

# OPEN MEETING



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ORIGINAL

MEMORANDUM  
RECEIVED

TO: THE COMMISSION

FROM: Utilities Division

DATE: September 10, 2009

RE: GRAHAM COUNTY UTILITIES, INC. – APPLICATION FOR APPROVAL OF ITS  
PURCHASED GAS ADJUSTOR SURCREDIT (G-02527A-09-0384)

Arizona Corporation Commission

DOCKETED

SEP 10 2009

2009 SEP 10 P 3:02  
AZ CORP COMMISSION  
DOCKET CONTROL

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## Background

On August 4, 2009, Graham County Utilities (“Graham” or “the Cooperative”) filed an application with the Commission for approval of a surcredit, or negative surcharge, of \$0.16 per therm in order to pay down an over-collected balance for its Purchased Gas Adjustor (“PGA”). As of June 2009 Graham reported an over-collected balance of \$186,079.

Graham is a cooperative which distributes natural gas in Graham County, Arizona and services over 5,000 customers.

## The Current PGA Mechanism

### Twelve-month Rolling Average and \$0.10 Bandwidth

Like other gas utilities, Graham is not allowed to make a profit on the cost of the natural gas it provides. The Company recovers the cost of the gas, including its transportation costs, through a PGA rate. Currently, Graham’s PGA rate is calculated based on a twelve-month rolling average, with a \$0.10 annual bandwidth. The rolling average and bandwidth are designed to reduce the volatility of gas costs passed on to customers. The rolling average produces a more predictable and consistent PGA rate, while the bandwidth provides another brake on volatility by limiting changes (increases or decreases) to no more than \$0.10 per therm, over a year’s time. These features of the PGA mechanism limit rate shocks to Graham’s customers.

### Bank Balance and Thresholds

Because the PGA rate is based on a rolling average, and because the actual cost of gas varies over time, Graham either over- or under-recovers by varying amounts each month. These over- and under-collections are tracked and applied to the Cooperative’s adjustor bank balance.

Graham is required to file for a surcharge (or surcredit) when its bank balance, either negative or positive, reaches \$150,000. The \$150,000 threshold is designed to ensure that over-

collections and under-collections are resolved on a timely basis and before large balances accumulate.

Proposed Surcredit

Dramatic changes in the price of natural gas, as occurred in 2008, can increase the difference between the rolling average and what the Cooperative actually pays for gas, resulting in a larger PGA bank balance. The Cooperative's cost of natural gas is currently well below the rolling average, contributing to a bank balance that exceeds the \$150,000 threshold for over-collections. Projections provided by Graham indicate that, without a surcredit, the over-collection is likely to continue and increase.

Graham proposes a PGA surcredit of \$0.16 per therm so that the Cooperative can credit the over-collection back to its customers. Average summer usage for Graham's Residential customers is 17 therms, while average winter usage is 62 therms, meaning Graham's proposed surcredit would result in a \$2.72 reduction on average summer bills and a \$9.92 reduction on average winter bills.

Staff concurs that a surcredit is necessary in order to return over-collected monies to Graham customers and reduce the bank balance. Staff has recommended that Graham's request for a \$0.16 per therm surcredit be approved and that the surcredit remain in place until the bank balance reaches zero or until further order of the Commission, whichever comes first.

Staff Recommendation

Staff recommends that the surcredit be set at \$0.16 per therm and that it continue until the bank balance reaches zero or until further order of the Commission, whichever comes first.



Steven M. Olea  
Director  
Utilities Division

SMO:JMK:lhj\CH

ORIGINATOR: Julie McNeely-Kirwan

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**BEFORE THE ARIZONA CORPORATION COMMISSION**

KRISTIN K. MAYES

Chairman

GARY PIERCE

Commissioner

PAUL NEWMAN

Commissioner

SANDRA D. KENNEDY

Commissioner

BOB STUMP

Commissioner

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

DOCKET NO. G-02527A-09-0384

DECISION NO. \_\_\_\_\_

ORDER

Open Meeting  
September 22 and 23, 2009  
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Background

1. Graham County Utilities, Inc. ("Graham" or "the Cooperative") provides natural gas service through its Gas Division within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On August 4, 2009, Graham filed an application with the Commission for approval of a surcredit, or negative surcharge, of \$0.16 per therm in order to pay down an over-collected balance for its Purchased Gas Adjustor ("PGA"). As of June 2009 Graham reported an over-collected balance of \$186,079.

