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Direct Line: (602) 542-4143
Fax: (602) 542-0765
E-mail kmayes@cc.state.az.us

April 16, 2004

Mr. James Pignatelli
Chairman, President & Chief Executive Officer
Tucson Electric Power/UniSource Energy
P.O. Box 711
Tucson, AZ 85702

G-01032A-02-0598 and E-01933A-02-0914.

Dear Mr. Pignatelli:

The high cost of electricity in Mohave and Santa Cruz counties continues to be a matter of serious concern for the citizens of these counties and for me. As you know, Commission Decision # 66028 requires that you attempt to renegotiate your purchase power contract with Pinnacle West Capital Corporation. I am writing this letter to discuss your efforts to comply with that order and some steps that could be taken to bolster efforts to reduce electricity prices.

RFP

On February 17, 2004, in an effort to see whether it could find a better price on the market, UniSource issued an RFP to potential bidders for service in Mohave and Santa Cruz counties. I applaud the efforts of UniSource to try and locate a lower cost provider. However, I believe that this RFP contained various clauses that may have precluded some providers from bidding or may have caused the providers who did participate to bid high. Among my concerns are:

- **Frozen Bid** – The RFP required that the bids would be frozen for the amount of time that it took UNS to analyze the bids, which took two weeks. Did the amount of time that these bids were required to be frozen discourage bidders from participating in your RFP?

- **Incremental Amounts of Power** – Was 25 MW, in some products, the correct amount to use as an increment? Could you have used a smaller number and received better bids?

- **ACC Review and Approval** – As you know, the Commission has tended not to pre-approve FERC-jurisdictional wholesale contracts. Did the requirement in the RFP that the contract be submitted to the ACC for approval dissuade merchant plants from participating in the bidding? And did it cause those who participated to submit higher bids to account for that risk?

- **Local Power Plants** – Did either Southpoint or Griffith participate in the RFP? I would like to know if either of the power plants that are located in Mohave County are interested in providing power to their community.

Separate RFPs for Mohave and Santa Cruz

It also appears that if you offer an RFP in the future, you may want to look at conducting two separate RFPs, one for Mohave and one for Santa Cruz. These two locations are hundreds of miles apart and have highly divergent transmission requirements. Issuing a single RFP for both areas may inhibit some providers from bidding.

FERC Negotiation Process

It has come to my attention that you have decided not to utilize the FERC negotiation process in regard to this contract. I would like you to discuss why you have decided against this venue and if you have some other form of remedy in mind. Since your Dec. 19th letter responding to Commissioner Mundell's query on this matter, have you received more information that has led you to reject pursuing FERC mediation? If so, please detail that information.

Transmission

Transmission is one of the keys to providing lower cost electricity in Mohave County. Generation is meaningless if there is no way for power to reach demand. Is there enough transmission in Mohave and Santa Cruz counties? Is there enough transmission from the Palo Verde hub to both counties? If not, what are you doing to address this problem? Also, if there is not enough transmission, did this have an effect on the RFP?

PWCC Meeting

In your April 2 Progress Report to the Commission, your attorney Mr. Campbell stated that UES representatives met with PWCC and discussed alternatives for restructuring the PWCC contract, "including resource additions at UES and how UES and PWCC could lay the groundwork for future discussions related to these matters. UES committed to provide some structural examples for discussion within the next few weeks." Please elaborate on these discussions. Specifically, what resource additions are referenced in this statement?

I would appreciate your prompt attention to these concerns and questions.

Sincerely,

Kristin K. Mayes
Commissioner

Cc: Chairman Marc Spitzer
Commissioner William Mundell
Commissioner Mike Gleason
Commissioner Jeff Hatch-Miller
Brian McNeil