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BEFORE THE ARIZONA CORPORATION COMMISSION

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

IN THE MATTER OF THE APPLICATION)
OF COPPER MARKET, INC. FOR AN)
ADJUSTMENT IN ITS PURCHASE GAS)
ADJUSTOR MECHANISM RATE ("PGAM"))

DOCKET NO. G-02308A-15-0406
DECISION NO. 75596
OPINION AND ORDER

Open Meeting
June 14 and 15, 2016
Phoenix, Arizona

Arizona Corporation Commission
DOCKETED
JUN 27 2016

BY THE COMMISSION:

DOCKETED BY

FINDINGS OF FACT

1. Copper Market, Inc. ("Copper Market" or "Company") is certificated to provide propane service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").
2. On December 4, 2015, Copper Market filed an application with the Commission requesting approval of adjustments to its Purchased Gas Adjustor Mechanism ("PGAM") rate to prevent continued and sustained over-collection of its PGAM bank balance. Copper Market first requests to decrease its PGAM rate from \$0.03174 per cubic foot ("cf") to \$0.01000 per cf starting in March of 2016. Subsequently, in order to avoid any large over- or under-collection (defined as more than \$100,000 in either direction), Copper Market is then proposing to moderately increase the PGAM rate to \$0.01500 per cf in March of 2018.
3. Additionally, Copper Market seeks clarification as to whether the bank balance threshold set forth for it Decision No. 61225, dated October 30, 1998, currently applies to Copper

1 Market. If it does, Copper Market requests that this bank balance threshold either be removed, or
2 modified to an average of \$100,000 over- or under-collection in a calendar year.

3 **Background**

4 4. Copper Market is a small distribution system company that provides propane service
5 to approximately 971 residential, commercial and "other" (composed of Company-owned business
6 and rental properties and non-profit organizations) customers located in Bagdad, Arizona, according
7 to its most recent monthly Purchased Gas Adjustor ("PGA") report (February 2016). Copper Market
8 is owned by Freeport McMoRan, Inc. ("Freeport"). Copper Market bills its customers on a per-cf
9 basis, rather than on a per-therm basis.¹ Copper Market states its PGAM is different from other local
10 gas distribution company adjustor mechanisms in that its cost rate does not change apart from specific
11 Commission action to change the rate.

12 5. In Decision No. 71409, dated December 8, 2009, the Commission approved a change
13 in Copper Market's PGAM rate from \$0.01874 per cf to \$0.03174 per cf, in monthly increments of
14 \$0.0010 per cf in response to Copper Market's request due to the \$778,635 negative bank balance it
15 had accumulated. Copper Market states that given how Copper Market acquires propane throughout
16 the year, the price to acquire it can fluctuate significantly and, as a result, the PGAM bank balance has
17 fluctuated between an over- and under-collection over the course of a calendar year as well as over the
18 course of the past few years. At the end of February 2016, the PGAM bank balance totals an over-
19 collection of \$282,896 and is currently forecasted to reach a total of \$336,843 in over-collections by
20 the end of 2016. Thus, absent a change in the PGAM rate, the PGAM bank balance may increase
21 significantly. Therefore, with this application, Copper Market seeks to reduce the over-collection
22 (essentially refunding its customers for over-collections held consistently throughout the calendar
23 year) and keep the PGAM bank balance at a level where both over- and under-collections are modest
24 throughout the year and not exceeding \$100,000 either way.

25 6. To achieve these goals, in its application, Copper Market proposes a stepped approach
26 to its PGAM rate. Specifically, Copper Market first proposes to reduce the current PGAM rate of
27

28 ¹ One (1) therm of propane equals approximately forty (40) cubic feet.

1 \$0.03174 per cf to \$0.01000 per cf in March of 2016 which it stated should reduce the average over-
2 collected monthly bank balance to \$147,255 by the end of 2016 and eventually under \$100,000 in
3 2017. Subsequently, Copper Market proposes to increase its PGAM rate to \$0.01500 per cf beginning
4 in March of 2018. Copper Market believes that assuming propane prices stay relatively stable and
5 predictable, these steps should keep the PGAM bank balance within a range of not exceeding
6 \$100,000 in either direction over the next few years. In anticipation of a stable propane price, Copper
7 Market believes this adjusted gas rate, together with the base gas rate of \$0.01280 per cf, will
8 accurately reflect Copper Market's average purchase gas costs for the foreseeable future.

9 7. Copper Market included with its application an Exhibit A, which are schedules
10 detailing the PGAM bank balance levels and detailing how adjusting the PGAM rate as described will
11 reduce the average over-collection by Copper Market as well as keeping the bank balance within the
12 proposed range.

