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BEFORE THE ARIZONA CORPORATION COMMISSION

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DOUG LITTLE
Chairman
BOB STUMP
Commissioner
BOB BURNS
Commissioner
TOM FORESE
Commissioner
ANDY TOBIN
Commissioner

IN THE MATTER OF THE APPLICATION
OF GRAHAM COUNTY UTILITIES, INC. -
GAS DIVISION FOR A DETERMINATION
OF THE FAIR VALUE OF ITS PROPERTY
FOR RATEMAKING PURPOSES, TO FIX A
JUST AND REASONABLE RATE OF
RETURN THEREON, TO APPROVE
RATES DESIGNED TO DEVELOP SUCH
RETURN, AND FOR RELATED
APPROVALS

DOCKET NO. G-02527A-15-0319

DECISION NO. 75509

ORDER

Open Meeting
April 12 and April 13, 2016
Phoenix, Arizona

Arizona Corporation Commission

DOCKETED

APR 22 2016

BY THE COMMISSION:

DOCKETED BY

* * * * *

Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes and orders that:

FINDINGS OF FACT

1. In Decision No. 73649, dated February 6, 2013, the Commission adopted revisions to Arizona Administrative Code ("A.A.C.") R14-2-103 and added a new section A.A.C. R14-2-107 establishing an alternative streamlined ratemaking application and process for non-profit cooperatives providing electric or natural gas utility service ("Rule 107").

2. Graham County Utilities, Inc. - Gas Division ("GCU", "Cooperative", or "Company") is a non-profit cooperative which provides natural gas service to customers in Arizona.

1 3. On August 4, 2015, GCU submitted to the Commission's Utilities Division ("Staff") a
2 Request for Pre-Filing Eligibility Review in accordance with A.A.C. R14-2-107(C) which included a
3 draft application to increase rates and charges pursuant to A.A.C. R14-2-107 and Arizona Revised
4 Statutes ("A.R.S") § 40-250, a proposed form of customer notice, and a proposed form of
5 recommended order.

6 4. On September 3, 2015, GCU met with Staff as required by A.A.C. R14-2-107(C)(3) to
7 discuss the Cooperative's eligibility under A.A.C. R14-2-107(B), the proposed form of customer
8 notice, and the proposed form of recommended order. At the meeting, Staff advised GCU that
9 GCU's Pre-Filing documents met the eligibility requirements of A.A.C. R14-2-107(B) for filing a
10 streamlined rate case. At the meeting, Staff also approved the form of customer notice to be mailed
11 to customers as required by A.A.C. R14-2-107(C)(5) and A.A.C. R14-2-107(D).

12 5. On September 3, 2015, in accordance with A.A.C. R14-2-107(C)(4), GCU filed a
13 Request for Docket Number and Notice of Filing Proposed Form of Customer Notice. The docket
14 number was assigned that same day.

15 6. On September 9, 2015, GCU caused a copy of the approved customer notice to be
16 mailed via First Class Mail to all customers of record as of the date of mailing. On September 21,
17 2015, GCU docketed a Notice of Mailing Customer Notice certifying that the approved customer
18 notice was mailed via First Class Mail on September 9, 2015, to each customer of the Cooperative as
19 required by A.A.C. R14-2-107(C)(5) and A.A.C. R14-2-107(D). The customer notice set a deadline of
20 October 13, 2015, for customers of GCU to file intervention requests and/or objections to the
21 application that would be filed.

22 7. On September 30, 2015, GCU filed its application ("Application") pursuant to A.R.S. §
23 40-250 and A.A.C. R14-2-107 to increase its rates and charges using a test year ending December 31,
24 2014. GCU requested that the Application be approved without a hearing.

25 8. By the close of business on October 13, 2015, the Commission had received two
26 objections to the rate increase which is below the 5 percent of all customer accounts¹ or no more than
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¹ As of September 30, 2015, the total number of Arizona GCU members/customers was 4,745. Therefore, 5% of the members/customers is 237.

1 1,000 customer accounts, whichever are fewer, required to make GCU ineligible for the Rule 107
2 process. There were also no intervention requests filed.

3 9. On October 27, 2015, Staff filed a Notice of Eligibility pursuant to A.A.C. R14-2-
4 107(H)(2) notifying GCU that it met all of the eligibility requirements set forth in A.A.C. R14-2-
5 107(B) to file a rate case under Rule 107.

