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OPEN MEETING ITEM

MEMORANDUM

Arizona Corporation Commission AZ CORP COMMISSION

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TO: THE COMMISSION

FROM: Utilities Division

DATE: April 30, 1999

DOCKETED BY	<i>[Signature]</i>	DOCUMENT CONTROL
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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)

On April 23, 1999, Citizens Utilities Company (Citizens) filed for Commission approval of the amortization of its purchased gas adjustor (PGA) bank balance for its Northern Arizona Gas Division, as of February 28, 1999. Citizens has further filed for a suspension of the implementation of the new 12-month rolling average PGA mechanism in its Santa Cruz Division until the Commission resolves certain accounting issues which have arisen related to the current Santa Cruz PGA mechanism. On April 28, 1999, Citizens filed a revised filing to correct a numerical error in the original filing. The filing by Citizens 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. 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. 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.

As of February 28, 1999, the Santa Cruz Division's reported PGA bank balance was undercollected by \$283,220. If the new PGA mechanism was implemented at this point, a surcharge would be applied to gas bills in the Santa Cruz Division to amortize the undercollected PGA bank balance. The accounting issues which have arisen in the Santa Cruz Division could lead to a significant adjustment to the size of the bank balance, whether it is undercollected or overcollected. Citizens' proposal to suspend the implementation of the new PGA mechanism in the Santa Cruz Division would allow the accounting issues to be addressed before any charge or credit is created to address the bank balance.

After the Commission issued Decision No. 61225, Staff, the LDCs, and other interested parties met several times to discuss various implementation issues. Decision No. 61225 contemplated the freezing of the bank balance accrued under the existing PGA mechanism, and the amortization of the under- or over-collection reflected in the existing bank balance. This would enable the new PGA mechanism to begin with a bank balance of zero. Zeroing out the bank balance is necessary because interest will be applied to the new bank balance, but not the frozen bank balance.

THE COMMISSION

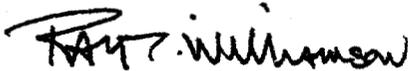
April 30, 1999

Page 2

As of February 28, 1999, the Northern Arizona Gas Division's bank balance is overcollected by \$4,040,762. In its filing, Citizens proposes to refund this bank balance over a 12-month period, resulting in a refund rate of \$0.0411 per therm, based upon projected annual sales of 98,417,106. This refund rate would be applied to customer bills until the first month in which the frozen bank balance is fully refunded, at which time the refund rate would be discontinued. Any money recovered beyond that required to refund the frozen bank balance would be credited to the new bank balance.

Unlike other Arizona LDCs, Citizens already uses a 12-month rolling average calculation, so no phase-in needs to be considered. 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 Citizens 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 \$0.0411 per therm for the Northern Arizona Gas Division is reasonable and should be adopted. Staff recommends approval of this filing. Staff further recommends that the implementation of the new PGA mechanism in the Santa Cruz Division be suspended until such time as the matters related to the PGA accounting are settled. When these matters are settled, Citizens should file with the Commission to implement the new PGA mechanism.



Ray T. Williamson

Acting Director

Utilities Division

RTW:BGG sjs/UMA

ORIGINATOR Robert Gray

PHOENIX, ARIZONA

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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)
CITIZENS UTILITIES COMPANY TO)
AMORTIZE THE PURCHASED GAS)
ADJUSTOR BANK BALANCE)
)**

DOCKET NO. G-00000C-99-0568
DECISION NO. _____
ORDER

Open Meeting
May 11, and 12, 1999
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Citizens Utilities Company (Citizens) is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.
2. On April 23, 1999, Citizens filed for Commission approval of the amortization of its purchased gas adjust or (PGA) bank balance for its Northern Arizona Gas Division, as of February 28, 1999.
3. Citizens has further filed for a suspension of the implementation of the new 12-month rolling average PGA mechanism in its Santa Cruz Division until the Commission resolves certain accounting issues which have arisen related to the current Santa Cruz PGA mechanism.
4. On April 28, 1999, Citizens filed a revised filing to correct a numerical error in the original filing.
5. The filing by Citizens 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.
6. 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.

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1 7. The new 12-month rolling average PGA mechanism was implemented to address issues
2 including natural gas price volatility, gas cost recovery flexibility, and uniformity between PGA
3 mechanisms.

4 8. As of February 28, 1999, the Santa Cruz Division's reported PGA bank balance was
5 undercollected by \$283,220.

6 9. If the new PGA mechanism was implemented at this point, a surcharge would be applied
7 to gas bills in the Santa Cruz Division to amortize the undercollected PGA bank balance. The
8 accounting issues which have arisen in the Santa Cruz Division could lead to a significant adjustment
9 to the size of the bank balance, whether it is undercollected or overcollected.

10 10. Citizens' proposal to suspend the implementation of the new PGA mechanism in the
11 Santa Cruz Division would allow the accounting issues to be addressed before any charge or credit is
12 created to address the bank balance.

13 11. After the Commission issued Decision No. 61225, Staff, the LDCs, and other interested
14 parties met several times to discuss various implementation issues.

15 12. Decision No. 61225 contemplated the freezing of the bank balance accrued under the
16 existing PGA mechanism, and the amortization of the under- or over-collection reflected in the
17 existing bank balance. This would enable the new PGA mechanism to begin with a bank balance of
18 zero. Zeroing out the bank balance is necessary because interest will be applied to the new bank
19 balance, but not the frozen bank balance.

20 13. As of February 28, 1999, the Northern Arizona Gas Division's bank balance is
21 overcollected by \$4,040,762.

22 14. In its filing, Citizens proposes to refund this bank balance over a 12-month period,
23 resulting in a refund rate of \$0.0411 per therm, based upon projected annual sales of 98,417,106. This
24 refund rate would be applied to customer bills until the first month in which the frozen bank balance
25 is fully refunded, at which time the refund rate would be discontinued.

26 15. Any money recovered beyond that required to refund the frozen bank balance would be
27 credited to the new bank balance.

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1 16. Unlike other Arizona LDCs, Citizens already uses a 12-month rolling average
2 calculation, so no phase-in needs to be considered.

3 17. After the freezing of the bank balance at the end of February 1999 and the
4 implementation of the new PGA mechanism in June 1999, the LDCs will experience over- and/or
5 under-recoveries of gas costs. To account for these over- and under-collections, monthly over- and
6 under-collections incurred by Citizens after the bank balance is frozen at the end of February 1999
7 would be included in the new bank balance.

8 18. Staff believes that the proposed amortization rate of \$0.0411 per therm for the Northern
9 Arizona Gas Division is reasonable and should be adopted.

10 19. Staff has recommended approval of this filing.

11 20. Staff has further recommended that the implementation of the new PGA mechanism in
12 the Santa Cruz Division be suspended until such time as the matters related to the PGA accounting are
13 settled. When these matters are settled, Citizens should file with the Commission to implement the
14 new PGA mechanism.

15 CONCLUSIONS OF LAW

16 1. Citizens is an Arizona public service corporation within the meaning of Article XV,
17 Section 2, of the Arizona Constitution.

18 2. The Commission has jurisdiction over Citizens and over the subject matter of the
19 application.

20 3. The Commission, having reviewed the application and Staff's Memorandum dated
21 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 the implementation of the new PGA mechanism in the Santa Cruz Division be suspended until such time as the matters related to the PGA accounting are settled.

IT IS FURTHER ORDERED that Citizens file a proposal with the Commission to implement the new PGA mechanism when these matters are settled.

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. McNIEL, 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. McNIEL
Executive Secretary

DISSENT: _____

RTW:BGG:sjs\JMA