13 **Analysis**

14 *PGAM Rate*

15 8. Propane is produced through the processing of natural gas and the refining of oil.
16 Propane pricing data are published by the Energy Information Administration ("EIA") for the Mont
17 Belvieu trading hub in Texas. Although Copper Market does not receive supplies from Mont Belvieu,
18 it is a useful pricing point for the purpose of tracking changes in propane prices. At Mont Belvieu,
19 propane prices ranged from \$0.802 per gallon in November of 2014 to \$0.43 per gallon in November
20 2015.

21 9. Historically, propane prices have been their highest in the winter months and dropped
22 in the summer months. For example, in February of 2015 the Mont Belvieu propane price was \$0.573
23 while in June of 2015 it was \$0.369. Copper Market's costs tend to be higher than the Mont Belvieu
24 prices due to the lack of propane infrastructure and higher delivery costs in Arizona. Staff notes that
25 wholesale propane prices can be very volatile and may change unexpectedly due to factors such as oil
26 market conditions and weather. For example, largely due to the downward oil market, the January
27 2016 price was \$0.336 per gallon; a price even lower than in the summer month of June 2015.

28 ...

1 10. Copper Market provided Staff with spreadsheet projections regarding the sales to
2 customers, propane purchases, and estimated PGAM rates to gauge how the bank balance would
3 change through December of 2020 under Copper Market's proposed surcharge changes. In the
4 original spreadsheet which provided the basis for the bank balance numbers and timeline detailed in
5 Copper Market's application, Staff discovered calculation errors as well as a typo in the current PGA
6 rate. Additionally, several months have passed since the filing of the application which makes the
7 imposition of a newly adjusted PGAM rate in March 2016 unrealistic. Finally, over the course of the
8 aforementioned several months, Copper Market has provided monthly PGA reports which have
9 allowed Staff to replace forecasted numbers with actuals.

10 11. Given all of the above and after corrections to the spreadsheet were implemented,
11 Staff calculates that the Copper Market proposed PGAM rate of \$0.01000 per cf applied in July of
12 2016 would reduce the forecasted over-collected bank balance to \$226,519 by the end of December
13 2016 and to \$99,596 by the end of September 2017. Copper Market also proposes to increase its
14 PGAM rate to \$0.015 per cf beginning in March of 2018. However, again after using the corrected
15 spreadsheet calculations, Staff found that the implementation of a PGAM rate of \$0.015 in March of
16 2018 does nothing to address a slide into a greater negative bank balance set in motion by the previous
17 proposed PGAM rate of \$0.01000. The year 2018 ends with a forecasted bank balance of negative
18 \$98,547; 2019 ends with a forecasted negative \$202,363; and 2020 ends with a forecasted negative
19 \$312,742.

20 12. Copper Market also states that assuming propane prices stay relatively stable and
21 predictable, its two-step adjustments should keep the PGAM bank balance within a range of not
22 exceeding \$100,000 in either direction over the following few years. Copper Market anticipates the
23 price of propane to remain relatively stable, and this adjusted gas rate, together with the base gas rate
24 of \$0.01280 per cf, will accurately reflect Copper Market's average purchase gas costs for the
25 foreseeable future. Given the preceding corrected calculation conclusion, Staff respectfully disagrees.
26 Also, while propane prices may remain relatively stable over short periods of time, long term they are
27 anything but consistent and subject to external market and climate factors.

28 ...

1 13. Staff agrees that Copper Market should adjust its PGAM rate downward in order to
 2 address the current over-collection situation. However, in order to avoid the projected long-term slide
 3 into a large negative bank balance, Staff recommends that the PGAM rate decrease in a more gradual
 4 step down process. While it has been the past practice of Copper Market to write off negative bank
 5 balances (discussed further below), the reason for its 2009 Commission application was to adjust its
 6 PGAM rate due to an uncorrectable and ever increasingly large negative bank balance and to strive for
 7 a bank balance close to zero. Therefore, Staff recommends Copper Market adjust its PGAM rate in
 8 the following manner:

- 9 • Starting with the next possible month, decrease the PGAM rate from \$0.03174 to
 10 \$0.02000.
- 11 • Beginning in January of 2017, decrease the PGAM rate to \$0.01750.
- 12 • Beginning in January of 2018, decrease the PGAM rate to \$0.01500.
- 13 • Beginning in January of 2019, increase the PGAM rate to \$0.01750.
- 14 • Beginning in January of 2020, increase the PGAM rate to \$0.02000 and keep this rate
 15 in effect until a subsequent PGAM rate adjustment is approved.

