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BEFORE THE ARIZONA CORPORATION COMMISSION

Arizona Corporation Commission

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COMMISSIONERS

JEFF HATCH-MILLER, Chairman 2005 MAR -3 P 4: 09
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

AZ CORP COMMISSION
DOCUMENT CONTROL

DOCKETED

MAR - 3 2005

DOCKETED BY

IN THE MATTER OF THE APPLICATION OF
UNS GAS, INC. FOR APPROVAL OF
ADJUSTMENT TO PURCHASED GAS
ADJUSTOR SURCHARGE

Docket No. G-04204A-05-0046

**NOTICE OF FILING AMENDED
STAFF MEMORANDUM AND
PROPOSED ORDER**

Arizona Corporation Commission Staff ("Staff") hereby files an amended version of its Staff Memorandum docketed February 17, 2005. The purpose of the amended memorandum is to correct certain items in the original staff memorandum and proposed order. None of the changes described below affect Staff's recommendation. Staff still recommends implementation of a \$0.05 per therm surcharge to eliminate the undercollected balance by May of 2005. In addition, Staff still recommends that the surcharge be implemented April of 2005 and be in effect for the earlier of twelve months or when UNS' balance becomes zero. Finally, despite the errors highlighted below, the trends portrayed in the graphs within Attachments I and II portray have not changed significantly.

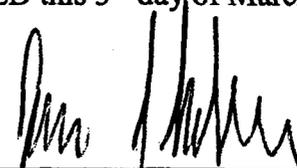
The five changes made in the amended staff memorandum are as follows:

1. The amended staff memorandum, on page 1 at paragraph 4, now correctly indicates that UNS' most recent surcharge - \$0.1155 per therm - was approved in Decision No. 66341 (September 30, 2003), not Decision No. 65384 (November 13, 2002). The proposed order, at paragraph 5, also reflects this change. These two paragraphs are also modified to better summarize all three Commission orders mentioned.
2. Certain errors occurred in calculation of customer bills as a result of data supplied by UNS Gas, Inc. The data supplied to Staff by UNS Gas, Inc. was characterized as 'December Actuals' when in fact it contained some projections in place of actual historic data. These errors and their accompanying corrections do not effect the projected recovery period shown in Attachment I. The errors affect the examples of customer's bills shown in Tables I and II of the original staff memorandum and the proposed order. Also affected was the Attachment III in the initial staff memorandum. The errors in these customer bill examples overstated anticipated customer bills in the initial staff memorandum - filed February 17, 2005 - by a factor of as much as 12 percent. Tables I and II in the amended staff memorandum and proposed order now accurately reflect the impact of Staff's proposal on customer bills. The amended staff memorandum also contains a correct Attachment III.

- 1 3. The original staff memorandum, on page 3, paragraphs 3 and 4, refers to a "per term
2 credit." That should have been referred to as a surcharge, not a credit. The amended
3 staff memorandum replaces the word "credit" with the word "surcharge." The
4 corresponding changes to the proposed order, at paragraphs 11 and 12, are also made.
- 5 4. Also on page 3, paragraph 4, a correction is made to the time period regarding the
6 projection to eliminate the under-collected balance. Instead of May, 2005, the
7 memorandum should have reflected a projection of elimination of the balance by May,
8 2006. Other changes from 2005 to 2006 were made to the proposed order, in
9 paragraphs 11 ("spring of 2006"), 12 ("May of 2006"), and the second ordering
10 paragraph ("the end of March 2006").
- 11 5. Attachment II of the amended staff memorandum corrects an error from the initial
12 Attachment II that resulted in zeroing of the figures shown in the table below the
13 graph. The error is corrected in the amended Attachment II so that the appropriate
14 numbers now appear in the table.

15 Again, none of the above changes affect Staff's recommendations.

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RESPECTFULLY SUBMITTED this 3rd day of March 2005.



