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OPEN MEETING

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MEMORANDUM RECEIVED

TO THE COMMISSION ^{Arizona Corporation Commission} DOCKETED 119 AUG 17 A 9 24

FROM Utilities Division AUG 17 1999 AZ CORP COMMISSION DOCUMENT CONTROL

DATE August 16, 1999

RE IN THE MATTER OF THE APPLICATION OF CITIZENS UTILITIES COMPANY TO AMORTIZE THE PURCHASED GAS ADJUSTOR BANK BALANCE (DOCKET NO G-00000C-98-0568)

LOCKED BY [Signature]

On April 23, 1999, Citizens Utilities Company (Citizens) filed for a suspension of the implementation of the new 12-month rolling average PGA mechanism in its Santa Cruz Division. Citizens requested that implementation be suspended until the Commission resolves certain accounting issues related to the current Santa Cruz PGA mechanism. On May 13, 1999, the Commission suspended implementation of the new PGA mechanism until the issues are addressed (Decision No 61701). The new 12-month rolling average PGA mechanism is being implemented to address issues including natural gas price volatility, gas cost recovery flexibility, and uniformity between PGA mechanisms.

On July 15, 1999, Citizens made a filing to amortize the existing PGA bank balance and the correction for accounting errors, as well as to implement the new PGA mechanism. As of April 30, 1999, the PGA bank balance was over-collected by \$12,635, not accounting for two errors that have been discovered which impact the PGA bank balance.

First, Citizens had been using the number of therms purchased, rather than the number of therms sold, to calculate the amount of money that has been recovered each month through the base cost of gas. The base cost of gas is contained in the tariffed rates and credited to the PGA bank balance. Because Citizens purchases more therms than it sells, this error overstated the amount of money coming into the PGA bank balance account each month. This error continued until the end of December 1996, resulting in a total overstatement of \$1,138,769 in the PGA bank balance, due to this error.

The second error involves the base cost of gas that is included in Citizens' tariffed rates. In the Santa Cruz Gas Division's last rate proceeding, the Commission required that Citizens express its base cost of gas on a per therm basis, rather than on the then existing cost of \$0.35168 per 100 cubic feet (Decision No 55535, April 23, 1987). The base cost of gas should have been set at \$0.38840 per therm as a result of the conversion from cubic feet to therms. However, the base cost of gas included in Citizens' filed tariffs was erroneously set at \$0.33804 per therm. This error did not impact Citizens' tariffed rates that went into effect as a result of Decision No. 55535. However, the error did result in \$0.05036 per therm sold being accounted for as general revenue, rather than being credited to the PGA bank balance. This error continued until the end of April 1999, resulting in a

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total understatement of the PGA bank balance of \$3,051,183, due to this error. The combination of the two errors resulted in a total understatement of the PGA bank balance of \$1,912,415. Therefore, the corrected bank balance as of April 30, 1999, reflects an overcollection of \$1,925,050.

In recent months Staff, Citizens, and the Residential Utility Consumer Office (RUCO) have held discussions regarding the issues surrounding the Santa Cruz PGA bank balance. As a result of these discussions, Staff, Citizens, and RUCO have reached a settlement agreement (as Exhibit A to the proposed Order). The settlement agreement contains a number of provisions to address the Santa Cruz PGA bank balance.

A refund, in the form of a check, will be made to each customer based upon customer consumption from September 1998 to August 1999. The settlement agreement provides for an interest component to be applied to the cumulative monthly error in the PGA bank balance, for the period of August 1987 through August 1999. The interest rate would be six percent annually, compounded annually, resulting in a total of \$720,854 in interest over the August 1987 to August 1999 period. The uncorrected PGA bank balance overcollection of \$12,635 as of April 30, 1999, will be included in the refund. To cover the additional cost of administering the refund, Citizens will be allowed an administration fee of one percent of the total refund, or \$26,459. After subtracting Citizens' administrative fee, the resulting total refund amount is \$2,619,445.

