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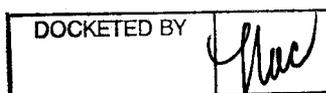
April 2, 2004

Arizona Corporation Commission  
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Arizona Corporation Commission  
Utilities Division – Docket Control  
1200 W. Washington Street  
Phoenix, Arizona 85007



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AZ CORP COMMISSION  
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Re: UniSource Energy Services Progress Report  
Docket Nos. E-01032C-00-0751, G-01032A-02-0598, E-01933A-02-0914,  
E-01032C-02-0914, G-01032A-02-0914  
A.C.C. Decision No. 66028

Pursuant to A.C.C. Decision No. 66028, UniSource Energy Services (“UES”) files this progress report on the negotiations to restructure the Pinnacle West Capital Corporation (“PWCC”) Power Supply Agreement (“PSA”).

As stated in the March status report, UES was in the process of evaluating bids received from its RFP. This evaluation has been completed with its results detailed in the attached confidential appendix and summarized below. The confidential attachment only identifies bidders by a code letter.

**RFP Summary**

UES received bids from 10 respondents covering standard products (on-peak, off-peak and 7x24) as well as full and partial requirements bids, dispatchable bids and day ahead calls as requested in the RFP. The bids were structured with a variety of different pricing mechanisms including fixed price, demand and energy pricing, and variable pricing based on a heatrate and gas index. The bids also provided a mix of unit contingent and firm energy bids.

The bids were analyzed using forward gas price curves as of the RFP bid deadline, March 11, 2004. The bids were initially screened using excel models to determine like-product pricing. Then a least cost portfolio of bids was determined utilizing our resource evaluation and optimization software Strategist, developed by New Energy Associates.

Based on these analyses and the existing PWCC contract serving the UES load through May 2008, UES will not be entering into any contracts or negotiations at this time. A more detailed explanation of individual bids and least cost plan results as well as comparisons to the PWCC contract are covered on the first page of the confidential appendix.

UES is evaluating the post May 2008 timeframe and its resource needs and desired portfolio structure and procurement timeline. UES plans to procure these resources through direct negotiations with third parties, soliciting bids for these products in a similar manner as this RFP, or a combination thereof. We also understand that market conditions may improve in the future and will look for such an opportunity to revisit a similar RFP process.

### **PWCC Meeting**

UES representatives met with PWCC on Tuesday, March 30, 2004 to discuss the RFP results and possible related renegotiation strategies. This meeting was planned prior to the RFP results being known with the intention that PWCC and UES could look to alternatives market supplies from the RFP process to aid in the renegotiation process and structure.

Given the results of the RFP, the focus was shifted to discussing other alternatives for restructuring the 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.

### **Other Information**

As another data point for current market prices, a UES industrial customer in Mohave County has recently approached UES to find a way to obtain a cheaper power supply. UES has discussed the option of the customer obtaining wholesale power from a competitive supplier. The customer informed UES that they are in the process of discussions with several large wholesale marketers in the region. To date they have not been able to obtain power less expensive than the UES rate.

Very truly yours,

LEWIS AND ROCA LLP



Thomas H. Campbell

- c: Ernest Johnson, Utilities Division Director (w/confidential enclosures)  
A.C.C. Compliance Manager (w/o confidential enclosures)  
All Parties of Record (w/o confidential enclosures)