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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

Arizona Corporation Commission

DOCKETED

OCT 30 2009

DOCKETED BY
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IN THE MATTER OF THE APPLICATION
OF UNS GAS, INC. FOR APPROVAL OF A
TEMPORARY CUSTOMER CREDIT
ADJUSTMENT FOR THE PERIOD
NOVEMBER 2009 THROUGH OCTOBER
2010

DOCKET NO. G-04204A-09-0459

DECISION NO. 71316

ORDER

Open Meeting
October 20 and 21, 2009
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Background

1. UNS Gas, Inc. ("UNS Gas" or "the Company") is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. On September 22, 2009, UNS Gas filed an application for approval of a temporary customer credit adjustment, or surcredit, of "up to" \$0.08 per therm for the period of November 2009 through October 2010.
3. UNS Gas provides service in the counties of Apache, Coconino, Mohave, Navajo, Santa Cruz and Yavapai. As of July 2009, the Company had approximately 144,516 customers. Of these, 132,051 are Residential, with the remainder consisting of Commercial, Industrial, Municipal and Irrigation customers.

...

1 4. In discussion with Staff, the Company clarified its request regarding the proposed
2 surcredit. It is requesting a specific surcredit of no more than \$0.08 per therm. The UNS Gas
3 position is that, while \$0.08 is the correct level of surcredit to pay down the over-collection, a
4 \$0.06 or \$0.07 surcredit would also be just and reasonable.

5 5. The Company has also requested that the surcredit be approved on an expedited
6 basis. This would allow its customers to begin receiving the surcredit during the winter heating
7 season, when therm-usage is at its highest.

8 The UNS Gas PGA Mechanism

9 6. The Company recovers the cost of the gas, including its transportation costs,
10 through a Purchased Gas Adjustor ("PGA") rate. Currently, the UNS Gas PGA rate is calculated
11 based on a twelve-month rolling average, with a \$0.15 per therm annual bandwidth. The rolling
12 average and bandwidth are designed to reduce the volatility of gas costs passed on to customers.
13 The rolling average produces a more predictable and consistent PGA rate, while the bandwidth
14 provides another brake on volatility by limiting changes (increases or decreases) to no more than
15 \$0.15 per therm, over a year's time. These features of the PGA mechanism limit rate shocks to
16 customers.

17 7. Like other gas utilities, while UNS Gas is not allowed to make a profit on the cost
18 of the natural gas it provides, it is permitted to recover the cost of that gas. Differences between
19 the rolling average cost of gas and the actual cost of natural gas are tracked and recorded in the
20 PGA bank balance, so that under-collections can be recovered by the Company and over-
21 collections can be returned to ratepayers. A \$10 million threshold for over-collections ensures that
22 over-collections will be returned to ratepayers once this upper limit is reached.

23 Surcredit Options

24 8. Without the surcredit, the Company's projections indicate that its PGA bank
25 balance will exceed the \$10 million threshold for over-collection in October 2009, and remain
26 above the threshold through November 2010.

27 9. Staff's analysis indicates that a surcredit is required to pay down the UNS Gas over-
28 collection and would be in the public interest. In order to set an appropriate surcredit level, the

1 advantages of paying down the over-collection in a timely fashion should be weighed against the
2 possibility of contributing to later under-collections that may be burdensome to resolve. (When
3 the Company is under-recovering for its cost of natural gas, a surcredit can increase an under-
4 collected bank balance, making it more likely that a surcharge, or additional per-therm charge,
5 would become necessary.) Several scenarios are discussed below.

6 10. Scenario 1: a surcharge of \$0.07 per therm or less would result in a larger over-
7 collected balance at the end of 12 months and require slightly more time for the bank balance to
8 reach zero. Staff believes that a higher surcharge would more efficiently pay down the over-
9 collection, while still being unlikely to result in a burdensome under-collection in the period
10 following the end of the surcredit.

11 11. Under Scenario 1, customer bills would be reduced by an estimated average of
12 \$5.12 during the five highest usage (winter) months and an average of \$1.12 during the five lowest
13 usage (summer) months.

