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June 1, 2004

**HAND DELIVERED**

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, 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**

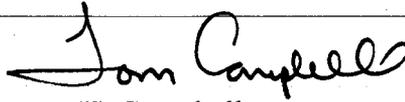
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Although the current market is not conducive to a restructuring of the PSA, UES has had and will continue to have discussions with PWCC to address the many different scenarios that may arise to set the stage to take advantage of other opportunities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

Very truly yours,

LEWIS AND ROCA LLP



Thomas H. Campbell

THC:bjg

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

# Exhibit A. NYMEX Futures Prices