3. Graham is a cooperative which distributes natural gas in Graham County, Arizona and services over 5,000 customers.

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1 The Current PGA Mechanism

2 Twelve-month Rolling Average and \$0.10 Bandwidth

3 4. Like other gas utilities, Graham is not allowed to make a profit on the cost of the  
4 natural gas it provides. The Company recovers the cost of the gas, including its transportation  
5 costs, through a PGA rate. Currently, Graham's PGA rate is calculated based on a twelve-month  
6 rolling average, with a \$0.10 annual bandwidth. The rolling average and bandwidth are designed  
7 to reduce the volatility of gas costs passed on to customers. The rolling average produces a more  
8 predictable and consistent PGA rate, while the bandwidth provides another brake on volatility by  
9 limiting changes (increases or decreases) to no more than \$0.10 per therm, over a year's time.  
10 These features of the PGA mechanism limit rate shocks to Graham's customers.

11 Bank Balance and Thresholds

12 5. Because the PGA rate is based on a rolling average, and because the actual cost of  
13 gas varies over time, Graham either over- or under-recovers by varying amounts each month.  
14 These over- and under-collections are tracked and applied to the Cooperative's adjustor bank  
15 balance.

16 6. Graham is required to file for a surcharge (or surcredit) when its bank balance,  
17 either negative or positive, reaches \$150,000. The \$150,000 threshold is designed to ensure that  
18 over-collections and under-collections are resolved on a timely basis and before large balances  
19 accumulate.

20 Proposed Surcredit

21 7. Dramatic changes in the price of natural gas, as occurred in 2008, can increase the  
22 difference between the rolling average and what the Cooperative actually pays for gas, resulting in  
23 a larger PGA bank balance. The Cooperative's cost of natural gas is currently well below the  
24 rolling average, contributing to a bank balance that exceeds the \$150,000 threshold for over-  
25 collections. Projections provided by Graham indicate that, without a surcredit, the over-collection  
26 is likely to continue and increase.

27 8. Graham proposes a PGA surcredit of \$0.16 per therm so that the Cooperative can  
28 credit the over-collection back to its customers. Average summer usage for Graham's Residential

1 customers is 17 therms, while average winter usage is 62 therms, meaning Graham's proposed  
2 surcredit would result in a \$2.72 reduction on average summer bills and a \$9.92 reduction on  
3 average winter bills.

4 9. Staff concurs that a surcredit is necessary in order to return over-collected monies  
5 to Graham customers and reduce the bank balance. Staff has recommended that Graham's request  
6 for a \$0.16 per therm surcredit be approved and that the surcredit remain in place until the bank  
7 balance reaches zero or until further order of the Commission, whichever comes first.

8 CONCLUSIONS OF LAW

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

11 2. The Commission has jurisdiction over Graham and over the subject matter of the  
12 application.

13 3. The Commission, having reviewed the application and Staff's Memorandum dated  
14 September 10, 2009, concludes that it is in the public interest to approve the negative surcharge, or  
15 surcredit, of \$0.16, as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that a surcredit (negative surcharge) be set at \$0.16 per therm for Graham County Utilities, Inc., as discussed herein, and that it continue until the Purchased Gas Adjustor bank balance reaches zero or until further order of the Commission, whichever comes first.

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, ERNEST G. JOHNSON, 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 \_\_\_\_\_, 2009.

\_\_\_\_\_  
ERNEST G. JOHNSON  
EXECUTIVE DIRECTOR

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

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

SMO:JMK:lh\CH

1 SERVICE LIST FOR: Graham County Utilities, Inc.  
2 DOCKET NO. G-02527A-09-0384

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4 Grand Canyon State Electric  
5 Cooperative Association  
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10 Arizona Corporation Commission  
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