14 14. Below is TABLE 1 detailing the possible impact from the proposed rate changes on
 15 Copper Market's bank balance and the PGA charge on a residential customer's bill in comparison with
 16 Copper Market's proposed changes. In its current application, Copper Market states that its
 17 calculations are based on a residential monthly average use of approximately 2,061 cubic feet. Staff
 18 determined that this number was taken from Copper Market's previous 2009 Commission filing and
 19 therefore regards this number as out of date. Staff looked at Copper Market's monthly Bank Account
 20 Reports submitted for the 2015 year and determined the residential monthly average use was 1,097
 21 cubic feet and thus uses this latter number in its calculations to determine bill impact numbers below.

TABLE 1

Year	Company Proposed PGAM Rate	PGAM Effective Date	Company Residential Bill PGA Charge	Projected Year Ending Bank Balance	Staff Proposed PGAM Rate	Staff PGAM Effective Date	Staff Residential Bill PGA Charge	Projected Year Ending Bank Balance
2016	\$0.03174	Current	\$34.82	\$336,843				\$336,843
2016	\$0.01000	7/1/16	\$10.97	\$199,611	\$0.02000	7/1/16	\$21.94	\$277,266
2017	\$0.01000	7/1/16	\$10.97	\$3024	\$0.01750	1/1/17	\$19.20	\$189,814
2018	\$0.01500	3/1/18	\$16.46	\$(133,409)	\$0.01500	1/1/18	\$16.46	\$85,189
2019	\$0.01500	3/1/18	\$16.46	\$(243,941)	\$0.01750	1/1/19	\$19.20	\$17,610
2020	\$0.01500	3/1/18	\$16.46	\$(359,405)	\$0.02000	1/1/20	\$21.94	\$(21,195)

1 15. Using the preceding proposed methodology, it is projected that Copper Market will be
2 able to adjust its rate in incremental steps so as to avoid giving customers whiplash from see-sawing
3 PGA charges, keep a customer PGA charge at a level below what customers currently experience and
4 work towards achieving a bank balance threshold at a range of not exceeding \$100,000 in either
5 direction.

6 *Bank Balance Threshold*

7 16. In this application, Copper Market seeks clarification on whether the bank balance
8 threshold in Commission Decision No. 61225, dated October 30, 1998, still applies to Copper Market.
9 In this decision, in Finding of Fact No. 10, the Commission set Copper Market's PGAM bank balance
10 threshold at \$7,500. However, as Copper Market states in its application, in the same decision,
11 Finding of Fact No. 23 provided a means by which Copper Market could be exempted from "all other
12 requirements of this order" if it submitted a plan, which Staff was to approve, by July 1, 1999 to
13 address the under-collected bank balance, including by writing off the under-collected balance.
14 Copper Market states it has been writing off under-collected balances and points to Decision No.
15 71409, dated December 8, 2009, Finding of Fact No. 4, which noted Copper Market stated previously
16 that this is its practice. Due to the Commission's acknowledgement of the practice in Decision No.
17 71409, Copper Market believes that the bank balance threshold set in Decision No. 61225 no longer
18 applies. Copper Market requests that, if the bank balance threshold still is in effect, the threshold
19 either be removed or modified to \$100,000 over- or under-collection, based on the average bank
20 balance over the course of a calendar year.

21 17. While Staff was unable to locate, and Copper Market was unable to provide, a copy of
22 the submitted plan, Staff was able to locate a letter (Exhibit A) dated March 2, 1999, from Staff to a
23 representative from Copper Market indicating Staff's approval of Copper Market's new PGA
24 mechanism along with the write off of a PGA bank balance. This letter also references the
25 implementation of a positive \$20,000 bank balance threshold as part of this plan. Staff believes it is
26 reasonable to conclude this letter is in response to Copper Market's required plan that exempted it
27 from "all other requirements" of Decision No. 61225 which included the bank balance threshold of
28 \$7,500. However, Staff also believes the \$20,000 bank balance threshold remains in effect. Since a

1 bank balance threshold is currently in effect, Staff finds Copper Market’s request to modify it to a
 2 \$100,000 reasonable given the market fluctuations. However, given that the preceding discussion
 3 regarding the implementation of the PGAM rate modification does not bring this threshold into place
 4 by approximately the end of 2018, Staff recommends Copper Market file with the Commission at that
 5 time a notice indicating if the threshold goal is on track to being met and if another adjustment of the
 6 PGAM rate is necessary.

7 **Summary of Recommendations**

8 18. Therefore, based on the preceding discussion, Staff recommends that the Commission
 9 approve the following:

- 10 • The Staff proposed incremental changes in Copper Market’s PGAM rate as detailed in
 11 TABLE 1.
- 12 • Adjustment of Copper Market’s bank balance threshold to \$100,000 for over- or
 13 under-collection, based on the bank balance at the end of the calendar year.
- 14 • At the end of 2017, Copper Market file with the Commission a notice indicating if the
 15 threshold goal is on track to be met and if another adjustment of the PGAM rate is
 16 necessary.