Based on the number of customers in the Santa Cruz Division and recent consumption patterns, a typical residential customer would get a refund of approximately \$280 and a typical commercial customer would get a refund of approximately \$1,400. Individual refunds will vary depending upon the number of therms consumed from September 1998 to August 1999. It will take approximately eight weeks for Citizens to distribute the refund checks. Refund checks not cashed within six months of issuance will be credited to the new PGA bank balance. No funds refunded by Citizens as a result of this proceeding may be recovered by Citizens in future rate proceedings.

The settlement agreement indicates that the new tariff pages, implementing the new PGA mechanism, will be effective for September billings. However, after further discussion with Citizens and RUCO, it appears that it may be difficult for Citizens to implement the new mechanism for September billings and that implementation in October would be preferable. Implementing the new PGA mechanism in October would also provide Citizens with time to notify its customers of the changes before they take effect. The new 12-month rolling average PGA mechanism should be implemented beginning with October billings. Any over or undercollections in Citizens PGA from May 1999 through September 1999 will be rolled into the new PGA bank balance. Citizens will file its new monthly PGA rate with the Commission each month by the beginning of the month to which the rate is applicable. Citizens will send a notice to all customers, informing them of the refund and the new PGA mechanism, in the customers' September billings.

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Staff believes the proposed settlement agreement is a fair and reasonable resolution to issues surrounding the disposition of the overcollection in the Santa Cruz Division's PGA bank balance. Staff recommends approval of the settlement agreement. Staff further recommends that the new PGA mechanism be implemented beginning with Citizens' October billings.

Ray T. Williamson

Ray T. Williamson
Acting Director
Utilities Division

RTW BGG lhhPB

ORIGINATOR: Robert Gray

1 6. First, Citizens had been using the number of therms purchased, rather than the number
2 of therms sold, to calculate the amount of money that has been recovered each month through the base
3 cost of gas. The base cost of gas is contained in the tariffed rates and credited to the PGA bank
4 balance. Because Citizens purchases more therms than it sells, this error overstated the amount of
5 money coming into the PGA bank balance account each month. This error continued until the end of
6 December 1996, resulting in a total overstatement of \$1,138,769 in the PGA bank balance, due to this
7 error.

8 7. The second error involves the base cost of gas that is included in Citizens' tariffed rates.
9 In the Santa Cruz Gas Division's last rate proceeding, the Commission required that Citizens express
10 its base cost of gas on a per therm basis, rather than on the then existing cost of \$0.35168 per 100 cubic
11 feet (Decision No. 55535, April 23, 1987). The base cost of gas should have been set at \$0.38840 per
12 therm as a result of the conversion from cubic feet to therms. However, the base cost of gas included
13 in Citizens' filed tariffs was erroneously set at \$0.33804 per therm. This error did not impact Citizens'
14 tariffed rates that went into effect as a result of Decision No. 55535.

15 8. However, the error did result in \$0.05036 per therm sold being accounted for as general
16 revenue, rather than being credited to the PGA bank balance. This error continued until the end of
17 April 1999, resulting in a total understatement of the PGA bank balance of \$3,051,183, due to this
18 error. The combination of the two errors resulted in a total understatement of the PGA bank balance
19 of \$1,912,415. Therefore, the corrected bank balance as of April 30, 1999 reflects an overcollection
20 of \$1,925,050.

21 9. In recent months Staff, Citizens, and the Residential Utility Consumer Office (RUCO)
22 have held discussions regarding the issues surrounding the Santa Cruz PGA bank balance. As a result
23 of these discussions, Staff, Citizens, and RUCO have reached a settlement agreement (see the attached
24 Exhibit A). The settlement agreement contains a number of provisions to address the Santa Cruz PGA
25 bank balance.

26 10. A refund, in the form of a check, will be made to each customer, based upon customer
27 consumption from September 1998 to August 1999.

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1 11. The settlement agreement provides for an interest component to be applied to the
2 cumulative monthly error in the PGA bank balance, for the period of August 1987 through August
3 1999. The interest rate would be six percent annually, compounded annually, resulting in a total of
4 \$720,854 in interest over the August 1987 to August 1999 period. The uncorrected PGA bank balance
5 overcollection of \$12,635 as of April 30, 1999, will be included in the refund.