Jason D. Gellman, Attorney
Legal Division
Arizona Corporation Commission
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(602) 542-3402

The original and thirteen (13) copies
of the foregoing were filed this 3rd day
of March, 2005, with:

Docket Control
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Phoenix, Arizona 85007

COPIES of the foregoing
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Angela L. Bennett
Angela L. Bennett, secretary to
Jason D. Gellman

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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MARC SPITZER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF THE APPLICATION)
OF UNS GAS, INC. FOR APPROVAL OF)
ADJUSTMENT TO PURCHASED GAS)
ADJUSTOR SURCHARGE)

DOCKET NO. G-04204A-05-0046
DECISION NO. _____
ORDER

Open Meeting
March 24, 2005
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. UNS Gas, Inc. ("UNS" or "Company") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("ACC" or "Commission").
2. On January 25, 2005, UNS filed for Commission approval of a temporary purchased gas adjustor ("PGA") surcharge due to high natural gas prices. The application seeks a surcharge of \$0.06 per therm effective April 1, 2005 and remaining in effect for 12 months.
3. UNS' approved PGA Tariff RR-1 requires that should the PGA bank balance reach an over or under collection in the amount of \$4,450,000 the Company must file an application for an adjustment within forty-five days of completing the monthly informational filing that illustrates that the threshold has been exceeded, or alternatively contact the ACC to discuss why a PGA rate adjustment is not necessary at the time.
4. UNS' PGA rates are calculated using a 12 month rolling average. The rolling average has a \$0.10 band that limits the adjustor rate implemented to no more than \$0.10

1 difference than any PGA rate in the previous 12 months. The monthly PGA rate has been
2 constrained by the \$0.10 band since September of 2004. It is necessary for UNS to seek approval
3 of a surcharge in order to recover the undercollected balance that has developed.

4 5. In the recent past, UNS has had a surcharge. UNS' most recent surcharge was
5 \$0.1155 authorized by Decision No. 66341 (September 30, 2003). That surcharge ended October
6 of 2004. The surcharge included a "circuit breaker" and also included a "surcharge holiday" set
7 previously in Decision No. 65384 (November 13, 2002). Decision No. 66861 (March 23, 2004)
8 later adjusted the circuit-breaker mechanism. The surcharge holiday and circuit-breaker
9 mechanisms made certain adjustments to the rates in winter months. UNS has not asked for such
10 provisions in this application.

11 6. UNS' November PGA filing, dated January 21, 2005, demonstrated that
12 November's ending bank balance had passed the PGA threshold and risen to \$6,575,602 in
13 undercollection. While UNS has not yet formally submitted its January PGA bank balance report
14 to the Commission, the Company has indicated to Staff that a preliminary calculation of December
15 2004's ending PGA balance shows the balance at approximately \$9,290,000 undercollected.

16 7. UNS does not anticipate that its current undercollected balance will be recovered in
17 the next year without a surcharge. The proposed \$0.06 surcharge is designed to reduce the PGA
18 bank balance to zero in the spring of 2006.

19 8. Residential customers of UNS used a monthly average 23 therms in summer of
20 2004, April to September. Residential customers are projected to use a monthly average of 75
21 therms in the winter of 2004-2005, October to March, based on consumption to date this winter
22 and projections for the remaining months. The following tables demonstrate the effect on selected
23 residential customers of implementation of a \$0.05 per therm surcharge (rather than UNS'
24 proposed \$0.06 surcharge) in both summer and winter, assuming residential average usage occurs
25 as is projected:

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Table I

**Impact on Residential Bills
Summer/ April - September**

Number of Therms Used	Percent of Average Therm Use	Bill Without Surcharge	Bill With \$0.05 Surcharge	Percent Change in Bill
17	74%	\$ 23.18	\$ 24.03	3.67%
23 (average)	100%	\$ 28.50	\$ 29.62	3.96%
29	126%	\$34.60	\$36.05	4.19%
35	152%	\$40.31	\$42.06	4.34%

Table II

**Impact on Residential Bills
Winter/ October - March**

Number of Therms Used	Percent of Average Therm Use	Bill Without Surcharge	Bill With \$0.05 Surcharge	Percent Change in Bill
56	75%	\$ 60.04	\$ 62.84	4.66%
75 (average)	100%	\$ 77.66	\$ 81.39	4.80%
94	125%	\$96.04	\$100.74	4.89%
112	149%	\$113.09	\$118.69	4.95%

9. UNS has hedged the price for approximately 60 percent of its current working gas and has hedged approximately 20 percent of its gas for next winter. UNS has explained to Staff its intention to increase the proportion of next winter's hedged gas to approximately 60 percent as the 2005-2006 winter season approaches. As next winter approaches, the portion of UNS' gas supply portfolio which is not hedged will be subject to the market forces that prevail at the time. While customer therm use can be anticipated to a certain degree, weather and market prices that will occur next winter cannot be predicted with certainty.