15 CONCLUSIONS OF LAW

16 1. Copper Market, Inc. is an Arizona public service corporation within the meaning of
 17 Article XV, Section 2, of the Arizona Constitution.

18 2. The Commission has jurisdiction over Copper Market, Inc. and over the subject
 19 matter of the Application.

20 3. The Commission, having reviewed the application and Staff’s Memorandum dated
 21 May 31, 2016, concludes that it is in the public interest to approve Staff’s proposed incremental
 22 changes in Copper Market’s PGAM rate as discussed herein.

23 4. The Commission also concludes Staff’s recommended bank balance threshold is in the
 24 public interest and should be adopted.

25 ORDER

26 IT IS THEREFORE ORDERED that for Copper Market, Inc. the PGAM surcharge changes
 27 be, and hereby is, approved in the following manner:

28 ...

- 1 • Starting with the next possible month, decrease the PGAM rate from \$0.03174 to
- 2 \$0.02000.
- 3 • Beginning in January of 2017, decrease the PGAM rate to \$0.01750.
- 4 • Beginning in January of 2018, decrease the PGAM rate to \$0.01500.
- 5 • Beginning in January of 2019, increase the PGAM rate to \$0.01750.
- 6 • Beginning in January of 2020, increase the PGAM rate to \$0.02000 and keep this rate
- 7 in effect until a subsequent PGAM rate adjustment is approved.

8 IT IS FURTHER ORDERED that Copper Market, Inc. shall maintain a bank balance
9 threshold of \$100,000 of over- or under-collection based on the bank balance at the end of the
10 calendar year.

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1 IT IS FURTHER ORDERED that at the end of 2017, Copper Market shall file with the
2 Commission a notice indicating if the threshold goal is on track to be met and if another adjustment
3 of the PGAM rate is necessary.

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

6 BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

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9 CHAIRMAN



COMMISSIONER

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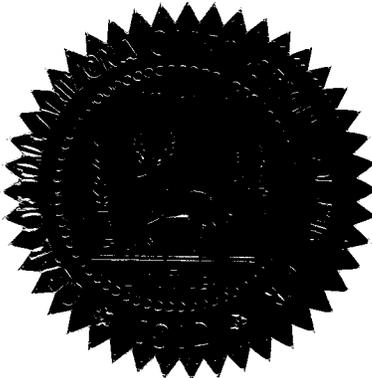
12 COMMISSIONER



COMMISSIONER



COMMISSIONER



17 IN WITNESS WHEREOF, I, JODI JERICH, Executive
18 Director of the Arizona Corporation Commission, have
19 hereunto, set my hand and caused the official seal of this
20 Commission to be affixed at the Capitol, in the City of
21 Phoenix, this 27th day of June, 2016.


JODI JERICH
EXECUTIVE DIRECTOR

22 DISSENT: _____

23 DISSENT: _____

24 TMB:MAC:red\CHH

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1 SERVICE LIST FOR: Copper Market, Inc.
2 DOCKET NO. G-02308A-15-0406

3 Mr. Jason Gellman
4 Snell & Wilmer, LLP
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7 Mr. Thomas M. Broderick
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9 Arizona Corporation Commission
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G-02308A-15-0406

STUART R. BRACKNEY
ACTING EXECUTIVE SECRETARYM IRVIN
COMMISSIONER-CHAIRMAN
TONY WEST
COMMISSIONER
CARL J. KUNASEK
COMMISSIONER

ARIZONA CORPORATION COMMISSION

March 2, 1999

Ron Brown
Accounting Manager
Copper Market, Inc.
P.O. Box 245
Bagdad, AZ 86321

Dear Mr. Brown:

This letter is to inform you of the Commission Staff's approval of your new PGA mechanism as well as the write-off of the PGA bank balance as of December 31, 1998. Staff agrees with the write-off of the December 31, 1998 bank balance of \$102,010.79.

Based upon discussions between Staff and Copper Market, it is our understanding that the new PGA mechanism would be the same as the existing PGA mechanism, with the addition of a trigger if the PGA bank balance exceeds \$20,000. The trigger would require Copper Market to file with the Commission for a review of the PGA rate within 45 days of the completion of the monthly bank balance exhibits that illustrate that the \$20,000 threshold has been exceeded. Additionally, Staff recognizes that Copper Market may file for a PGA rate change at other times if the company feels that such a filing is necessary.

If you have any questions, please contact Bob Gray at 602-542-0827.

Sincerely,

A handwritten signature in black ink that reads "Ray Williamson".

Ray Williamson
Acting Director
Utilities Division