6 12. To cover the additional cost of administering the refund, Citizens will be allowed an
7 administration fee of one percent of the total refund, or \$26,459. After subtracting Citizens'
8 administrative fee, the resulting total refund amount is \$2,619,445.

9 13. Based on the number of customers in the Santa Cruz Division and recent consumption
10 patterns, a typical residential customer would get a refund of approximately \$280 and a typical
11 commercial customer would get a refund of approximately \$1,400. Individual refunds will vary
12 depending upon the number of therms consumed from September 1998 to August 1999.

13 14. It will take approximately eight weeks for Citizens to distribute the refund checks.
14 Refund checks not cashed within six months of issuance will be credited to the new PGA bank
15 balance. No funds refunded by Citizens as a result of this proceeding may be recovered by Citizens
16 in future rate proceedings.

17 15. The settlement agreement indicates that the new tariff pages, implementing the new PGA
18 mechanism, will be effective for September billings. However, after further discussion with Citizens
19 and RUCO, it appears that it may be difficult for Citizens to implement the new mechanism for
20 September billings and that implementation in October would be preferable. Implementing the new
21 PGA mechanism in October would also provide Citizens with time to notify its customers of the
22 changes before they take effect. The new 12-month rolling average PGA mechanism should be
23 implemented beginning with October billings.

24 16. Any over or undercollections in Citizens PGA from May 1999 through September 1999
25 will be rolled into the new PGA bank balance.

26 17. Citizens will file its new monthly PGA rate with the Commission each month by the
27 beginning of the month to which the rate is applicable.

28 ...

1 18. Citizens will send a notice to all customers, informing them of the refund and the new
2 PGA mechanism, in the customers' September billings.

3 19. Staff believes the proposed settlement agreement is a fair and reasonable resolution to
4 issues surrounding the disposition of the overcollection in the Santa Cruz Division's PGA bank
5 balance. Staff has recommended approval of the settlement agreement.

6 20. Staff has further recommended that the new PGA mechanism be implemented beginning
7 with Citizens' October billings.

8 CONCLUSIONS OF LAW

9 1. Citizens 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 Citizens and over the subject matter of the
12 application.

13 3. The Commission, having reviewed the application, Staff's Memorandum and Exhibit A
14 dated August 16, 1999, concludes that it is in the public interest to approve the filing.

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ORDER

THEREFORE, IT IS ORDERED that the settlement agreement, Exhibit A, is hereby approved and adopted.

IT IS FURTHER ORDERED that the new PGA mechanism be implemented beginning with Citizens' October billings.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary 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 _____, 1999.

BRIAN C. McNEIL
Executive Secretary

DISSENT: _____

RTW:BGG:lh

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **CARL J. KUNASEK**
 3 **COMMISSIONER-CHAIRMAN**

4 **JIM IRVIN**
 5 **COMMISSIONER**

6 **WILLIAM A. MUNDELL**
 7 **COMMISSIONER**

8 **DOCKET NO. G-00000C-98-0568**

9 **IN THE MATTER OF THE APPLICATION**
 10 **OF CITIZENS UTILITIES COMPANY TO**
 11 **AMORTIZE THE PURCHASED GAS**
 12 **ADJUSTER BANK BALANCE**

13 **SETTLEMENT AGREEMENT**
 14 **BETWEEN COMMISSION STAFF,**
 15 **RESIDENTIAL UTILITY**
 16 **CONSUMER OFFICE AND**
 17 **CITIZENS UTILITIES COMPANY**

18 On July 15, 1999, Citizens Utilities Company ("Citizens") filed in this Docket
 19 a calculation that detailed a \$1,912,415 understatement of Citizens' Santa Cruz
 20 Gas Division PGA bank balance. Citizens also filed proposed original tariff sheet
 21 No. 101 and proposed rate schedule N-15. By a filing on July 28, 1999, Citizens
 22 corrected proposed rate schedule N-15. Through these filings, Citizens proposed
 23 to flow back the \$1,912,415 amount to its Santa Cruz gas customers as bill
 24 credits over a 12-month period beginning September 1999.