6 10. On October 27, 2015, Staff filed a Notice of Sufficiency pursuant to A.A.C. R14-2-
7 107(H)(3) notifying GCU that the Application met all of the requirements of A.A.C. R14-2-107(E)
8 and classifying the Cooperative as a Class B utility.

9 **DESCRIPTION OF GCU**

10 11. GCU is an Arizona member-owned non-profit natural gas distribution cooperative
11 headquartered in Pima, Arizona. GCU provides natural gas distribution service to approximately
12 4,745 members/customers located in Graham County, Arizona.

13 12. GCU has a nine member Board of Directors ("Board") elected to oversee all aspects
14 of the Cooperative's operations. The Board approved the filing of the Application at a regular
15 meeting of the Board on June 2, 2015.

16 13. GCU's last rate case was filed on July 13, 2012 (based on a test year ending September
17 30, 2011) and approved in Decision No. 74002, dated July 30, 2013. The current rates and charges
18 went into effect August 1, 2013, for GCU's customers.

19 **GCU PROPOSALS**

20 14. In the Application, GCU utilized a test year ending December 31, 2014.

21 15. Also in the Application, GCU requested to increase its annual gross revenue
22 requirement by \$114,237, from test year revenues of \$3,033,696 to \$3,147,933. This increase
23 represents an increase of 6 percent over test year base revenue from \$1,904,156 to \$2,018,393.

24 16. In its filing, GCU stated the rate application would result in an Operating Margin of
25 \$150,202.

26 17. The Application shows that a residential customer with monthly natural gas
27 consumption of 59 therms (average usage) in the winter will see an increase in his/her bill of \$1.30 per
28 month (from \$37.30 to \$38.60), or 3.5 percent. A residential customer with monthly natural gas

1 consumption of 46 therms (median usage) in the winter will see an increase in his/her bill of \$1.30 per
2 month (from \$32.39 to \$33.69), or 4 percent.

3 18. GCU stated the rate increase is necessary to recover operating costs. The rate increase
4 would allow GCU to maintain the financial integrity of the Cooperative.

5 19. As attachments to the Application, GCU submitted audited financial statements for
6 the year ended September 30, 2014, and a copy of its certified annual financial and statistical report to
7 the National Rural Utilities Cooperative Finance Corporation ("CFC") for calendar year 2014
8 including a divisional financial report.

9 **COOPERATIVE ELIGIBILITY**

10 20. For a cooperative to utilize the streamlined rate case process referred to as Rule 107,
11 several eligibility requirements must be met prior to beginning the process. As documented in the
12 notice of eligibility, Staff agrees that GCU has taken the necessary steps to comply with the eligibility
13 requirements of Rule 107.

14 **STAFF ANALYSIS**

15 21. As part of its review of the Application, Staff reviewed the purchased gas costs; the
16 fuel bank balance; the base revenue increase and test year data; the level of increase requested for each
17 rate schedule/class; the capital expenditures for the test year (including monies for infrastructure
18 development consisting of new distribution mains and services, upgrades to existing systems, and
19 installation of new equipment); proposed capital expenditure levels to ensure future system safety and
20 reliability; the proposed rate base, revenue, and expenses; and the proposed revenue requirement.
21 Staff also completed a compliance review.

22 22. GCU and Staff, the only parties to this case, are in agreement on all issues in this case.

23 *Purchased Gas Costs*

24 23. GCU reported purchased gas costs for the test year equal to \$1,223,721. Staff was able
25 to track and verify the purchased gas costs through a sampling of invoices provided by GCU to
26 support the reported costs.

27 24. Staff was able to track monthly fuel adjustor filings for the test year with those costs
28 and volumes reported in the Application, except for a variance between therms purchased from the

1 supplier and therms billed to GCU's retail customers. Staff noted the therms purchased in the test
2 year were 2,498,150. The therm sales during the test year were 2,547,838. Staff discussed the
3 difference in therms with GCU. GCU indicated that the difference was due to a metering issue.
4 During low flow months GCU regularly sells more therms than it purchases because the points on
5 approximately 50 service taps do not register correctly with the interstate pipeline company. GCU
6 also indicated it has had multiple discussions with the interstate pipeline company concerning the
7 variance in throughput. GCU noted that the interstate pipeline company acknowledges the issue and
8 has indicated that it is not cost effective to install small volume metering points to correct the
9 problem. Duncan Valley Electric Cooperative, Inc. – Gas Division has a similar issue as noted in
10 Decision No. 74996 dated March 16, 2015.

