

THE COMMISSION

April 30, 1999

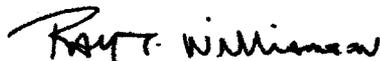
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Components of the total cost of gas include the base cost of gas, the PGA rate, and if applicable, an amortization rate for the bank balance. A phase-in would be necessary if there was a sizable difference between the current total cost of gas and the June 1st total cost of gas. The exact total cost of gas for June 1st will not be known until late May, when Duncan finalizes the most recent gas cost information. However, as part of the April 12th filing, Duncan provided the actual 12-month cost of gas through the end of February 1999. For the purpose of determining whether a phase-in is necessary, the February 1999 12-month cost of gas is expected to be sufficiently close to the June 1st 12-month cost of gas. Duncan's 12-month average cost of gas at the end of February 1999 is \$0.2860 per therm. The table below shows the current total cost of gas and the estimated total cost of gas for June 1st.

	Current Cost of Gas	Estimated Cost of Gas For June 1 st
Base Cost of Gas	\$0.2912 per therm	\$0.2912 per therm
Bank Balance Amortization	0	\$0.06221 per therm
PGA Rate	\$0.05172 per therm	-\$0.0052 per therm
Total Cost of Gas	\$0.34292 per therm	\$0.34821 per therm

The estimated change in the total cost of gas is \$0.00529 per therm. Given this small change, a phase-in is not necessary. After the freezing of the bank balance at the end of February 1999 and the implementation of the new PGA mechanism in June 1999, the LDCs will experience over and/or under-recoveries of gas costs. To account for these over- and under-collections, monthly over- and under-collections incurred by Duncan after the bank balance is frozen at the end of February 1999 would be included in the new bank balance.

Staff believes that the proposed amortization rate of \$0.06221 per therm is reasonable and should be adopted. Staff recommends approval of this filing.



Ray T. Williamson
Acting Director
Utilities Division

RTW:BGG:sjs/JMA

ORIGINATOR: Robert Gray

100-4000-0115

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BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN
Commissioner - Chairman
TONY WEST
Commissioner
CARL J. KUNASEK
Commissioner

**IN THE MATTER OF THE APPLICATION OF)
DUNCAN RURAL SERVICE CORPORATION)
TO AMORTIZE THE PURCHASED GAS)
ADJUSTOR BANK BALANCE)**

DOCKET NO. G-00000C-98-0568
DECISION NO. _____
ORDER

Open Meeting
May 11 and 12, 1999
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Duncan Rural Service Corporation (Duncan) is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. On April 21, 1999, Duncan filed for Commission approval of the amortization of its purchased gas adjustor (PGA) bank balance as of February 28, 1999. This filing by Duncan is in response to the Commission Decision No. 61225 (October 30, 1998), which ordered most Arizona local distribution companies (LDCs) to implement a new 12-month rolling average PGA mechanism on June 1, 1999.
3. The general framework of the new PGA mechanism came out of a series of meetings of the Purchased Gas Adjustor Design working group in the summer of 1998.
4. The new 12-month rolling average PGA mechanism was implemented to address issues including natural gas price volatility, gas cost recovery flexibility, and uniformity between PGA mechanisms.
5. After the Commission issued Decision No. 61225, Staff, the LDCs, and other interested parties met several times to discuss various implementation issues.

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1 6. Decision No. 61225 contemplated the freezing of the bank balance accrued under the
 2 existing PGA mechanism, and the amortization of the under- or over-collection reflected in the
 3 existing bank balance. This would enable the new PGA mechanism to begin with a bank balance of
 4 zero. Zeroing out the bank balance is necessary because interest will be applied to the new bank
 5 balance, but not the frozen bank balance.

6 7. As of February 28, 1999, Duncan's bank balance is undercollected by \$40,616.52.

7 8. In its filing, Duncan proposes to amortize this bank balance over a 12-month period,
 8 resulting in an amortization rate of \$0.06221 per therm, based upon annual sales of 652,860 therms.
 9 This amortization rate would be applied to customer bills until the first month in which the frozen
 10 bank balance is fully amortized, at which time the amortization rate would be discontinued.

11 9. Any money recovered beyond that required to amortize the frozen bank balance would
 12 be credited to the new bank balance.

13 10. Given the changes being made in the PGA mechanism, a phase-in could be needed to
 14 transition from Duncan's currently effective PGA rate to the new rolling average PGA rate. To
 15 determine whether a phase-in is needed, it is necessary to compare the total cost of gas currently
 16 reflected in Duncan's rates with the total cost of gas to be reflected on customer bills beginning on June
 17 1, 1999. Components of the total cost of gas include the base cost of gas, the PGA rate, and if
 18 applicable, an amortization rate for the bank balance.

19 11. A phase-in would be necessary if there was a sizable difference between the current total
 20 cost of gas and the June 1st total cost of gas.

21 12. The exact total cost of gas for June 1st will not be known until late May, when Duncan
 22 finalizes the most recent gas cost information. However, as part of the April 12th filing, Duncan
 23 provided the actual 12-month cost of gas through the end of February 1999.

24 13. For the purpose of determining whether a phase-in is necessary, the February 1999 12-
 25 month cost of gas is expected to be sufficiently close to the June 1st 12-month cost of gas. Duncan's
 26 12-month average cost of gas at the end of February 1999 is \$0.2860 per therm.

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1 14. The table below shows the current total cost of gas and the estimated total cost of gas for
2 June 1st.

	Current Cost of Gas	Estimated Cost of Gas For June 1 st
4 Base Cost of Gas	\$0.2912 per therm	\$0.2912 per therm
5 Bank Balance Amortization	0	\$0.06221 per therm
6 PGA Rate	\$0.05172 per therm	-\$0.0052 per therm
Total Cost of Gas	\$0.34292 per therm	\$0.34821 per therm

7
8 15. The estimated change in the total cost of gas is \$0.00529 per therm. Given this small
9 change, a phase-in is not necessary.

10 16. After the freezing of the bank balance at the end of February 1999 and the
11 implementation of the new PGA mechanism in June 1999, the LDCs will experience over and/or
12 under-recoveries of gas costs. To account for these over and under-collections, monthly over and
13 under-collections incurred by Duncan after the bank balance is frozen at the end of February 1999
14 would be included in the new bank balance.

15 17. Staff believes that the proposed amortization rate of \$0.06221 per therm is reasonable
16 and should be adopted.

17 18. Staff has recommended approval of this filing.

18 CONCLUSIONS OF LAW

19 1. Duncan is an Arizona public service corporation within the meaning of Article XV,
20 Section 2, of the Arizona Constitution.

21 2. The Commission has jurisdiction over Duncan and over the subject matter of the
22 application.

23 3. The Commission, having reviewed the application and Staff's Memorandum dated
24 April 30, 1999, concludes that it is in the public interest to approve the filing.

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ORDER

THEREFORE, IT IS ORDERED that the filing be and hereby is approved.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

COMMISSIONER - 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
Acting Executive Secretary

DISSENT: _____

RTW:BGG:sjs/JMA