25 The Arizona Corporation Commission Staff ("Staff") the Residential Utility
 26 Consumer Office ("RUCO"), and Citizens have engaged in settlement discussions
 27 concerning Citizens' July 15 and July 28 filings and now agree as follows
 28 concerning refunds of Citizens' miscalculated PGA bank balance to its Santa Cruz
 29 County gas customers:

1. The refund will include interest at six percent per year, compounded
 annually, on the cumulative monthly error, beginning with the first month of the
 error, August 1987. Attachment A to this Agreement details the calculation of
 cumulative interest, as of the end of August 1999, of \$720,854 and Attachment B
 details the total amount to be refunded. The \$12,635 over-collected balance in
 Citizens' previous PGA bank as of April 30, 1999, is included in the customer
 refund amount shown on Attachment B.

SCGD PGA Computational Errors
Accrual of Interest - 6% Compounded Annually

Month	Error Amount	Cumulative Error	Interest at 6%	Cumulative Interest	Compound Interest
1987 -					
Aug	(3,778)	(3,778)	19	19	
Sept	(6,014)	(9,791)	49	68	
Oct	(1,946)	(11,737)	59	127	
Nov.	65,473	53,735	(269)	(142)	
Dec	39,666	93,402	(467)	(609)	(15)
	<u>93,402</u>				
1988 -					
Jan.	(4,125)	89,277	(448)	(1,071)	
Feb	77,743)	11,534	(58)	(1,128)	
Mar	45,009)	(33,475)	167	(961)	
Apr.	738	(32,737)	184	(797)	
May	(26,119)	(58,857)	294	(503)	
June	(11,816)	(70,672)	353	(150)	
July	(15,116)	(85,788)	429	279	
Aug.	1,473	(84,315)	422	701	
Sep.	(5,246)	(89,560)	448	1,149	
Oct.	23,496	(66,065)	330	1,479	
Nov.	81,832	15,767	(79)	1,400	
Dec	7,268	23,035	(115)	1,285	77
	<u>(70,366)</u>				
1989 -					
Jan	(86,803)	(43,767)	219	1,581	
Feb.	(87,688)	(131,455)	657	2,238	
Mar	(27,959)	(159,414)	797	3,035	
Apr.	(15,300)	(174,714)	874	3,909	
May	(17,780)	(192,494)	962	4,871	
June	(10,568)	(203,062)	1,015	5,887	
July	(2,672)	(205,734)	1,029	6,915	
Aug	8,581	(197,173)	986	7,901	
Sep	(14,471)	(211,643)	1,058	8,959	
Oct	10,942	(200,702)	1,004	9,963	
Nov.	51,328	(149,374)	747	10,710	
Dec.	43,583	(105,791)	529	11,239	674
	<u>(128,826)</u>				
1990 -					
Jan	(17,104)	(122,895)	614	12,527	

1990 : 00000 : 00000

Feb.	(31,137)	(154,032)	770	13,298	
Mar.	(74,677)	(228,709)	1,144	14,441	
Apr.	(82,109)	(310,818)	1,554	15,995	
May	(5,984)	(316,802)	1,584	17,579	
June	5,126	(311,676)	1,558	19,138	
July	26,795	(284,881)	1,424	20,562	
Aug.	(32,070)	(316,952)	1,585	22,147	
Sep.	(47,547)	(364,498)	1,822	23,969	
Oct.	1,968	(362,530)	1,813	25,782	
Nov.	32,666	(329,864)	1,649	27,431	
Dec.	114,804	(215,060)	1,075	28,506	1,710
	<u>(109,270)</u>				
1991 -					
Jan.	36,684	(178,376)	892	31,109	
Feb.	(107,113)	(285,489)	1,427	32,536	
Mar.	5,736	(279,754)	1,399	33,935	
Apr.	(117,895)	(397,649)	1,988	35,923	
May	(33,154)	(430,803)	2,154	38,077	
June	(23,050)	(453,853)	2,269	40,346	
July	(14,319)	(468,172)	2,341	42,687	
Aug.	(3,854)	(472,026)	2,360	45,047	
Sep.	(9,876)	(481,902)	2,410	47,457	
Oct.	17,302	(464,600)	2,323	49,780	
Nov.	88,550	(376,049)	1,880	51,660	
Dec.	(52,977)	(429,027)	2,145	53,805	3,228
	<u>(213,966)</u>				
1992					
Jan.	(155,385)	(584,411)	2,922	59,956	
Feb.	(65,537)	(649,949)	3,250	63,205	
Mar.	49,295	(600,654)	3,003	66,209	
Apr.	105,018	(705,672)	3,528	69,737	
May	(57,575)	(763,247)	3,816	73,553	
June	(16,358)	(779,605)	3,898	77,451	
July	(21,725)	(801,331)	4,007	81,458	
Aug.	17,135	(784,196)	3,921	85,379	
Sep.	29,516	(754,680)	3,773	89,152	
Oct.	12,539	(742,141)	3,711	92,863	
Nov.	78,310	(663,831)	3,319	96,182	
Dec.	35,963	(627,868)	3,139	99,322	5,959
	<u>(198,841)</u>				
1993 -					
Jan.	(27,610)	(655,478)	3,277	108,558	
Feb.	899	(654,579)	3,273	111,831	