14 12. Scenario 2: a surcharge of \$0.08 per therm, as recommended by the Company,
15 would mean that an over-collection of \$3.2 million would remain at the end of 12 months, in
16 October 2010. However, significant under-collections in November and December 2010 would
17 eliminate the over-collected bank balance over the next two months, even without a surcredit in
18 place. As a result, the PGA bank balance would be modestly (\$354,651) under-collected by the
19 end of 2010. The Company projects that this under-collected balance would grow and remain in
20 the \$4 to \$5 million range (exceeding \$5 million for two months) through at least December 2012.
21 Based on these projections, UNS Gas indicated to Staff that the Company is unlikely to file for a
22 surcharge to resolve this level of under-collection.

23 13. Under Scenario 2, customer bills would be reduced by an estimated average of
24 \$5.85 during the five highest usage (winter) months and an average of \$1.28 during the five lowest
25 usage (summer) months.

26 14. Scenario 3: a surcharge of \$0.09 per therm for 12 months would also eliminate the
27 bank balance by the end of 2011, but the December under-collected balance would be higher at
28 \$1,481,695. With a \$0.09 surcredit, under-collected balances projected for 2011 and 2012 would

1 reach \$5.6 million by April 2011, remaining above \$5 million, and going as high as \$6.4 million,
2 during the projected period ending in December 2012. Given the volatility of natural gas prices,
3 this scenario increases the likelihood of developing an excessive under-collected bank balance.

4 15. Under Scenario 3, customer bills would be reduced by an estimated average of
5 \$6.58 during the five highest usage (winter) months and an average of \$1.44 during the five lowest
6 usage (summer) months.

7 16. Scenario 4: the final surcharge is a sculpted surcharge that begins at \$0.10 per
8 therm during high usage months, then declines by stages to \$0.01 over 13 months, decreasing to an
9 over-collected bank balance of \$1,903,955 by November 2011. In this scenario, the over-collected
10 bank balance would be eliminated in the next month, shifting to a \$518,441 under-collection by
11 December 2010. With this sculpted surcredit, under-collected balances projected for 2011 and
12 2012 would reach \$4.6 million by April 2011, remaining below \$5 million for all but three months
13 during the projected period ending in December 2012. This approach to designing the surcredit
14 would decrease bills during high usage months more than alternate scenarios, but provide smaller
15 decreases during low usage months.

16 17. Under Scenario 4, customer bills would be reduced by an estimated average of
17 \$6.54 during the five highest usage (winter) months and an average of \$0.65 during the five lowest
18 usage (summer) months.

19 18. Scenario 2, a surcredit of \$0.08 per therm, provides a reasonable balance between
20 repaying ratepayers in a timely fashion and setting the surcredit at a level that is unlikely to
21 contribute to an excessive under-collection. Staff has recommended that the surcredit be set at
22 \$0.08 per therm. Because the price of natural gas can vary dramatically over a short period of
23 time, possibly taking the bank balance to zero sooner than expected, Staff has also recommended
24 that the period of the surcredit be set at 12 months, or until the bank balance reaches zero,
25 whichever occurs first.

26 CONCLUSIONS OF LAW

27 1. UNS Gas is an Arizona public service corporation within the meaning of Article
28 XV, Section 2, of the Arizona Constitution.

1 SERVICE LIST FOR: UNS Gas, Inc.
2 DOCKET NO. G-04204A-09-0459

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17 Ms. Janice M. Alward
18 Chief Counsel, Legal Division
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EXHIBIT 1

Projected Purchased Gas Adjustor Credit Per Therm Each Month

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
0 surcredit	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Scenario 1	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.07	\$0.00	\$0.00
Scenario 2	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08	\$0.08	\$0.00	\$0.00
Scenario 3	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.09	\$0.00	\$0.00
Scenario 4	\$0.10	\$0.10	\$0.10	\$0.08	\$0.08	\$0.08	\$0.06	\$0.06	\$0.06	\$0.04	\$0.03	\$0.02	\$0.01	\$0.00

