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BEFORE THE ARIZONA CORPORATION COMMISSION

GARY PIERCE
Chairman
BOB STUMP
Commissioner
SANDRA D. KENNEDY
Commissioner
PAUL NEWMAN
Commissioner
BRENDA BURNS
Commissioner

Arizona Corporation Commission

DOCKETED

MAY - 1 2012

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IN THE MATTER OF THE APPLICATION)
OF UNS GAS, INC. FOR APPROVAL OF A)
TEMPORARY CUSTOMER CREDIT)
ADJUSTMENT FOR THE PERIOD MAY)
2012 THROUGH APRIL 2014)

DOCKET NO. G-04204A-12-0069

DECISION NO. 73143

ORDER

Open Meeting
April 24 and 25, 2012
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

Introduction

1. UNS Gas, Inc. ("UNS Gas" or the "Company") is certificated to provide natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On February 29, 2012, UNS Gas filed an application with the Commission requesting approval of a credit adjustment to its Purchased Gas Adjustor ("PGA") rate. Due to current and anticipated bank balance levels and the anticipated forward market price of natural gas, UNS Gas is requesting a temporary \$0.045 per therm credit to the PGA rate to be in effect May 1, 2012 through April 30, 2014. UNS Gas further requests expedited treatment to ensure the credit adjustment is effective as of May 1, 2012, to offset the proposed UNS Gas rate increase discussed below that is anticipated to take effect as of May 1, 2012, in Docket No. G-04204A-11-0158 ("Rate Case Docket").

1 3. UNS Gas provides natural gas service in the counties of Apache, Coconino,
2 Mohave, Navajo, Santa Cruz and Yavapai. As of December 2011, the Company had
3 approximately 147,541 customers. Of that total, 135,042 are Residential customers. The
4 remainder are a mix of Commercial, Industrial, and Municipal customers.

5 Background

6 4. The Company recovers its cost of gas including transportation costs through the
7 PGA. The PGA rate, adjusted monthly, is calculated based on a twelve-month rolling average
8 with a \$0.15 per therm annual bandwidth. The rolling average and the bandwidth are designed to
9 reduce the volatility of gas costs passed on to customers. The rolling average produces a more
10 predictable and consistent PGA range, while the bandwidth provides another check on volatility by
11 limiting the changes (increases or decreases) to no more than \$0.15 per therm over the span of a
12 year. The purpose of this PGA design is to limit rate shocks to the customers. The current PGA
13 rate (as of February 2012) is \$0.6435 per therm.

14 5. As is the case for other gas utilities, UNS Gas is not allowed to make a profit on the
15 cost of the natural gas it provides but is permitted to recover the cost of that gas. The differences
16 between the rolling average cost of gas and the actual cost of the natural gas are tracked and
17 recorded in the PGA bank balance. Under-collections of the cost of gas can then be recovered by
18 the Company and over-collections of the cost of gas can be refunded to the ratepayers through a
19 surcharge to the PGA rate.

20 6. In Decision No. 70011, dated November 27, 2007, the Commission set the
21 threshold to trigger a refund to the ratepayers from the PGA bank balance at \$10 million. In
22 accordance with the UNS Gas' Rider RR-1 Purchased Gas Adjustment tariff, UNS Gas must either
23 file an application for a credit adjustment within 45 days of the Company's monthly information
24 filing that illustrates the \$10 million threshold has been exceeded or justify why a credit
25 adjustment is not in the interest of the public. In its application, the Company states that the PGA
26 bank balance has reached a surplus of approximately \$7.8 million. Based on current market
27 conditions, UNS Gas projects the PGA bank balance will exceed the \$10 million threshold by the
28 end of February 2012 which would be reflected in a PGA report filed with the Commission in

1 April of 2012. Under the guidelines established by the RR-1 Purchased Gas Adjustment tariff,
2 UNS Gas would need to file an application for a credit adjustment to the PGA rate or justify why
3 one is not necessary in June 2012.

