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March 10, 2004

Chairman Marc Spitzer
Commissioner Hatch-Miller
Commissioner Gleason
Commissioner Mayes

Re: Natural Gas Price Issues in Prescott; UNS Gas & Citizens Communications PGA Surcharge, Docket No. G-01032E-03-0515; Citizens Communications & UNS Energy Corporation – Sale of Assets, Docket Nos. E-01032C-00-0751, G-01032A-02-0598, E-01933A-02-0914, E-01032C-02-0914, G-01032A-02-0914

Dear Colleagues:

In his March 2, 2004 letter, Chairman Spitzer invited each of our offices to submit written proposals on how to address the rate shock that UniSource's gas customers are currently experiencing. In my letter to UNS dated February 27, 2004, I suggested that we reinstitute the surcharge holiday to provide relief to those customers. That, in essence, is what I am proposing today.

I am aware that any holiday imposed will prolong the amount of time it takes the PGA bank balance to reach zero. I am not convinced, however, that paying down the balance over a shorter period of time without providing immediate relief is in the best interest of consumers. That being said, here is my proposal:

- Remove the full surcharge for March 2004
- Halve the surcharge for April 2004
- Reimpose the full surcharge for May 2004 through November 2004 without a circuit breaker
- Halve the surcharge for December 2004
- Remove the full surcharge for January and February 2005
- Halve the surcharge for March 2005
- Reimpose the full surcharge without a circuit breaker for April 2005 and continue to apply it until the PGA bank balance reaches zero or October 2005, whichever occurs first.

My proposal will provide immediate relief to UNS customers from the overwhelming increase in their gas bills, as well as insuring that they will not be in the same situation during the next heating season.

I look forward to discussing my proposal, as well as those of my fellow Commissioners, at the March 12th Open Meeting.

Sincerely,

William A. Mundell

William A. Mundell, Commissioner
Arizona Corporation Commission

cc: Brian McNeil, Executive Secretary
Ernest Johnson, Utilities Division Director
Chris Kempley, Chief Counsel, Legal Division
Docket Control
Parties of record