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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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IN THE MATTER OF THE APPLICATION OF) DOCKET NO. G-04204A-03-0634
UN S GAS, INC. FOR CONTINUATION OF)
THE NEGOTIATED SALES PROGRAM) NOTICE OF COMPLIANCE

UN S Gas, Inc. ("UN S Gas") hereby submits its Negotiated Sales Program Report in compliance with Decision No. 67942 (June 21, 2005). Attachments A, B, and C contain confidential information and are being submitted to Commission Staff directly.

RESPECTFULLY SUBMITTED this 4th day of January 2012.

UN S Gas, Inc.

By:

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Attorney for UN S Gas, Inc.

Original and 13 copies of the foregoing filed this 4th day of January 2012 with:

Docket Control
Arizona Corporation Commission
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Phoenix, Arizona 85007

Copy of the foregoing hand-delivered/mailed this 4th day of January 2012 to:

Compliance Section, Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

By:

Negotiated Sales Program Report

December 1, 2010 – November 30, 2011

Introduction

UNS Gas, Inc. (“UNS”) filed for Arizona Corporation Commission (“Commission”) approval on December 29, 2004, to continue its Negotiated Sales Program (“NSP” or “Program”) beyond June 30, 2005 in compliance with Decision No. 66616 (December 9, 2003). UNS asked to continue the NSP in its current form until December 31, 2005. On June 21, 2005, the Commission approved, in Decision No. 67942, an extension of the NSP beyond June 30, 2005, and ordered that an updated report be filed on or before December 31, 2005, addressing whether the NSP should be continued in its current or adjusted form. In compliance with Decision No. 67942 UNS filed a report on December 29, 2005, recommending that the Program be continued in its current form.

UNS is filing this updated NSP Report which includes the identification of costs and benefits to core customers and to UNS from December 1, 2010 through November 30, 2011. Core customers are those customers that UNS has an obligation to serve and receive bundled gas service.

The Negotiated Sales Program

The NSP service was initially approved by the Commission in November 1995, Decision No. 59399. Under the NSP, UNS¹ provides a negotiated sales service to its transportation customers. UNS utilizes upstream pipeline transportation capacity reserved for meeting core customers’ demand that is available from time to time, to make deliveries of gas to the city gates for NSP sales. Core customers share in the NSP sales margin through a credit to the Purchased Gas Adjustor Bank (“PGA Bank”); the margin is split between UNS and its core customers on a 50/50 basis. UNS maintains separate accounts for the NSP to record revenues, gas costs, and transportation expense.

There are three primary purposes of the NSP: to provide a competitive alternative to current and future transportation customers in procuring gas supplies; to provide for a reduction in gas costs to core customers through a sharing of margins realized from NSP sales; and to provide UNS an opportunity to improve its earnings.

I. Number of NSP Customers

At the beginning of December 2010, there were nineteen NSP customers; as of November 30, 2011, there are twenty NSP customers. Attachment A² is a list of the NSP customers as of November 30, 2011.

¹ Citizens Utilities Company’s Northern Arizona Gas Division, was acquired by UniSource Energy Corporation (UniSource) in August 2003 and is operated as UNS Gas, Inc.. UNS Gas, Inc.

² All attachments contain proprietary information and are being filed separately pursuant to a Confidentiality Agreement with Staff.

II. Gas Sales to NSP Customers

2,293,733 (“Dth”) of gas were sold to NSP customers from December 1, 2010 through November 30, 2011.

III. Costs & Revenue

Attachment B shows the costs and revenues for the NSP.

IV. Benefits of the NSP Program

The NSP provides benefits to both core and NSP customers. The first is core customers have benefited from lower cost of gas resulting from the crediting of 50% of the NSP sales margin to the PGA Bank. This benefit has been realized every year since the NSP’s inception in 1995. Second, the NSP provides transportation customers with a competitive alternative for purchasing their gas requirements in the open market. The competitive benefits to these customers is demonstrated in the fact that as of November 30, 2011, twenty (20) of the twenty-six (26) transportation customers (or 77%) purchased their gas requirements from UNS Gas.

V. Management of Contract Rights on Interstate Pipeline Systems

Throughout the year, UNS carefully manages the utilization of its transportation capacity to insure the delivery of natural gas supplies to the city gates in meeting core customer demands. To the extent that the pipeline capacity available under its upstream pipeline transportation service agreements is not needed to meet core customer demand, UNS utilizes this capacity to transport gas for NSP customer requirements. When this pipeline transportation capacity is needed to serve core customer demand, UNS uses alternative transportation service for NSP customers. The alternative transportation service costs are borne by the NSP customers as part of the gas supply cost for NSP sales. For the time period of December 1, 2010 through November 30, 2011, UNS has not had to acquire additional capacity on the interstate pipeline systems to transport gas for its NSP customers.

UNS continues to monitor and analyze the effects of El Paso Natural Gas Company’s (“EPNG”) services and imbalance management and penalty tariff provisions. UNS continuously evaluates each NSP customer on a case by case basis to insure that the program is still viable economically and that any upstream pipeline penalty charges, in the event any are incurred, are appropriately charged to any transportation customer to the extent their action or inaction contributed to such penalty.

Attachment C provides information regarding the peak days for the months of December 2010 through November 2011, UNS’ contract capacity rights on the interstate pipelines, total capacity used, capacity used by core customers, and capacity used by NSP customers on the peak day.

VI. Negotiated Sales Program Recommendation

UNS believes that the NSP program has been successful in benefiting customers. The NSP continues to provide benefits to customers in the form of lower gas cost through the credits to the PGA Bank for core customers of a 50% share of the total NSP margin and to the NSP customers in the form of competitive gas supply services. The market today for retaining the NSP customers as UNS Gas customers is very competitive and is one in which UNS Gas must actively participate. UNS Gas has worked hard to establish business relationships with its NSP customers to understand their business needs and goals and maintains ongoing communication and interaction with them.

For these reasons, UNS is recommending that the NSP be continued in its current form.

**ATTACHMENT A
LIST OF NSP CUSTOMERS AS OF NOVEMBER 30, 2011**

REDACTED

ATTACHMENT B
COSTS AND REVENUES FOR NSP PROGRAM
December 1, 2010 – November 30, 2011

REDACTED

ATTACHMENT C

REDACTED