4 7. Even though the requirement to file for the credit adjustment would not be in effect
5 until June 2012, UNS Gas is filing earlier to implement the credit as a result of a recent UNS Gas
6 rate hearing in its Rate Case Docket. During that rate hearing, UNS Gas agreed to file an
7 application to implement the credit adjustment prior to being required to do so in order to serve as
8 an offset to the rate increase requested in the Rate Case Docket. The Company also committed in
9 the Rate Case Docket to a credit of no less than \$2.7 million over a twelve-month period.

10 8. The application proposes a temporary credit of \$0.045 per therm beginning May 1,
11 2012 and continuing through April 30, 2014. UNS Gas contends the \$0.045 per therm credit will
12 provide refunds totaling approximately \$5.1 million per year for two years which is well beyond
13 the credit committed to in the Rate Case Docket as noted above. UNS Gas anticipates the credit
14 will be in effect through the entire proposed term; however, if the downward trend in the price of
15 natural gas does not continue, UNS Gas requests the right to evaluate the market conditions twelve
16 months after implementation of the credit to determine if the PGA bank balance supports
17 continuing the credit through April 30, 2014. The Company also requests the credit be terminated
18 if the bank balance reaches zero any time during the proposed term of the credit.

19 Staff Analysis

20 9. Staff has reviewed UNS Gas' projections for future purchased gas costs and sales.
21 Without the implementation of a credit adjustment, the PGA bank balance is expected to be \$17.1
22 million at the end of April 2014. Staff agrees that a credit is necessary to refund the large over-
23 collected bank balance the Company currently has and to prevent further increases to the over-
24 collected bank balance. Staff further agrees that this filing was necessary to meet the over-
25 collection threshold trigger of \$10 million. As of February 2012, the bank balance is estimated to
26 be \$11.5 million over-collected. As outlined in Decision No. 70011, UNS Gas was nearing a point
27 where the Company would need to implement a refund.

28 ...

1 10. To evaluate the appropriate level of credit necessary, Staff had to consider the
2 advantages of refunding the over-collection in a timely manner against the possibility of creating
3 an under-collection situation in the future that may be difficult to resolve. In addition, Staff
4 explored the effect on the ratepayer when the proposed term of the credit expires given that the
5 credit was put in effect at a time when a rate increase was anticipated to be implemented in the
6 Rate Case Docket. It was necessary to consider the shock on ratepayers of not only experiencing a
7 credit adjustment going away in 2014, but also seeing the full effect of the anticipated increased
8 rates from the Rate Case Docket.

9 11. Given the fact that UNS Gas has come close to, if not already, exceeding the \$10
10 million threshold for over-collections on its PGA bank balance as of February 2012 and the
11 Company predicts no foreseeable increases in supply costs that would help to lower the bank
12 balance, Staff has recommended that a negative adjustment to the PGA rate be implemented at the
13 same time the proposed rates in the Rate Case Docket become effective. Attachment 1 illustrates
14 the projected growth in the PGA bank balance over the next three years without an implementation
15 of a credit to the PGA rate, the effect on the bank balance of the proposed credit of \$0.045 per
16 therm for one year and for two years, and the effect on the bank balance of a credit of \$0.060 per
17 therm for two years. As can be seen in the Attachment, implementing the \$0.045 per therm credit
18 through April 2013 (a one-year term) is not expected to bring the bank balance below the \$10
19 million threshold level. Implementing the \$0.045 per therm credit through April 2014 is expected
20 to bring the over-collected bank balance to a level of \$6.8 million over-collected. Staff has
21 concluded that a one-year implementation would not be enough time to correct the bank balance,
22 but a period of two years should bring UNS Gas below threshold levels.