Projected Purchased Gas Adjustor Bank Balance at the End of Each Month

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
0 surcredit	\$ (11,591,752)	\$ (12,773,533)	\$ (13,398,952)	\$ (13,681,562)	\$ (14,306,927)	\$ (14,205,945)	\$ (14,167,746)	\$ (13,848,957)	\$ (13,450,224)	\$ (13,043,588)	\$ (12,689,133)	\$ (12,220,515)	\$ (11,058,957)	\$ (8,536,610)
Scenario 1	\$ (10,786,984)	\$ (10,675,470)	\$ (9,984,964)	\$ (9,042,119)	\$ (8,726,047)	\$ (8,086,664)	\$ (7,719,298)	\$ (7,141,813)	\$ (6,515,378)	\$ (5,877,362)	\$ (5,277,001)	\$ (4,355,622)	\$ (3,193,245)	\$ (771,235)
Scenario 2	\$ (10,674,303)	\$ (10,375,707)	\$ (9,497,109)	\$ (8,379,032)	\$ (7,928,242)	\$ (7,211,871)	\$ (6,796,936)	\$ (6,182,223)	\$ (5,522,930)	\$ (4,851,519)	\$ (4,215,678)	\$ (3,229,255)	\$ (2,067,696)	\$ 354,651
Scenario 3	\$ (10,559,622)	\$ (10,075,944)	\$ (9,009,255)	\$ (7,715,945)	\$ (7,130,437)	\$ (6,336,678)	\$ (5,874,613)	\$ (5,222,633)	\$ (4,530,482)	\$ (3,825,677)	\$ (3,154,354)	\$ (2,102,887)	\$ (940,890)	\$ 1,481,885
Scenario 4	\$ (10,444,941)	\$ (9,776,182)	\$ (8,521,400)	\$ (7,403,030)	\$ (6,951,947)	\$ (6,235,083)	\$ (5,914,189)	\$ (5,373,192)	\$ (4,778,797)	\$ (4,239,550)	\$ (3,779,391)	\$ (3,181,192)	\$ (1,903,955)	\$ 518,441

Note: Numbers in parentheses denote over-collected PGA bank balances; number not in parentheses represent under-collected bank balances.

Projected Bill Impacts (decreases)

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
Res. Usage	32	66	108	75	62	54	27	16	15	13	14	22	32	88
0 surcredit	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Scenario 1	\$2.21	\$4.63	\$7.54	\$5.27	\$4.37	\$3.77	\$1.89	\$1.13	\$1.04	\$0.82	\$0.97	\$1.54	\$0.00	\$0.00
Scenario 2	\$2.53	\$5.29	\$8.62	\$6.03	\$4.98	\$4.31	\$2.16	\$1.30	\$1.19	\$1.06	\$1.11	\$1.76	\$0.00	\$0.00
Scenario 3	\$2.85	\$5.95	\$9.89	\$6.78	\$5.62	\$4.85	\$2.43	\$1.46	\$1.34	\$1.19	\$1.25	\$1.98	\$0.00	\$0.00
Scenario 4	\$3.16	\$6.61	\$10.77	\$6.03	\$4.99	\$4.31	\$1.62	\$0.97	\$0.90	\$0.53	\$0.42	\$0.44	\$0.32	\$0.00

Projected Bill Impacts (totals, monthly, delivery charge and PGA rate)

	Nov-09	Dec-09	Jan-10	Feb-10	Mar-10	Apr-10	May-10	Jun-10	Jul-10	Aug-10	Sep-10	Oct-10	Nov-10	Dec-10
0 surcredit	42.78	78.86	122.71	86.67	72.30	65.57	35.76	24.57	23.41	21.77	22.52	30.76	40.72	76.17
Scenario 1	40.56	75.23	115.17	81.40	67.93	59.80	33.87	23.43	22.36	20.85	21.55	29.22	40.72	76.17
Scenario 2	40.25	74.57	114.09	80.85	67.30	59.26	33.60	23.27	22.21	20.72	21.41	29.00	40.72	76.17
Scenario 3	39.93	73.91	113.01	79.89	66.68	58.72	33.33	23.11	22.06	20.58	21.27	28.79	40.72	76.17
Scenario 4	39.61	73.25	111.94	80.65	67.30	58.26	34.14	23.59	22.51	21.24	22.10	30.32	40.40	76.17