10. On February 4, 2005, UNS provided to Staff an example of a bill insert that would be used to inform customers about the surcharge proposal. The bill insert invites customers to contact UNS to comment on the matter. The notice also provides a toll-free number for the Commission which connects with the Consumer Services Section of the Commission should

1 customers want to leave their comments with the Commission. Staff reviewed the insert and found
2 it to be reasonable notice for the proposed surcharge. UNS began sending the notice and given the
3 UNS billing cycles, the bill inserts should reach customers two weeks or more before March 24,
4 2005 depending on their individual billing cycle.

5 11. Staff's analysis of the PGA balance for the next twelve months, based on current
6 gas rates and projected demand, concludes that the PGA balance will not be reduced to zero by
7 spring of 2006 without a PGA surcharge of at least \$0.05. Staff has reviewed projections for
8 future cost, consumption, and other estimations used in determining an appropriate surcharge and
9 finds them reasonable for purposes of setting the surcharge.

10 12. Staff recommends implementation of a \$0.05 surcharge as it is projected to
11 eliminate the undercollected balance by May of 2006. Staff recommends a \$0.05 surcharge as it
12 balances UNS' interest in reducing its undercollected balance with the customer's interest in price
13 stability.

14 13. Staff also recommends that the surcharge be implemented in April of 2005 and be
15 in effect for the earlier of a period of 12 months or until such time as UNS' balance is reduced to
16 zero, whichever comes first.

17 CONCLUSIONS OF LAW

18 1. UNS Gas, Inc. is an Arizona public service corporation within the meaning of
19 Article XV, Section 2 of the Arizona Constitution.

20 2. The Commission has jurisdiction over UNS Gas, Inc. and the subject matter of the
21 application.

22 3. The Commission, having reviewed the application and Staff's Memorandum dated
23 March 3, 2005, concludes that it is in the public interest to approve the filing to apply a \$0.05
24 surcharge to the rates of UNS, Gas, Inc.

25 ORDER

26 IT IS THEREFORE ORDERED that a \$0.05 per therm surcharge is approved for UNS
27 Gas, Inc., effective April 1, 2005.

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1 IT IS FURTHER ORDERED that the surcharge end at such time as the bank balance is
2 reduced to zero, or the end of March 2006, whichever occurs first.

3 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

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BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

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8 CHAIRMAN COMMISSIONER COMMISSIONER

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11 COMMISSIONER COMMISSIONER

12 IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive
13 Secretary of the Arizona Corporation Commission, have
14 hereunto, set my hand and caused the official seal of this
15 Commission to be affixed at the Capitol, in the City of
16 Phoenix, this _____ day of _____, 2005.

17

18 _____
BRIAN C. McNEIL
19 Executive Secretary

20
21 DISSENT: _____

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23 DISSENT: _____

24 EGJ:SPI:lhM/JG

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1 SERVICE LIST FOR: UNS Gas, Inc.
2 DOCKET NO. G-04204A-05-0046

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10 Arizona Corporation Commission
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13 Mr. Christopher C. Kempley
14 Chief Counsel
15 Arizona Corporation Commission
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OPEN MEETING

MEMORANDUM

TO: THE COMMISSION

FROM: Utilities Division

DATE: March 3, 2005

RE: IN THE MATTER OF THE APPLICATION OF UNS GAS, INC. FOR APPROVAL OF ADJUSTMENT TO PURCHASED GAS ADJUSTOR SURCHARGE (DOCKET NO. G-04204A-05-0046)

UNS Gas, Inc. ("UNS" or "Company") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("ACC" or "Commission"). On January 25, 2005, UNS filed for Commission approval of a temporary purchased gas adjustor ("PGA") surcharge due to high natural gas prices. The application seeks a surcharge of \$0.06 per therm effective April 1, 2005 and remaining in effect for 12 months.

UNS' approved PGA Tariff RR-1 requires that should the PGA bank balance reach an over or under collection in the amount of \$4,450,000 the Company must file an application for an adjustment within forty-five days of completing the monthly informational filing that illustrates that the threshold has been exceeded, or alternatively contact the ACC to discuss why a PGA rate adjustment is not necessary at the time.

