graham's gas is \$0.59056 per therm, the margin is
19 \$0.23444, and the September 2008 PGA rate is \$0.22123, making the total cost per therm
20 \$1.04624. If the proposed PGA surcharge of \$01.0 per therm is approved, the projected total cost
21 of gas for customers reflected in Graham's rates as of November 2008 would be \$1.14624 per
22 therm.

23 17. Attached to the Staff Memorandum is Schedule 1 showing projected average therm
24 usage by Residential customers from November 2008 through October 2009. An evenly applied
25 \$0.10 increase would result in increases ranging from approximately \$1.13 in August to \$9.17 in
26 January. The Company supplied a winter average of 62 therms (November through March),
27 increasing bills by \$6.20, and a summer average of 17 therms (April through October), increasing
28 bills by \$1.70.

1 18. Staff prepared an alternate structure (see Schedule 2 in Staff Memorandum)
2 showing progressive surcharges (\$0.05, \$0.10, \$0.20, and \$0.25) based on average therm usage by
3 Residential customers. The alternate surcharge structure progresses from a \$0.05 surcharge for the
4 three highest usage months to a \$0.25 surcharge for the three lowest-usage months. For residential
5 customers, this progressive surcharge structure would shift a portion of the increase from higher
6 winter bills to lower summer bills, evening out the impact. But it would also result in lower
7 collections during the specific months when large bank balances are projected to accumulate,
8 potentially keeping the bank balance over Graham's threshold for additional months. The
9 progressive structure would also impose the highest level of surcharge (\$0.25) on non-residential
10 customers, whose natural gas usage is proportionately higher during the warmer months. In
11 addition, the alternate surcharge structure varies from month to month, which may make the
12 impact of the surcharge difficult for customers to predict. For these reasons, Staff recommends the
13 unvarying \$0.10 surcharge discussed above and detailed in Schedule 1.

14 Customer Notification

15 19. Graham notified its customers of its application for a surcharge and disclosed
16 projected bill impacts based on the \$0.18 surcharge. Graham has not issued a new notification
17 relating to the \$0.10 surcharge requested in its most recent amended application.

18 20. Staff has recommended that Graham notify its customers of the Commission's
19 decision regarding its Amended Application for Surcharge. The Notice should indicate whether or
20 not a surcharge was approved and, if so, the amount of the surcharge, along with potential bill
21 impacts at average levels of therm use.

22 Term of Surcharge

23 21. Graham originally requested a surcharge term of 12 months "or if the PGA bank
24 balance reaches zero after February 28, 2009, whichever occurs first." The Company has dropped
25 the request for a surcharge through February 2009, and is now requesting that the \$0.10 surcharge
26 commence November 1, 2008, and continue for a period of 12 months, or until the bank balance
27 reaches zero, whichever occurs first.

28 ...

1 22. If index-priced gas is available at the Company-estimated \$7.40, the negative bank
2 balance is projected to be eliminated after August 2009, also terminating the surcharge. If natural
3 gas prices are closer to those currently being reported for San Juan basin, Staff estimates that the
4 negative bank balance and surcharge would be eliminated after February 2009. The natural gas
5 market remains volatile, and with 30 percent of its supply not covered by fixed price contracts,
6 large increases or decreases could occur and would impact how quickly the bank balance and
7 surcharge are eliminated. If the proposed 12-month limit is approved, the proposed surcharge
8 would be eliminated after October 2009, whether or not the bank balance was down to zero.

9 Staff Recommendations

10 23. Staff has recommended approval of the Graham PGA surcharge at a level of \$0.10.

11 24. Staff has recommended the PGA surcharge begins on November 1, 2008, and
12 continues for a period of 12 months or until the negative bank balance is eliminated, whichever
13 occurs first.

14 25. Staff has recommended that Graham notify its customers of the amount of the
15 surcharge and of the potential bill impacts at average levels of their use within 30 days of the
16 effective date of this Decision.

17 CONCLUSIONS OF LAW

18 1. Graham is an Arizona public service corporation within the meaning of Article XV,
19 Section 2, of the Arizona Constitution.

20 2. The Commission has jurisdiction over Graham and over the subject matter of the
21 application.

22 3. The Commission, having reviewed the application and Staff's Memorandum dated
23 September 30, 2008, concludes that it is in the public interest to approve the PGA surcharge as
24 discussed herein.

25 ORDER

26 IT IS THEREFORE ORDERED that a PGA surcharge of \$0.10 be approved, as discussed
27 herein.

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IT IS FURTHER ORDERED that the PGA surcharge commence on November 1, 2008, and continue for a period of 12 months, or until the negative bank balance is eliminated, whichever occurs first.

IT IS FURTHER ORDERED that Graham notify its customers of the amount of the surcharge and of the potential bill impacts at average levels of their use within 30 days of the effective date of this Decision.

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

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, 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 _____, 2008.

BRIAN C. McNEIL
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

EGJ:JKM:lh\WVC

1 SERVICE LIST FOR: Graham County Utilities, Inc.
2 DOCKET NO. G-02527A-08-0360

3 Mr. John Wallace
4 Grand Canyon State Electric Cooperative
5 120 North 44th Street, Suite 100
6 Phoenix, Arizona 85034

7 MR. Russ Barney
8 Graham County Utilities, Inc.
9 9 West Center
10 Post Office Box B
11 Pima, Arizona 85543

12 Mr. Ernest G. Johnson
13 Director, Utilities Division
14 Arizona Corporation Commission
15 1200 West Washington Street
16 Phoenix, Arizona 85007

17 Ms. Janice M. Alward
18 Chief Counsel, Legal Division
19 Arizona Corporation Commission
20 1200 West Washington Street
21 Phoenix, Arizona 85007

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