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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

Arizona Corporation Commission

DOCKETED

OCT 28 2008

DOCKETED BY	ne
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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. 70564

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.

28 ...

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%	

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 \$0.10 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.

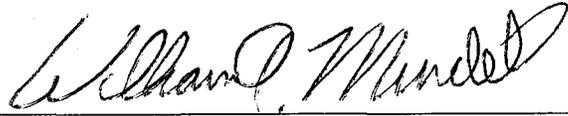
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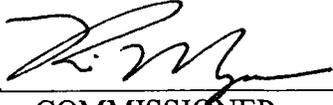
1 IT IS FURTHER ORDERED that the PGA surcharge commence on November 1, 2008,
2 and continue for a period of 12 months, or until the negative bank balance is eliminated, whichever
3 occurs first.

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

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

8
9 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

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11 _____
CHAIRMAN COMMISSIONER

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COMMISSIONER COMMISSIONER COMMISSIONER

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16 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive
17 Director of the Arizona Corporation Commission, have
18 hereunto, set my hand and caused the official seal of this
19 Commission to be affixed at the Capitol, in the City of
20 Phoenix, this 23rd day of October, 2008.

21 
22 _____
BRIAN C. McNEIL
EXECUTIVE DIRECTOR

23
24 DISSENT: _____

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26 DISSENT: _____

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28 EGJ:JKM:lhm\WVC

1 SERVICE LIST FOR: Graham County Utilities, Inc.
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