UNS' PGA rates are calculated using a 12 month rolling average. The rolling average has a \$0.10 band that limits the adjustor rate implemented to no more than \$0.10 difference than any PGA rate in the previous 12 months. The monthly PGA rate has been constrained by the \$0.10 band since September of 2004. It is necessary for UNS to seek approval of a surcharge in order to recover the undercollected balance that has developed.

In the recent past, UNS has had a surcharge. UNS' most recent surcharge was \$0.1155 authorized by Decision No. 66341 (September 30, 2003). That surcharge ended October of 2004. The surcharge included a "circuit breaker". A "surcharge holiday" had been set previously in Decision No. 65384 (November 13, 2002). Decision No. 66861 (March 23, 2004) later adjusted the circuit-breaker mechanism. The surcharge holiday and circuit-breaker mechanisms made certain adjustments to the rates in winter months. UNS has not asked for such provisions in this application.

UNS' November PGA filing, dated January 21, 2005, demonstrated that November's ending bank balance had passed the PGA threshold and risen to \$6,575,602 in undercollection. While UNS has not yet formally submitted its January PGA bank balance report to the Commission, the Company has indicated to Staff that a preliminary calculation of December 2004's ending PGA balance shows the balance at approximately \$9,290,000 undercollected.

UNS does not anticipate that its current undercollected balance will be recovered in the next year without a surcharge. The proposed \$0.06 surcharge is designed to reduce the PGA bank balance to zero in the spring of 2006. Contained in Attachment I is a chart that demonstrates the future projected bank balance should no surcharge be implemented. The chart also shows the projected future balance should any of three surcharge options be implemented. These options shown are \$0.04, \$0.05, and \$0.06 per therm. Attachment II demonstrates the effect these surcharge options would have on selected residential customer's monthly bills. The projections are based on historic data, projected therm sales, and projected gas costs.

Residential customers of UNS used a monthly average 23 therms in the summer of 2004, April to September. Residential customers are projected to use a monthly average of 75 therms in the winter of 2004-2005, October to March, based on consumption to date this winter and projections for the remaining months. The following tables demonstrate the effect on selected residential customers of implementation of a \$0.05 per therm surcharge (rather than UNS' proposed \$0.06 surcharge) in both summer and winter, assuming residential average usage occurs as is projected:

**Table I
Impact on Residential Bills
Summer/ April - September**

Number of Therms Used	Percent of Average Therm Use	Bill Without Surcharge	Bill With \$0.05 Surcharge	Percent Change in Bill
17	74%	\$ 23.18	\$ 24.03	3.67%
23 (average)	100%	\$ 28.50	\$ 29.62	3.96%
29	126%	\$34.60	\$36.05	4.19%
35	152%	\$40.31	\$42.06	4.34%

**Table II
Impact on Residential Bills
Winter/ October - March**

Number of Therms Used	Percent of Average Therm Use	Bill Without Surcharge	Bill With \$0.05 Surcharge	Percent Change in Bill
56	75%	\$ 60.04	\$ 62.84	4.66%
75 (average)	100%	\$ 77.66	\$ 81.39	4.80%
94	125%	\$96.04	\$100.74	4.89%
112	149%	\$113.09	\$118.69	4.95%

The effects that each of three surcharge options would have both on the average residential customer's monthly bill and the effect on customers whose consumption is both higher and lower than the average consumption rate is shown in Attachment III.

UNS has hedged the price for approximately 60 percent of its current working gas and has hedged approximately 20 percent of its gas for next winter. UNS has explained to Staff its intention to increase the proportion of next winter's hedged gas to approximately 60 percent as the 2005-2006 winter season approaches. As next winter approaches, the portion of UNS' gas supply portfolio which is not hedged will be subject to the market forces that prevail at the time. While customer therm use can be anticipated to a certain degree, weather and market prices that will occur next winter cannot be predicted with certainty.

On February 4, 2005, UNS provided to Staff an example of a bill insert that would be used to inform customers about the surcharge proposal. The bill insert invites customers to contact UNS to comment on the matter. The notice also provides a toll-free number for the Commission which connects with the Consumer Services Section of the Commission should customers want to leave their comments with the Commission. Staff reviewed the insert and found it to be reasonable notice for the proposed surcharge. UNS began sending the notice and given the UNS billing cycles, the bill inserts should reach all customers two weeks or more before March 24, 2005 depending on their individual billing cycle. A copy of the bill insert message is attached as Attachment IV.

