

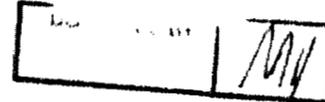


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April 12, 1999

Arizona Corporation Commission
DOCKETED

APR 12 1999



Ray Williamson, Acting Director
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Re: In The Matter of Commission Examination of Local Distribution Company
Purchased Gas Adjuster Mechanisms, Docket No. G-00000C-98-0568 and
Decision No. 61225

Dear Mr. Williamson:

In compliance with the Order in Decision, No. 61225, Black Mountain Gas ("BMG"), a division of Northern States Power Company - Gas Utility, respectfully submits to the Arizona Corporation Commission ("ACC") the amortization rate of the under-recovered PGA bank account and the proposed procedures for implementing the new PGA mechanism for Cave Creek. Black Mountain Gas also requests ACC approval to suspend implementing any PGA changes for Page customers until resolution of the proposed rate reduction, Docket No. G-03493A-98-0705.

The PGA bank balance for Cave Creek as of February 28, 1999, was \$ 276,762. In order to collect this balance over a two year period, a positive fuel adjustor of \$0.026 per therm is proposed (see Schedule 1) The current fuel adjustor of \$0.0288 was approved in Decision No. 61224 on October 30, 1998. Although BMG is not requesting a change to the Page fuel adjustor at this time, the bank balance as of February 28, 1999 for Page was \$ 149,424.

Schedule 2 contains the PGA rolling average calculation worksheet for Cave Creek with actual gas cost and sales information through February 1999. Transportation costs are included with commodity costs because these costs are not stated separately on all Black Mountain Gas bills. Since the PGA rolling average per therm is expected to be within the \$0.07 bandwidth established for natural gas LDC's, the Company proposes to use the actual calculated PGA on June 1, 1999 and not use a phase-in procedure.

Schedule 3 includes the proposed customer education plan that Black Mountain Gas will use to inform customers of the PGA change.

Black Mountain Gas Company**Cave Creek Division**

Budgeted Therms - 1999	4,977,490 (A)
Budgeted Therms - 2000	5,530,740 (B)
Total Therms 1999 through 2000	10,508,230 (C) = (A) + (B)
Under-collected PGA as of February 28, 1999	\$ 276,762 (D)
PGA increase required	\$ 0.026 (D)/(C)

Page Division

Under-collected PGA as of February 28, 1999	\$ 149,424
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COMPANY NAME: Black Mountain Gas
Cave Creek Operation

Decision No: 81225

PGA ROLLING AVERAGE CALCULATIONS
MONTH OF: _____

LINE NO.	DATE	TOTAL GAS COST	PURCHASED VOLUMES THERMS	COST PER THERM PURCHASED	MONTHLY SALES THERMS	12 MO. ENDING TOTAL GAS COST	12 MO. ENDING SALES THERMS	MO. AVER. TOTAL GAS COST PER THERM SOLD	12 MO. ENDING ROLLING AVE TOTAL GAS COST PER THERM SOLD
1	Mar-98	\$108,560.46	586,356	0.1851	658,788			0.1646	
2	Apr-98	\$137,693.07	471,850	0.2918	594,883			0.2316	
3	May-98	\$74,661.74	259,446	0.2878	288,489			0.2781	
4	Jun-98	\$39,314.13	165,697	0.2373	185,218			0.2123	
5	Jul-98	\$22,384.10	127,204	0.1760	167,704			0.1335	
6	Aug-98	\$32,553.05	127,770	0.2548	137,140			0.2374	
7	Sep-98	\$33,921.59	153,250	0.2213	175,978			0.1928	
8	Oct-98	\$46,899.67	266,313	0.1761	240,558			0.1950	
9	Nov-98	\$115,985.37	432,444	0.2682	401,404			0.2889	
10	Dec-98	\$164,368.24	835,450	0.1967	637,297			0.2579	
11	Jan-99	\$171,048.20	697,136	0.2454	716,595			0.2387	0.2284
12	Feb-99	\$154,039.13	677,046	0.2275	637,824	\$1,101,428.75	4,821,548	0.2415	

12 MONTH ENDING ROLLING AVERAGE TOTAL GAS COST PER THERM SOLD
BASE COST OF GAS PER THERM
PGA ROLLING AVERAGE PER THERM

Natural gas companies in Arizona purchase natural gas supplies from supply basins in New Mexico and Texas to meet their customers' energy needs. Natural gas is shipped over interstate pipelines and delivered onto the local natural gas company's system to distribute to Arizona customers. The price which local natural gas companies pay for natural gas can vary significantly from month to month and from year to year. To avoid filing for rate changes every time the cost of natural gas changes, natural gas companies have an accounting mechanism called a purchase gas adjustor (PGA). This mechanism allows natural gas companies to pass through to their customers the cost of natural gas supplies, subject to review by the Arizona Corporation Commission (ACC), the state agency which regulates utility companies. A PGA rate is added onto the basic rate the customer is charged per therm. The PGA rate may be a surcharge or a credit, depending upon the changing cost of natural gas.

In recent years natural gas prices have been volatile and the ACC has received numerous complaints from customers who have seen their bills vary dramatically on a monthly and/or annual basis. In response to these customer concerns, the ACC investigated the PGA mechanism used by Arizona natural gas companies. The ACC concluded that changes should be made to the PGA mechanisms used by Arizona natural gas companies. The revisions to the PGA mechanisms will not change the actual cost of gas passed through to Arizona customers, but will attempt to reduce the volatility seen by Arizona customers on their monthly bills.

Major features of the new PGA mechanism are as follows:

- 11 The PGA rate will change monthly,
- 21 The monthly PGA rate will be calculated based on the average cost of natural gas paid by the local natural gas company in the most recent twelve (12) month period,
- 31 The PGA rate will be banded, so that it cannot change more than \$0.07 per therm (\$0.12 per therm for propane) during any twelve (12) month period, and
- 41 The new PGA mechanism will be implemented beginning with customer bills dated June 1, 1999.

As a natural gas company in the state of Arizona, Black Mountain Gas will be incorporating these revisions in compliance with state regulations. Our ongoing commitment is to provide you with low-cost, safe, reliable energy.