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BEFORE THE ARIZONA CORPORATION COMMISSION

JIM IRVIN
COMMISSIONER-CHAIRMAN
RENZ D. JENNINGS
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER

EXCEPTION

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AZ CORP COMMISSION
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IN THE MATTER OF THE COMMISSION
EXAMINATION OF LOCAL DISTRIBUTION
COMPANY PURCHASED GAS ADJUSTOR
MECHANISMS.

DOCKET NO. G-00000C-98-0568

**CITIZENS UTILITES COMPANY
EXCEPTIONS**

Citizens Utilities Company ("Citizens") has been a participant in the Purchased Gas Adjuster ("PGA") Design Working Group and appreciates the efforts of Staff in facilitating the process that resulted in group consensus being achieved on a number of substantive issues. Overall, Citizens agrees with the Staff recommendations, as reflected in the Staff Report and the Proposed Order. Citizens believes that certain issues require clarification, and therefore submits these exceptions.

FIXED TERM CONTRACTS:

Citizens agrees that price stability is one of the goals of the natural gas procurement process. Local distribution companies ("LDC") should pursue longer term, fixed-price supply options, because this results in price stability for the LDC and its customers. The proposed order acknowledges that the LDCs need the assurance that they will have an opportunity to recover their prudently incurred and reasonable gas commodity costs related to fixed price contracts. The language suggested by Staff¹, while correct, falls somewhat short of the assurance the LDC needs. Therefore, Citizens recommends that the following language be included in the Order:

Arizona Corporation Commission

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¹ Proposed Order, page 2, lines 20-23.

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1 **Once a fixed price contract has been deemed to be prudent and is**
2 **approved by the Commission, there is a presumption that the**
3 **contract shall continue to be considered prudent into the future;**
4 **therefore, the contract will not be subject to additional review, to**
5 **the extent the contract term extends over multiple review periods.**

6 **PGA RATE ADJUSTMENT:**

7 Staff has recommended that when a PGA bank balance is exceeded, the
8 respective LDC must file for a PGA rate adjustment "within 45 days of the
9 threshold being exceeded, ...". From a practical perspective, it may not be
10 possible to complete the analysis necessary to make such a filing. Due to delays
11 typically encountered in receiving actual invoices and the analysis process, it
12 usually takes the LDC between 30 and 45 days **after** month end to prepare
13 informational filings. Therefore Citizens suggests that the following language be
14 added to the Proposed Order²:

- 15 (1) ***File for a PGA rate adjustment within 45 days of completing***
16 ***the Monthly Bank Balance Exhibits that illustrate that the***
17 ***threshold has been exceeded.***

18 **STAFF NOTIFICATION:**

19 Citizens believes that some additional language in Finding of Fact #11, part
20 (2), would clarify the responsibility of the parties. Citizens suggests that the
21 following language be added³:

- 22 (2) ***If option 2 is chosen, the Company should immediately contact***
23 ***Staff to discuss the reason(s) why a PGA rate adjustment is not***
24 ***necessary and provide Staff with written documentation***
25 ***supporting such position.***

26 **INTEREST RATE:**

27 Citizens agrees with Staff's recommendation that interest should be applied
28 to over- and under-collected bank balances incurred by Arizona LDCs using the
29 new banded 12-month rolling average PGA mechanism. Staff has recommended
that the Federal Reserve 3-month commercial paper rate should be applied.

² Page 3, lines 12-13.

³ Proposed Order, page 3, lines 15-17.

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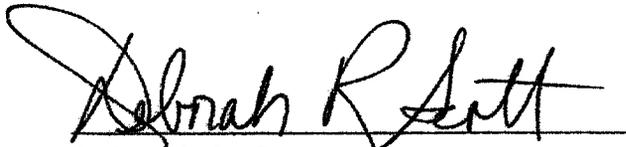
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Because the Federal Reserve commercial paper rates change frequently, Citizens requests further specificity and suggests the following language⁴:

The interest rate to be applied is **based on** the Federal Reserve 3-month commercial paper rate **published during the last business day of the applicable reporting month.**

In conclusion, Citizens believes that its recommendations will clarify the responsibilities of the parties, and therefore, respectfully requests that the Commission incorporate them in its order.

RESPECTFULLY SUBMITTED this 26th day of October, 1998.



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2901 N. Central Avenue, Suite 1660
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Original and ten copies filed this 26th day of October, 1998, with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

⁴ Proposed Order, page 5, line 17.

PHOENIX VOL 1

1 Copies of the foregoing mailed/delivered
2 this 26th day of October, 1998, to:

3 Jerry Rudibaugh
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By: 
Joann Zychlewicz

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2 November 1, 1998." This decision also indicated that issues leading to the formation of this
3 working group include the volatility of natural gas prices, providing flexibility to LDCs in the
4 recovery of their natural gas costs, and the possibility of developing more uniform PGA
5 mechanisms for Arizona LDCs.

6 4. Arizona LDCs affected by this proceeding include: Bagdad Copper Market, Black
7 Mountain Gas, Broken Bow Gas, Citizens Utilities, Duncan Rural Service Corporation, Graham
8 County Utilities, and Southwest Gas.

