

**LEWIS
AND
ROCA**
LLP
LAWYERS

Phoenix Office
40 North Central Avenue
Phoenix, Arizona 85004-4429
Telephone (602) 262-5311
Facsimile (602) 262-5747

Tucson Office
One South Church Avenue
Suite 700
Tucson, Arizona 85701-1620
Telephone (520) 622-2090
Facsimile (520) 622-3088



0000005044

Facsimile (702) 949-8398

Thomas H. Campbell
Direct Dial: (602) 262-5723
Direct Fax: (602) 734-3841
E-Mail: TCampbell@lrlaw.com
Admitted in Arizona

Our File Number 35867-00009

June 1, 2004

HAND DELIVERED

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

RECEIVED
2004 JUN - 1 P 4: 04
AZ CORP COMMISSION
DOCUMENT CONTROL

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, G-01032E-03-0515
ACC 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”).

The current PWCC PSA provides UES customers with the benefit of stable, fixed price, full requirements supply with no stranded cost risks through May of 2008. As detailed in the April 2, 2004 status report, UES had completed an RFP process to evaluate alternatives for restructuring the PSA. Most of the RFP bids were based on gas index, or variable, power prices. Since the RFP evaluation, gas prices have risen considerably (see the enclosed Exhibit A). If UES would have restructured the PWCC contract and entered into any of these floating price contracts, any unhedged portions of the purchases would have risen dramatically resulting in higher rates to our customers. To put this in perspective, for a high usage month like August 2004, this increase would have been 16%. Given the results of this RFP and the current gas and power market prices and volatilities, UES believes strongly that the PWCC PSA in its current form is the best available supply alternative for UES customers.

Arizona Corporation Commission
DOCKETED

JUN - 1 2004

DOCKETED BY	
-------------	--

Although the current market is not conducive to a restructuring of the PSA, UES has had and will continue to have discussions with PWCC to address the many different scenarios that may arise to set the stage to take advantage of other opportunities in the future should the market have a favorable change.

Very truly yours,

LEWIS AND ROCA LLP



Thomas H. Campbell

THC:hjg

cc: Ernest Johnson, Utilities Division Director
A.C.C. Compliance Manager
All Parties of Record

Exhibit A. NYMEX Futures Prices

