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March 1, 2004

Chairman Marc Spitzer
Commissioner William Mundell
Commissioner Mike Gleason
Commissioner Jeff Hatch-Miller
1200 W. Washington Ave.
Phoenix, Arizona 85007

Re: Unisource Energy Services/Natural Gas Price Increases: Next Steps, Docket Nos. E-01032C-00-0751, G-01032A-02-0598, E-01933A-02-0914, E-01032C-02-0914

G-01032A-02-0914

Dear Colleagues:

I thank you for joining me in Prescott for the two meetings on Unisource's skyrocketing natural gas rates. It is clear that this Commission must act swiftly to help the people of northern Arizona deal with this emergency.

I propose that the Commission take the following steps before March 11 in light of what we heard in Prescott:

- Lift the surcharge: I believe the gas surcharge must be halted for the remainder of this winter and that the Commission should consider eliminating it for the rest of the year. To echo the words of the Chairman at our second meeting in Prescott: "The surcharge has to come off." I concur, and it must come off now. I believe this proposal is also consistent with Commissioner Mundell's notion to re-institute the holiday surcharge.

- Reduce the circuit breaker: I agree that the circuit breaker should be reduced and recalculated, although I would lower it to 100 percent for the March billing cycle in order to cover more residents.

- Demand an accounting of recent Unisource profits: I would like an accounting from Unisource of the money it saved from laying off up to 10 individuals following its acquisition of Citizens. I would also like a complete accounting of the profits announced by Unisource and whether any of those profits are attributable to the price increases in northern Arizona. If there has been profiteering at the expense of ratepayers, those monies should be rebated.

- Hold a special open meeting: We should hold a special public meeting to offer Unisource the opportunity to present its case for or against lifting the surcharge and lowering the circuit breaker and to present to the Commission the results of the aforementioned accounting on its profits and savings from downsizing its staff.

- Order to Show Cause on lack of notice/outreach by Unisource: We should ask the staff to prepare an order to show cause for the Commission's consideration against Unisource for its apparent failure to properly notify its customers that the rate increase and surcharge were coming. If there is a fine levied against the company, the money should be applied back to the ratepayers of northern Arizona.

As I mentioned at Thursday's meeting in Prescott, I have already asked staff to analyze the average UES customer's bill under various scenarios, including elimination of the surcharge, halving the surcharge, and phasing in the rate increase. The results are as follows:

Actual Monthly Bill - $127.80
No Surcharge - $112.73
Half Surcharge - $120.27
Phase-In of Margin Rate (1/3) - $118.32
Phase-In of Margin Rate (2/3) - $123.06

For the phase-in examples the customer charge (which went from $5 to $7) was not phased in. Fees and taxes are used for Prescott, so these would likely vary for other UNS served communities. And all examples are based on the January 2004 PGA rates, etc. and the 118 therms of usage.

I feel that time is of the essence. Something must be accomplished in an expedient manner that complies with all due process requirements. Again, I would like to thank each of you for your dedication to this issue.

Sincerely,

Kris Mayes
Commissioner