9 5. The PGA Design Working Group met several times and a variety of PGA and gas
10 procurement related issues were discussed. The working group was able to come to agreement
11 on a number of issues.

12 6. The Staff Report on Purchased Gas Adjustor Mechanisms (Staff Report)
13 incorporates a number of the working group's recommendations as well as additional Staff
14 recommendations. The Staff recommendations are as follows:

15 7. The LDCs should pursue longer term, fixed price supply options as a viable
16 option when they choose which gas supplies to include in their supply portfolios. To provide the
17 LDCs with some level of assurance that they will have an opportunity to recover their prudently
18 incurred and reasonable gas commodity costs related to fixed price contracts, while
19 acknowledging the Commission's oversight of gas procurement activities, the Commission
20 should adopt language such as the following:

21 "As a general principle, subject to the circumstances of any specific matter: if a
22 contract appeared to be prudent and reasonable at the time it was entered into,
23 given market conditions and other relevant factors, the utility should be permitted
24 an opportunity to recover the gas costs associated with that contract. However,
25 the Commission has the right to review all LDC gas purchases on a case by case
26 basis."

27 8. The Commission recognizes price stability as one of the goals of the natural gas
28 procurement process.

9. The banded 12-month rolling average mechanism, as described in Staff's report,
should be adopted.

10. The bank balance thresholds should be set as follows:

Black Mountain Gas - Cave Creek Division	\$180,000
Black Mountain Gas - Page Division	\$60,000
Broken Bow Gas	\$120,000
Citizens Utilities - Northern Arizona Gas Division	\$4,200,000
Citizens Utilities - Santa Cruz Division	\$250,000
Copper Market	\$7,500
Duncan Rural Services	\$35,000
Graham County Utilities	\$150,000
Southwest Gas	\$22,400,000

If there is a significant change in the number of therms sold annually by an LDC, it may be necessary to adjust the bank balance thresholds. If such a situation arises, the LDC or Staff may initiate Commission review of the need to adjust the threshold.

11. When the bank balance is exceeded the following procedure should be followed:

The utility must either:

1. File for a PGA rate adjustment within 45 days of completing the Monthly Bank Balance Exhibits that illustrate that the threshold has been exceeded, OR
2. Contact Staff to discuss why a PGA rate adjustment is not necessary at that time.

If option 2 is chosen, the Company should immediately contact Staff to discuss the reason(s) why a PGA rate adjustment is not necessary and provide Staff with written documentation supporting such position. If Staff agrees that a filing is not necessary, the Utilities Division Director will notify the LDC in writing of such a finding and will identify any further conditions. If the LDC does not receive such a letter within 30 days of the bank balance being exceeded, the LDC must file for a PGA rate adjustment within 45 days of the threshold being exceeded.

This filing would be expected to impose a temporary charge or credit that would be added on to the on-going rolling average cost of gas. The credit or surcharge should have a definite expiration date.

12. For natural gas LDCs, the PGA rate should be banded so that the new PGA rate for a month is no more than \$0.07 per therm different than the PGA rate in effect during any of the preceding 12 months. To provide a similar level of flexibility to propane LDCs, recognizing

1 the higher average price of propane, the band should be \$0.12 per therm for propane LDCs.
 2 rather than \$0.07 per therm.

3
 4 13. The Monthly PGA Report from each LDC should at a minimum contain the
 5 following:

- 6 1. Purchases - including contract number, supplier, dollars, terms, supply
- 7 2. Sales - including number of customers, dollars, and terms by customer
- 8 3. Exchanged Gas (Account No. 806) - including dollars and terms;
- 9 4. Credits and Debits to Bank Balance - should include a separate sheet or
- 10 5. PGA rolling average calculation worksheet - this calculation should
- 11 6. Person preparing report and telephone number

12
 13 Monthly PGA Report Format:

- 14 1. Summary Sheet - see Appendix C, Exhibit A of the Staff Report;
- 15 2. Sales Summary Sheet - see Appendix C, Exhibit B;
- 16 3. PGA rolling average calculation worksheet - see Appendix C, Exhibit C; and
- 17 4. Sheets showing credits and debits calculations

18 Provision of Invoices for Monthly Purchases:

19 LDCs should provide a copy of all invoices for gas commodity and
 20 transportation purchases with each monthly report. LDCs should also
 21 include in each monthly report a copy of any receipts for other credits or
 22 charges to the PGA bank balance. Because of the large number of
 23 invoices Southwest Gas has, this requirement should be waived for it, but
 24 it must have the invoices available for Commission review.

25 Other Reporting Issues:

26 Filing Date - Monthly PGA Reports should be filed within 2 months of the
 27 month that the report covers. For example, the report for January 1999
 28 should be filed by the last day of March 1999.

Price Lag in 12-month rolling average - There should be no more than 2
 months from the last month reflected in the 12-month average to the
 month to which the PGA rate is applied. For example, the PGA rate for
 March 1999 should reflect gas costs for February 1998-January 1999.

1 14. The monthly PGA report should also conform to the three Exhibits, with the
2 understanding that individual LDCs may work with Staff to include small report modifications,
3 to meet their reporting needs.

