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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. G-04204A-03-0634
UNSGAS, INC. FOR CONTINUATION OF)
THE NEGOTIATED SALES PROGRAM) **NOTICE OF COMPLIANCE**

UNSGas, Inc. (“UNSGas”) hereby submits its Negotiated Sales Program Report in compliance with Decision No. 67942 (June 21, 2005). Attachments A, B, and C contain confidential information and are being submitted to Commission Staff directly.

RESPECTFULLY SUBMITTED this 29th day of December 2010.

UNSGas, Inc.

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Original and 13 copies of the foregoing filed this 29th day of December 2010 with:

Docket Control
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Phoenix, Arizona 85007

Copy of the foregoing hand-delivered/mailed this 29th day of December 2010 to:

Compliance Section, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

By: Geneva Byrne

Negotiated Sales Program (“NSP”) Report December 1, 2009 – November 30, 2010

Introduction

UNS Gas, Inc. (“UNS”) filed for Arizona Corporation Commission (“Commission”) approval on December 29, 2004, to continue its Negotiated Sales Program (“NSP” or “Program”) beyond June 30, 2005 in compliance with Decision No. 66616 (December 9, 2003). UNS asked to continue the NSP in its current form until December 31, 2005. On June 21, 2005, the Commission approved, in Decision No. 67942, an extension of the NSP beyond June 30, 2005, and ordered that an updated report be filed on or before December 31, 2005, addressing whether the NSP should be continued in its current or adjusted form. In compliance with Decision No. 67942 UNS filed a report on December 29, 2005, recommending that the Program be continued in its current form.

UNS is filing this updated NSP Report which includes the identification of costs and benefits to core customers and to UNS from December 1, 2009 through November 30, 2010. Core customers are those customers that UNS has an obligation to serve and receive bundled gas service.

The Negotiated Sales Program

The NSP service was initially approved by the Commission in November 1995, Decision No. 59399. Under the NSP, UNS¹ provides a negotiated sales service to its transportation customers. UNS utilizes transportation capacity, if not needed for meeting core customers’ demand, under UNS’ upstream pipeline transportation service agreements to make deliveries of gas to the city gates for NSP sales. Core customers share in the sales margin from NSP sales through a credit to the Purchased Gas Adjustor Bank (“PGA Bank”); the margin is split between UNS and its core customers on a 50/50 basis. UNS maintains separate accounts for the NSP to record revenues, gas costs, and transportation expense.

There are three primary purposes of the NSP: to provide a competitive alternative to current and future transportation customers in procuring gas supplies; to provide for a reduction in gas costs to core customers through a sharing of margins realized from NSP sales; and to provide UNS an opportunity to improve its earnings.

I. Number of NSP Customers

At the beginning of December 2009, there were eighteen NSP customers; as of November 30, 2010, there are nineteen NSP customers. Attachment A² is a list of the NSP customers as of November 30, 2010.

¹ Citizens Utilities Company, Northern Arizona Gas Division, was acquired by UniSource Energy Corporation (UniSource) in August 2003. The UniSource gas affiliate is UNS Gas, Inc.

² All attachments contain proprietary information and are being filed separately pursuant to a Confidentiality Agreement with Staff.

II. Gas Sales to NSP Customers

1,983.998 dekatherms ("Dth") of gas were sold to NSP customers from December 1, 2009 through November 30, 2010.

III. Costs & Revenue for December 1, 2009 through November 30, 2010

Attachment B shows the costs and revenues for the NSP.

IV. Management of Contract Rights on Interstate Pipeline Systems

Throughout the year, UNS carefully manages the utilization of its transportation capacity to insure the delivery of natural gas supplies to the city gates in meeting core customer demands. To the extent that the pipeline capacity available under its upstream pipeline transportation service agreements is not needed to meet core customer demand, UNS utilizes this capacity to transport gas for NSP customer requirements. When this pipeline transportation capacity is needed to serve core customer demand, UNS uses alternative transportation service for NSP customers. The alternative transportation service costs are borne by the NSP customers as part of the gas supply cost for NSP sales. For the time period of December 1, 2009 through November 30, 2010, UNS has not had to acquire additional capacity on the interstate pipeline systems to transport gas for its NSP customers.

UNS continues to monitor and analyze the effects of El Paso Natural Gas Company's ("EPNG") services and imbalance management and penalty tariff provisions. Going forward UNS will continue to evaluate each NSP customer on a case by case basis to insure that the program is still viable economically and insure that any upstream pipeline penalty charges, in the event any are incurred, will be appropriately charged to any transportation customer to the extent their action or inaction contributed to such penalty.

Attachment C provides information regarding the peak days for the months of December 2009 through November 2010, UNS' contract capacity rights on the interstate pipelines, total capacity used, capacity used by core customers, and capacity used by NSP customers on the peak day.

V. Negotiated Sales Program Recommendation

UNS believes that the NSP program has been successful to date. The NSP provides benefits to the core customers in the form of lower gas cost through the credits to the PGA Bank for the core customers' share of the total NSP margin and provides benefits to the NSP customers in the form of competitive gas supply services.

For these reasons, UNS is recommending that the NSP be continued in its current form.

ATTACHMENT A
LIST OF NSP CUSTOMERS AS OF NOVEMBER 30, 2010

Redacted

ATTACHMENT B
COSTS AND REVENUES FOR NSP PROGRAM
December 1, 2009 – November 30, 2010

Redacted

Attachment C

Redacted