11 25. GCU did not calculate a new base cost of gas in the Application and held the bank
12 balance constant between the test year and proposed rates with test year data. Rule 107 specifies that
13 the increase request of a maximum of 6 percent is in base revenue, not attributed to revenue from an
14 adjustor mechanism. As established in Decision No. 71690, the base cost of gas was set to zero
15 moving the entire cost of gas to GCU's Purchased Gas Adjustor ("PGA"). Moving the entire cost of
16 gas to the PGA was believed to be a simpler method for tracking the cost of gas and to help facilitate
17 consumer understanding of bills. This Application does not propose a change to the existing PGA,
18 adopt a new adjustor or surcharge mechanism, nor does it adopt a new hook-up fee.

19 *Rate Design*

20 26. GCU provided proof of revenue broken down by rate schedule. In accordance with
21 Rule 107, all residential monthly system charge increases are less than 25 percent, the overall base
22 revenue increase, excluding PGA revenue, is no more than 6 percent, and all rate class increases are
23 within 150 percent of the base revenue increase requested. GCU did not propose any rate structure
24 change or non-price tariff change. Staff made an adjustment to the proposed rates for all customer
25 classes to account for a miscalculation in the prorated partial system charge on Schedule H-2 in
26 GCU's application. Staff's suggested rates are designed to collect the same revenue requirement as
27 requested by GCU.

28 . . .

1 27. Staff proposed rates detail a 3.62 percent increase in base revenue for residential
 2 customers with average winter usage resulting in an increase in a customer’s monthly bill of \$1.35, and
 3 a 4.16 percent increase in base revenue for residential customers with median winter usage resulting in
 4 an increase in a customer’s monthly bill of \$1.35.

5 28. GCU and Staff agree on the rates set forth in Exhibit A, which is attached hereto and
 6 incorporated herein.

7 *Staff Pipeline Safety Section*

8 29. Staff Senior Pipeline Inspector, Ryan Weight, analyzed the GCU application and
 9 reviewed the capital expenditures for the test year, which included monies for infrastructure
 10 development, including new distribution mains and services, upgrades to the existing systems and
 11 installation of new equipment such as measurement and pressure regulating stations. Staff also
 12 performed annual audits which include a procedure and records review in addition to an extensive
 13 field review of the system. These Audits focus on the operator’s compliance with Title 49, Code of
 14 Federal Regulations, Parts 191, 192, 199, and the A.A.C. R14-5-202 and R14-5-203, as the minimum
 15 standards for the transportation of natural gas by pipeline. Audits for years 2014 and 2015 produced
 16 minimal findings and no unresolved compliance issues.

17 30. Staff also noted that GCU had one substantial capital build-out project that was
 18 completed between May and September 2014. The project consisted of installation of approximately
 19 18,000 feet of new mains and services to supply natural gas to a new Bureau of Indian Affairs school
 20 and residential housing project near the town of Bylas.

21 31. GCU also conducted a project in June 2015 to replace approximately 800 feet of
 22 existing steel mains and services with new polyethylene (“PE”) mains and services in the San Jose area.

23 32. Based on its analysis, Staff Pipeline Safety concluded that:

- 24 1. capital expenditures for the test year were reasonable and appropriate to meet
- 25 the needs of GCU’s existing customers and ensure public safety and service
- 26 reliability;

27 ...

28 ...

- 1 2. capital expenditure levels proposed by GCU appear to be reasonable and
2 appropriate to meet the projected needs of GCU's existing and new customers
3 and ensure future system safety and reliability; however
4 3. this does not imply a specific treatment of rate base for rate making purposes
5 in GCU's future rate filings.

6 *Rate Base, Revenues, and Expenses*

7 33. In its filing, GCU treats the original cost rate base ("OCRB") the same as the fair value
8 rate base ("FVRB").

9 34. The Application requested a rate base of \$2,340,224, test year revenues of \$3,033,696
10 and expenses of \$3,132,194.

11 35. GCU and Staff are in agreement on the proposed rate base, revenues, and expenses
12 and recommends adoption.