4 15. The existing PGA bank balance should be frozen at the time the new PGA
5 mechanism is implemented. The frozen bank balance would then be eliminated through a per
6 term surcharge or credit set over an appropriate period of time. The PGA surcharge would
7 automatically expire after the designated amortization period or when the combination of the
8 remaining frozen balance and the new balance will zero out the remaining frozen balance,
9 whichever comes sooner.

10 16. Each LDC should file for Commission approval of a rate to amortize the existing
11 bank balance, such that the amortization rate will be approved before the new 12-month banded
12 rolling average PGA mechanism is implemented. Because the bank balance amortization rate
13 will be approved before the new mechanism goes into place, there will probably be 1-2 months
14 of over or under-collections from the old PGA rate that will not be accounted for when the
15 amortization rate is set for the existing bank balance. Any over or under-collection during this 1-
16 2 month transition period should be accounted for by rolling it into the new bank balance for the
17 12-month banded rolling average PGA mechanism.

18 17. Interest should be applied to over and under-collected bank balances incurred by
19 Arizona LDCs using the new banded 12-month rolling average PGA mechanism. The interest
20 rate to be applied is based on the non-financial 3-month commercial paper rate for each month,
21 contained in the Federal Reserve Statistical Release, G-13, or its successor publication. Interest
22 should not be applied to the existing bank balances that are to be frozen and amortized.

23 18. LDCs must file tariff pages, report formats, and other information necessary to
24 implement the new PGA mechanism by January 31, 1999. This filing should include a plan to
25 educate customers on the new PGA mechanism.

26 19. An important part of the implementation process will be transitioning from each
27 LDC's currently effective PGA rate to each LDC's banded rolling average PGA rate. The design
28 of the phase-in procedure should not be finalized until the spring of 1999, when the Commission

1 and the LDCs will have a better idea of the relationship between each LDC's current PGA rates
2 and each LDC's 12-month rolling average gas cost. Given that the LDCs would be filing with
3 the Commission in the spring of 1999 to approve the amortization rate for the existing bank
4 balance, the LDCs should also file for Commission approval of the phase-in procedures at that
5 time.

6 20. The new PGA mechanism and resultant PGA rates should take effect beginning
7 June 1, 1999.

8 21. The LDCs should consider billing and rate design options that would help to
9 address the problem of price volatility.

10 22. Southwest Gas should no longer use prorated billing when the new PGA
11 mechanism goes into effect and rate changes should be applied to all usage on bills rendered on
12 or after the effective date of the change. If LDCs discover additional billing issues that need to
13 be addressed, they should work with Staff to address those issues.

14 23. Copper Market must have a PGA mechanism plan in place to address the under-
15 collected bank balance, including possibly the parent company writing off the under-collected
16 bank balance, by July 1, 1999. Staff should approve such a plan. If such a plan is in place by
17 July 1, 1999, Copper Market will be exempted from all other requirements of this order. If such
18 a plan is not in place by July 1, 1999, Copper Market must implement the same PGA mechanism
19 and meet the same requirements.

20 24. A complete discussion of the recommendations and the related issues is
21 contained in the Staff Report.

22 25. Staff believes that adoption of the above recommendations will address the issues
23 of natural gas price volatility, gas cost recovery flexibility, and uniformity between PGA
24 mechanisms.

25 26. Staff has recommended approval of this filing.

26 ...
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28 ...

CONCLUSIONS OF LAW

1
2 1. Bagdad Copper Market, Black Mountain Gas, Broken Bow Gas, Citizens Utilities,
3 Duncan Rural Service Corporation, Graham County Utilities, and Southwest Gas are Arizona
4 public service corporations within the meaning of Article XV, Section 2, of the Arizona
5 Constitution.

6 2. The Commission has jurisdiction over the LDCs and over the subject matter of this
7 docket.

8 3. The Commission, having reviewed the Staff Report and Staff's Memorandum,
9 dated October 19, 1998, concludes that it is in the public interest to approve Staff's
10 recommendations.

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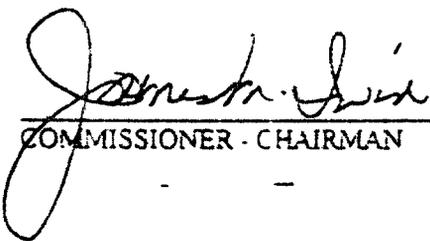
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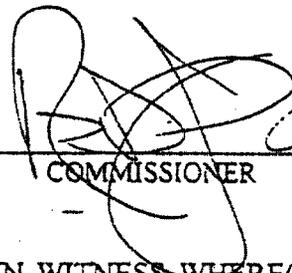
THEREFORE, IT IS ORDERED that Staff's recommendations be and hereby are approved.

IT IS FURTHER ORDERED that Staff review and make recommendations on the Purchased Gas Adjustor Mechanism, as approved herein, within twenty-four months of the date of this order.

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, JACK ROSE, 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 30th day of Oct 1998.


JACK ROSE
Executive Secretary

DISSENT _____

RW:BG:yxm/JA

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