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OPEN MEETING ITEM

MEMORANDUM

Arizona Corporation Commission

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AZ CORP. COM. DIV.

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TO: THE COMMISSION

MAY 03 1999

FROM: Utilities Division

DOCKETED BY

DOCUMENT CONTROL

DATE: April 30, 1999

RE: IN THE MATTER OF THE APPLICATION OF BLACK MOUNTAIN GAS TO AMORTIZE THE PURCHASED GAS ADJUSTOR BANK BALANCE (DOCKET NO. G-00000C-98-0568)

On April 12, 1999, Black Mountain Gas (Black Mountain) filed for Commission approval of the amortization of its purchased gas adjustor (PGA) bank balance for its Cave Creek Division, as of February 28, 1999. Black Mountain has further filed for a suspension of the implementation of the new 12-month rolling average PGA mechanism in its Page Division until the Commission resolves its current rate case (Docket No. G-03493A-98-0705). This filing by Black Mountain 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.

On November 12, 1998, Black Mountain's Page Division filed a rate case with the Commission. Black Mountain's filing anticipates an overall rate decrease for the Page Division. As of February 28, 1999, the bank balance for the Page Division's PGA is under-collected by \$149,424. If this under-collection were amortized at this point, a surcharge would be applied to customer bills. Black Mountain's proposal to suspend the implementation of the new PGA mechanism would avoid a situation where customers would see an increase in rates now from the PGA amortization surcharge, followed by a rate decrease when the rate case is decided.

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

As of February 28, 1999, the Cave Creek Division's bank balance is undercollected by \$276,762. In its filing, Black Mountain proposes to amortize this bank balance over a 24-month period, resulting in an amortization rate of \$0.026 per therm, based upon projected annual sales of

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4,977,490 therms in 1999 and 5,530,740 therms in 2000. This amortization rate would be applied to customer bills until the first month in which the frozen bank balance is fully amortized, at which time the amortization rate would be discontinued. Any money recovered beyond that required to amortize the frozen bank balance would be credited to the new bank balance.

Given the changes being made in the PGA mechanism, a phase-in could be needed to transition from Black Mountain's currently effective PGA rate in the Cave Creek Division to the new rolling average PGA rate. To determine whether a phase-in is needed, it is necessary to compare the total cost of gas currently reflected in Black Mountain's rates with the total cost of gas to be reflected on customer bills beginning on June 1, 1999. Components of the total cost of gas include the base cost of gas, the PGA rate, and if applicable, a refund 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 Black Mountain finalizes the most recent gas cost information. However, as part of the April 12th filing, Black Mountain 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. Black Mountain's 12-month average cost of gas at the end of February 1999 is \$0.2284 per therm for the Cave Creek Division. 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 | \$0.27 per therm | \$0.27 per therm |
| Bank Balance Amortization | 0 | \$0.026 per therm |
| PGA Rate | \$0.0288 per therm | -\$0.0416 per therm |
| Total Cost of Gas | \$0.2988 per therm | \$0.2544 per therm |

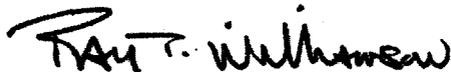
The estimated change in the total cost of gas is a negative \$0.0444 per therm. Given this relatively small change and the fact that it is a reduction in the customer's billed rate, a phase-in is not necessary. After the freezing of the bank balance at the end of February 1999 and the implementation 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 Black Mountain after the bank balance is frozen at the end of February 1999 would be included in the new bank balance.

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Staff believes that the proposed amortization rate of \$0.026 per therm for the Cave Creek 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 Page Division be suspended until such time as new rates resulting from the current rate proceeding involving the Page Division become effective.



Ray T. Williamson

Acting Director

Utilities Division

RTW:BGG:sjs/JMA

ORIGINATOR: Robert Gray

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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)
BLACK MOUNTAIN GAS 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. **Black Mountain Gas (Black Mountain) is engaged in providing natural gas within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission.**
2. **On April 12, 1999, Black Mountain filed for Commission approval of the amortization of its purchased gas adjustor (PGA) bank balance for its Cave Creek Division, as of February 28, 1999.**
3. **Black Mountain has further filed for a suspension of the implementation of the new 12-month rolling average PGA mechanism in its Page Division until the Commission resolves its current rate case (Docket No. G-03493A-98-0705).**
4. **This filing by Black Mountain 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.**
5. **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 6. 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 7. On November 12, 1998, Black Mountain's Page Division filed a rate case with the
5 Commission. Black Mountain's filing anticipates an overall rate decrease for the Page Division.

6 8. As of February 28, 1999, the bank balance for the Page Division's PGA is under-
7 collected by \$149,424. If this under-collection were amortized at this point, a surcharge would be
8 applied to customer bills.

9 9. Black Mountain's proposal to suspend the implementation of the new PGA mechanism
10 would avoid a situation where customers would see an increase in rates now from the PGA
11 amortization surcharge, followed by a rate decrease when the rate case is decided.

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

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

19 12. As of February 28, 1999, the Cave Creek Division's bank balance is undercollected by
20 \$276,762.

21 13. In its filing Black Mountain proposes to amortize this bank balance over a 24-month
22 period, resulting in an amortization rate of \$0.026 per therm, based upon projected annual sales of
23 4,977,490 therms in 1999 and 5,530,740 therms in 2000. This amortization rate would be applied to
24 customer bills until the first month, in which the frozen bank balance is fully amortized, at which time
25 the amortization rate would be discontinued. Any money recovered beyond that required to amortize
26 the frozen bank balance would be credited to the new bank balance.

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1 15. Given the changes being made in the PGA mechanism, a phase-in could be needed to
 2 transition from Black Mountain's currently effective PGA rate in the Cave Creek Division to the new
 3 rolling average PGA rate. To determine whether a phase-in is needed, it is necessary to compare the
 4 total cost of gas currently reflected in Black Mountain's rates with the total cost of gas to be reflected
 5 on customer bills beginning on June 1, 1999. Components of the total cost of gas include the base cost
 6 of gas, the PGA rate, and if applicable, a refund rate for the bank balance.

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

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

12 18. For the purpose of determining whether a phase-in is necessary, the February 1999 12-
 13 month cost of gas is expected to be sufficiently close to the June 1st 12-month cost of gas. Black
 14 Mountain's 12-month average cost of gas at the end of February 1999 is \$0.2284 per therm for the
 15 Cave Creek Division.

16 19. The table below shows the current total cost of gas and the estimated total cost of gas for
 17 June 1st.

| | Current Cost of Gas | Estimated Cost of Gas For June 1 st |
|------------------------------|---------------------|--|
| 19 Base Cost of Gas | \$0.27 per therm | \$0.27 per therm |
| 20 Bank Balance Amortization | 0 | \$0.026 per therm |
| 21 PGA Rate | \$0.0288 per therm | -\$0.0416 per therm |
| Total Cost of Gas | \$0.2988 per therm | \$0.2544 per therm |

22
 23 20. The estimated change in the total cost of gas is a negative \$0.0444 per therm. Given this
 24 relatively small change and the fact that it is a reduction in the customer's billed rate, a phase-in is not
 25 necessary.

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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 Page Division be suspended until such time as new rates resulting from the current rate proceeding involving the Page Division become effective.

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

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|-------------------------|--------------|--------------|
| 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