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Arizona Corporation Commission

March 10, 2004
DOCKETED

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Chairman Marc Spitzer
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

MAR 10 2004

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AZ CORP COMMISSION
DOCUMENT CONTROL

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Re: *UniSource Energy Services-Natural Gas Issues*
Docket No. G-01032E-03-0515; Docket No. G-01032A-02-0598;
Docket No. G-01032A-02-0914; Docket No. E-01032C-00-0751;
Docket No. E-01933A-02-0914; Docket No. E-01032C-02-0914

Dear Chairman Spitzer:

UniSource Energy Corporation and its affiliates (collectively "UniSource Energy") are dedicated to providing safe, reliable and reasonably-priced utility services to the citizens of Arizona. We are deeply committed to fulfilling our mandate as providers of utility services to the public and work hard to do so. I believe that our record supports our commitment and dedication to meeting the needs of our customers, being responsible neighbors in the communities we serve and working with federal, state and local government agencies to resolve any issues that may arise.

As Chairman of the Board of Directors, President and Chief Executive Officer of UniSource Energy, I take a special, personal interest in seeing that the needs of our customers are met. That is why I have taken the lead in responding to the concerns that have been raised by our gas customers in the Prescott area. I attended the Open Meetings in Phoenix and Prescott because I want to know first-hand the concerns of our customers, I want our customers to know that we are committed to serving them and I want to be in a position to resolve any problems that may arise. In fact, one of the beneficial aspects of our acquisition of Citizens Communications' gas and electric properties is our ability to provide in-state leadership. We believe that this will prove to be an extremely positive relationship for our customers.

I am obviously concerned with the issues that have arisen in the Prescott area. The bill increases our customers are experiencing are real. Natural gas price volatility is also real.

We have already taken immediate steps to supplement our education efforts in the Prescott area to make more customers aware of mitigation programs that are available. I believe that the Budget Billing program is one way that customers may obtain immediate

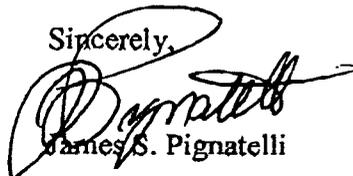
(although short-term) relief from higher gas bills. I have confirmed that all customers may sign up for this program now even if there is no actual customer usage history. I have indicated that this program may apply retroactively to any unpaid balances. I have also publicly committed that we will not disconnect any customer in the Prescott area for non-payment of bills for gas usage up to April 1, 2004. In the Prescott Open Meeting, Commissioner Hatch-Miller requested detailed information regarding our practices and specific customer bills to be provided to him within 24-hours. We did so and have provided additional follow-up information as well.

I have listened to various proposals made by our customers and the Commissioners. I have also studied the suggested solutions in the letters circulated by the Commissioners in connection with the gas concerns in the Prescott area. I have consulted with our officers and operational employees and propose the following additional measures to alleviate the impacts of the increased customer bills:

1. We believe that an adjustment to the Circuit Breaker would help address gas usage attributable to extreme cold weather in winter months and would propose to lower the Circuit Breaker at 125% as suggested in your letters.
2. In order to assist our customers with lower incomes, we will agree with Commissioner Gleason's proposal to exempt "Cares Customers" from the surcharge. This proposal could be made permanent with Commission concurrence.
3. We propose discontinuing the imposition of the surcharge as of November 1, 2004. According to our calculations, this would leave approximately \$1.1 million remaining uncollected. We would propose that this balance accrue interest at LIBOR plus 250 basis points per annum instead of the current 90-day commercial paper rate.
4. We will work with the Commission Staff to develop the appropriate notice to explain the Commission's decision regarding the various proposals for submission to the Commission by March 31, 2004.

We look forward to discussing our proposals with the Commission in more detail at the Open Meeting scheduled for March 12, 2004. In the meantime, we are continuing our efforts to work with our customers in the Prescott area.

Sincerely,



James S. Pignatelli

Chairman Marc Spitzer
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Original and 20 copies filed this
10th day of March, 2004 with
Docket Control.

Copy of the foregoing hand-delivered
this 10th day of March, 2004 to:

Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Mike Gleason
Commissioner Kristin Mayes
Lyn A. Farmer, Hearing Division
Christopher C. Kempley, Legal Division
Ernest G. Johnson, Utilities Division