13 *Revenue Requirement and Rate of Return*

14 36. GCU proposed a revenue requirement of \$114,237. The proposed revenue
15 requirement would produce an operating margin of \$150,202 resulting in a 5.65 percent rate of return
16 on an OCRB of \$2,340,224.

17 37. Staff has recommended adoption of GCU's proposed revenue requirement.

18 *Consumer Services*

19 38. Staff reviewed the Commission's records from January 1, 2012, through December 3,
20 2015, and found no complaints. Two opinions (objections) were filed during that period of time.

21 39. As noted above, Consumer Services received two customer opinions (objections) in
22 opposition to the Application which was within the limits to proceed under Rule 107. The
23 Corporations Division of the Commission finds the Cooperative in "Good Standing".

24 **CONCLUSIONS**

25 40. GCU's application is in compliance with Rule 107 allowing GCU's rate case to be
26 processed under the alternative streamlined process.

27 41. GCU and Staff are not requesting a hearing in this matter.

28 42. GCU's OCRB and FVRB are determined to be \$2,340,224.

1 IT IS FURTHER ORDERED that a compliance item implemented by Decision No. 68298,
 2 in an ordering paragraph on page 6, lines 1-4 of the Decision, that directs Graham County Utilities,
 3 Inc. – Gas Division to provide Docket Control, a plan by June 30, 2006, and by June 30th each year
 4 thereafter, indicating any fixed price supplies the Company has acquired for the following winter
 5 heating season and how the Company plans to hedge its natural gas supplies prior to the following
 6 winter heating season, is no longer necessary and that the last report filed by Graham County Utilities,
 7 Inc. – Gas Division on November 6, 2015, fulfills the requirement of this compliance item.

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

9 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

10 *D. Blitt*

11 **EXCUSED**
 12 COMM. STUMP

13 CHAIRMAN

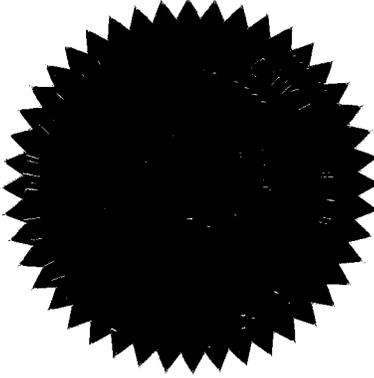
14 COMMISSIONER

15 *Proffese* *L.M. Tol* *Michael K. Burns*

16 COMMISSIONER

17 COMMISSIONER

18 COMMISSIONER



19 IN WITNESS WHEREOF, I, JODI JERICH, Executive
 20 Director of the Arizona Corporation Commission, have
 21 hereunto, set my hand and caused the official seal of this
 22 Commission to be affixed at the Capitol, in the City of
 23 Phoenix, this 22nd day of April, 2016.

24 *Jodi Jerich*
 25 JODI JERICH
 26 EXECUTIVE DIRECTOR

27 DISSENT: _____

28 DISSENT: _____

TMB:PJG:red\RWG

1 SERVICE LIST FOR: GRAHAM COUNTY UTILITIES, INC.
2 DOCKET NO. G-02527A-15-0319

3 Mr. Kirk Gray
4 Assistant General Manager
5 Graham County Utilities, Inc.
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7 Pima, Arizona 85543

8 Mr. Thomas M. Broderick
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10 Arizona Corporation Commission
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13 Ms. Janice Alward
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18 Mr. Dwight Nodes
19 Chief Administrative Law Judge, Hearing Division
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GRAHAM COUNTY UTILITIES, INC. - GAS DIVISION

	<u>Distribution Rates</u>	
	<u>Present</u>	<u>Proposed</u>
	<u>Rate</u>	<u>Rate</u>
<i>Rate Schedule GA - Residential Gas Service</i>		
Monthly Service Availability Charge	\$ 15.00	\$ 16.35
Delivery Charge - Per Therm for all gas	\$ 0.37800	\$ 0.37800
<i>Rate Schedule GB - Commercial Gas Service</i>		
Monthly Service Availability Charge	\$ 28.00	\$ 33.65
Delivery Charge - Per Therm for all gas	\$ 0.36000	\$ 0.37994
<i>Rate Schedule GI - Irrigation Gas Service</i>		
Monthly Service Availability Charge	\$ 24.00	\$ 27.60
Delivery Charge - Per Therm for all gas	\$ 0.18000	\$ 0.19050