23 12. Another consideration for Staff when evaluating this reduction is the impact to the
24 residential customer of the termination of the credit to the PGA rate equal to a negative \$0.060 per
25 therm versus a negative \$0.045 per therm in addition to an increase in the Delivery Charge per
26 therm of \$0.0164 per therm (this increase to the Delivery Charge is what is being proposed for
27 residential customers in the Rate Case Docket). Using an average summer customer usage of 16
28 therms, a residential customer would see an increase in the Summer 2014 bill equal to \$0.98 if the

1 \$0.045 per therm credit ended versus an increase in the Summer 2014 bill equal to \$1.22 if the
 2 \$0.060 per therm credit ended. Similarly, using an average winter customer usage of 74 therms, a
 3 residential customer would see an increase in the Winter 2014 bill equal to \$4.54 if the \$0.045 per
 4 therm credit ended versus an increase in the Winter 2014 bill equal to \$5.65 if the \$0.060 per
 5 therm credit ended. The shock to the ratepayers of the increase to the total bill would be
 6 minimized with the \$0.045 negative adjustment as compared to the \$0.060 negative adjustment.

7 13. The tables below utilize an average summer usage for a residential customer of 16
 8 therms and an average winter usage for a residential customer of 74 therms. Both tables exclude
 9 taxes from the calculations. The tables illustrate the change in the total residential customer bill
 10 using an average PGA charge of \$0.7394 per therm.

	Summer Existing Rates & Average PGA	Summer Proposed Rates & Average PGA	Summer Proposed Rates & Average PGA with \$(0.045) credit
Customer Charge	\$10.00	\$10.00	\$10.00
Delivery Charge*	\$ 5.23	\$ 5.49	\$ 5.49
PGA (\$0.7394 per therm)	\$11.83	\$11.83	\$11.11
Total Bill**	\$27.06	\$27.32	\$26.60
\$ Change from Current Rates		\$0.26	(\$0.46)
% Change from Current Rates		0.96%	(1.70%)

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21 *The change in the Delivery Charge noted in the table represents the proposed rates from the Rate Case Docket. The proposed Delivery Charge for residential customers on rate schedule R10 is increasing from \$0.3270 per therm to \$0.3434 per therm.

22 **This does not include either the current DSM surcharge or the DSM surcharge proposed in Docket No. G-04204A-11-0149.

	Winter Existing Rates & Average PGA	Winter Proposed Rates & Average PGA	Winter Proposed Rates & Average PGA with \$(0.045) credit
Customer Charge	\$10.00	\$10.00	\$10.00

1	Delivery Charge*	\$24.20	\$25.41	\$25.41
2	PGA (\$0.7394 per therm)	\$54.72	\$54.72	\$51.39
3	Total Bill**	\$88.92	\$90.13	\$86.80
4				
5	\$ Change from Current Rates		\$1.21	(\$2.12)
6	% Change from Current Rates		1.36%	(2.38%)

7 *The change in the Delivery Charge noted in the table represents the proposed rates from the
 8 Rate Case Docket. The proposed Delivery Charge for residential customers on rate schedule
 9 R10 is increasing from \$0.3270 per therm to \$0.3434 per therm.

10 **This does not include either the current DSM surcharge or the DSM surcharge proposed in
 11 Docket No. G-04204A-11-0149.

12 14. UNS Gas estimated in its application, refunds of approximately \$5.1 million each
 13 year for two years under the proposed PGA negative adjustment of \$0.045. Utilizing projected
 14 sales provided by UNS Gas, Staff agrees with the year one refund equal to \$5.1 million for May
 15 2012 through April 2013 with estimated sales of 113,799,519 therms multiplied by the \$0.045
 16 credit and the year two refund equal to \$5.1 million for May 2013 through April 2014 with
 17 estimated sales of 115,065,814 therms multiplied by the \$0.045 credit.

18 15. After reviewing UNS Gas' application and attachments, Staff has agreed with UNS
 19 Gas' assessment that the reduction is necessary to prevent operating outside the established PGA
 20 bank balance threshold level. When looking at all factors affecting UNS Gas' customers including
 21 the proposed rate increase in the Rate Case Docket, the possible PGA credit adjustment rates, and
 22 the effect on a residential customer's bill when the PGA credit adjustment goes to zero but the
 23 proposed rate increase stays in effect, Staff agrees that a \$0.045 per therm PGA credit adjustment
 24 would have the least impact for residential customers in the long term. In addition, Staff has
 25 recommended that the credit adjustment to the PGA be in effect through April 30, 2014. If the
 26 PGA bank balances reaches zero at any time during the two-year term, Staff has recommended that
 27 UNS Gas reset the credit adjustment to zero and notify the Commission through a filing that the
 28 credit adjustment has been reset to zero.