1993 - 1996

Mar.	(91,195)	(745,774)	3,729	115,560	
Apr.	(30,455)	(776,229)	3,881	119,441	
May	22,608	(753,621)	3,768	123,209	
June	(11,591)	(765,212)	3,826	127,035	
July	(23,364)	(788,576)	3,943	130,978	
Aug.	(12,640)	(801,216)	4,006	134,984	
Sep.	(7,956)	(809,172)	4,046	139,030	
Oct.	7,953	(801,218)	4,006	143,036	
Nov.	23,748	(777,470)	3,887	146,924	
Dec.	(875)	(778,345)	3,892	150,815	9,049
	<u>(150,477)</u>				
1994 -					
Jan.	150,540	(627,804)	3,139	163,003	
Feb.	8,097	(619,708)	3,099	166,102	
Mar.	(49,283)	(668,990)	3,345	169,447	
Apr.	(84,447)	(753,438)	3,767	173,214	
May	(94,567)	(848,005)	4,240	177,454	
June	(17,817)	(865,822)	4,329	181,783	
July	(22,272)	(888,094)	4,440	186,224	
Aug.	(19,399)	(907,493)	4,537	190,761	
Sep.	(7,357)	(914,851)	4,574	195,335	
Oct.	(17,954)	(932,805)	4,664	199,999	
Nov.	67,642	(865,163)	4,326	204,325	
Dec.	90,227	(774,937)	3,875	208,200	12,492
	<u>3,408</u>				
1995 -					
Jan.	95,768	(679,169)	3,396	224,088	
Feb.	28,365	(650,804)	3,254	227,342	
Mar.	(34,899)	(685,703)	3,429	230,770	
Apr.	(97,711)	(783,414)	3,917	234,68	
May	(92,178)	(875,593)	4,378	239,06	
June	(41,697)	(917,290)	4,586	243,65	
July	(25,703)	(942,993)	4,715	248,36	
Aug.	(14,899)	(957,892)	4,789	253,156	
Sep.	(24,288)	(982,180)	4,911	258,067	
Oct.	30,034	(952,146)	4,761	262,828	
Nov.	150,021	(802,125)	4,011	266,838	
Dec.	42,411	(759,714)	3,799	270,637	16,238
	<u>15,223</u>				
1996 -					
Jan.	(123,064)	(882,777)	4,414	291,289	
Feb.	(56,343)	(939,121)	4,696	295,985	
Mar.	117,043	(822,077)	4,110	300,095	
Apr.	(141,176)	(963,253)	4,816	304,911	

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July	(1,912,415)	9,562	683,567	
Aug.	(1,912,415)	9,562	693,129	27,725
	(143,457)	560,408	720,854	

B

**Citizens Utilities
Santa Cruz Gas Division
Computation of Customer Refund**

0100-61000-0101

Reported PGA Bank at 4/30/00 (over-collected)	12,635
Cumulative Error in PGA Bank	1,912,415
6% Compound Interest from 8/87 - 8/99	<u>720,854</u>
Refund before Administrative Fee	2,645,904
Less - 1% Administrative Fee	<u>(26,459)</u>
Net Refund to be Distributed	<u><u>2,619,445</u></u>