16 16. UNS Gas intends to provide simultaneous notice to customers of the rate increase
 17 from the Rate Case Docket as well as the credit to the PGA rate during the first billing cycle in

1 which a base rate increase and PGA credit are effective. In addition, if the credit adjustment is
2 reset to zero during the two-year term, Staff has recommended that UNS Gas provide notice to
3 customers of the change in the credit adjustment.

4 CONCLUSIONS OF LAW

5 1. UNS Gas, Inc. is an Arizona public service corporation within the meaning of
6 Article XV, Section 2, of the Arizona Constitution.

7 2. The Commission has jurisdiction over UNS Gas, Inc. and over the subject matter of
8 the Application.

9 3. The Commission, having reviewed the application and Staff's Memorandum dated
10 April 10, 2012, concludes that it is in the public interest to approve a temporary credit adjustment
11 to the Purchased Gas Adjustor rate for UNS Gas, Inc.

12 ORDER

13 IT IS THEREFORE ORDERED that for UNS Gas, Inc. the temporary credit adjustment to
14 the Purchased Gas Adjustor rate of \$0.045 per therm be, and hereby is, approved.

15 IT IS FURTHER ORDERED that the \$0.045 per therm credit adjustment shall become
16 effective May 1, 2012, or on the same date as new rates become effective per rate case Docket No.
17 G-04204A-11-0158, whichever is later, and remain in effect through April 30, 2014. If the PGA
18 bank balance reaches zero at any time during the two-year term, the credit adjustment would be
19 reset to zero and UNS Gas, Inc. would notify the Commission through a filing that the credit
20 adjustment was reset.

21 IT IS FURTHER ORDERED that UNS Gas, Inc. shall provide notice to its customers of
22 this credit adjustment to the Purchased Gas Adjustor rate during the first billing cycle in which the
23 PGA credit adjustment is effective.

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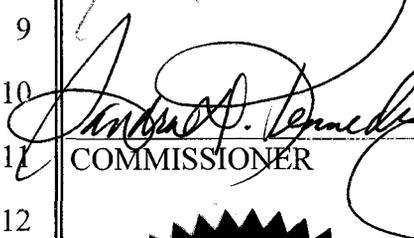
1 IT IS FURTHER ORDERED that UNS Gas, Inc. shall provide notice to its customers of a
2 change in the credit adjustment to the Purchased Gas Adjustor rate if the credit adjustment is reset
3 to zero during the two-year term.

4 IT IS FURTHER ORDERED that this Order shall become effective immediately.

6 **BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION**

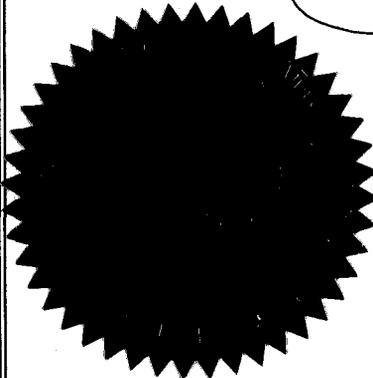
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8 CHAIRMAN

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8 COMMISSIONER

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13 IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,
14 Executive Director of the Arizona Corporation Commission,
15 have hereunto, set my hand and caused the official seal of this
16 Commission to be affixed at the Capitol, in the City of Phoenix,
17 this 15th day of MAY, 2012.

17 
18 ERNEST G. JOHNSON
19 EXECUTIVE DIRECTOR

20 DISSENT: _____

21 DISSENT: _____

22 SMO:RSP:lhm\WVC

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1 SERVICE LIST FOR: UNS Gas, Inc.
2 DOCKET NO.: G-04204A-12-0069

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