Staff's analysis of the PGA balance for the next twelve months, based on current gas rates and projected demand, concludes that the PGA balance will not be reduced to zero by the spring of 2006 without a PGA surcharge of at least \$0.05. Staff has reviewed projections for future cost, consumption, and other estimations used in determining an appropriate surcharge and finds them reasonable for purposes of setting the surcharge.

Staff recommends implementation of a \$0.05 surcharge as it is projected to eliminate the undercollected balance by May of 2006. Staff recommends a \$0.05 surcharge as it balances UNS' interest in reducing its undercollected balance with the customer's interest in price stability.

Staff also recommends that the surcharge be implemented in April of 2005 and be in effect for the earlier of a period of 12 months or until such time as UNS' balance is reduced to zero, whichever comes first.

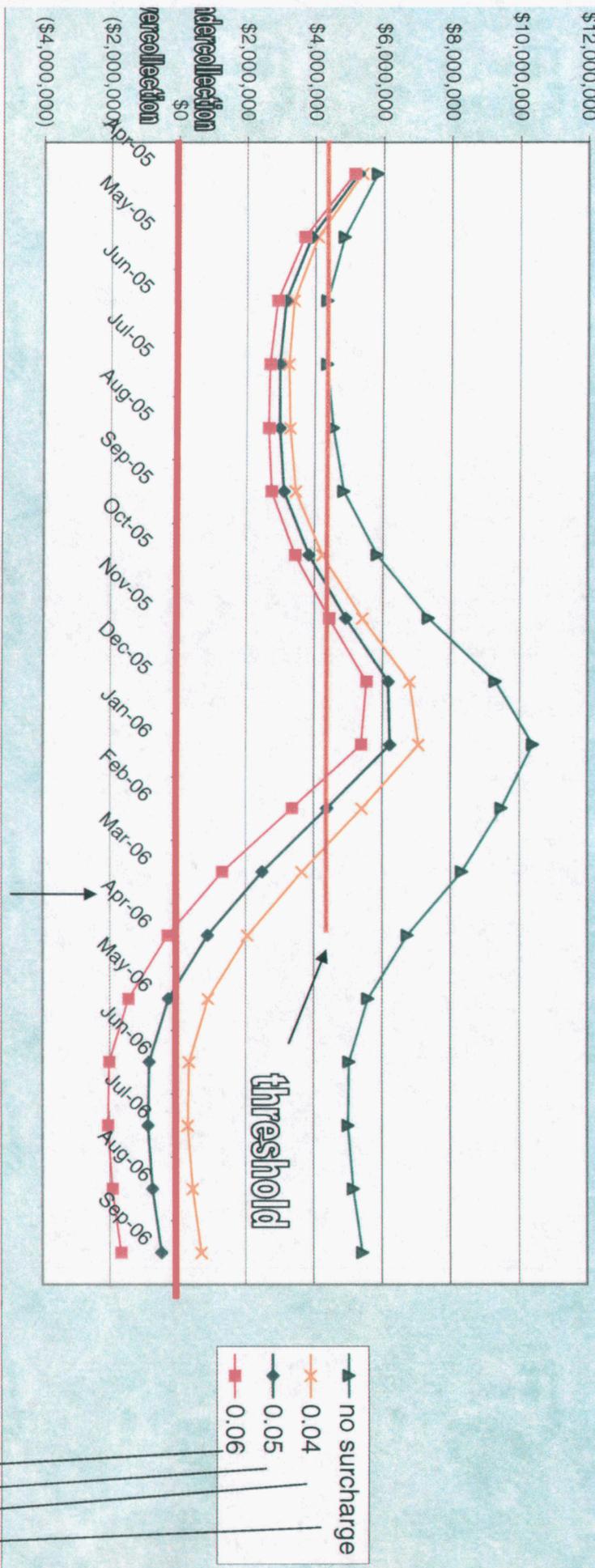


Ernest G. Johnson
Director
Utilities Division

EGJ:SPI:lm\VG

ORIGINATOR: Steve Irvine

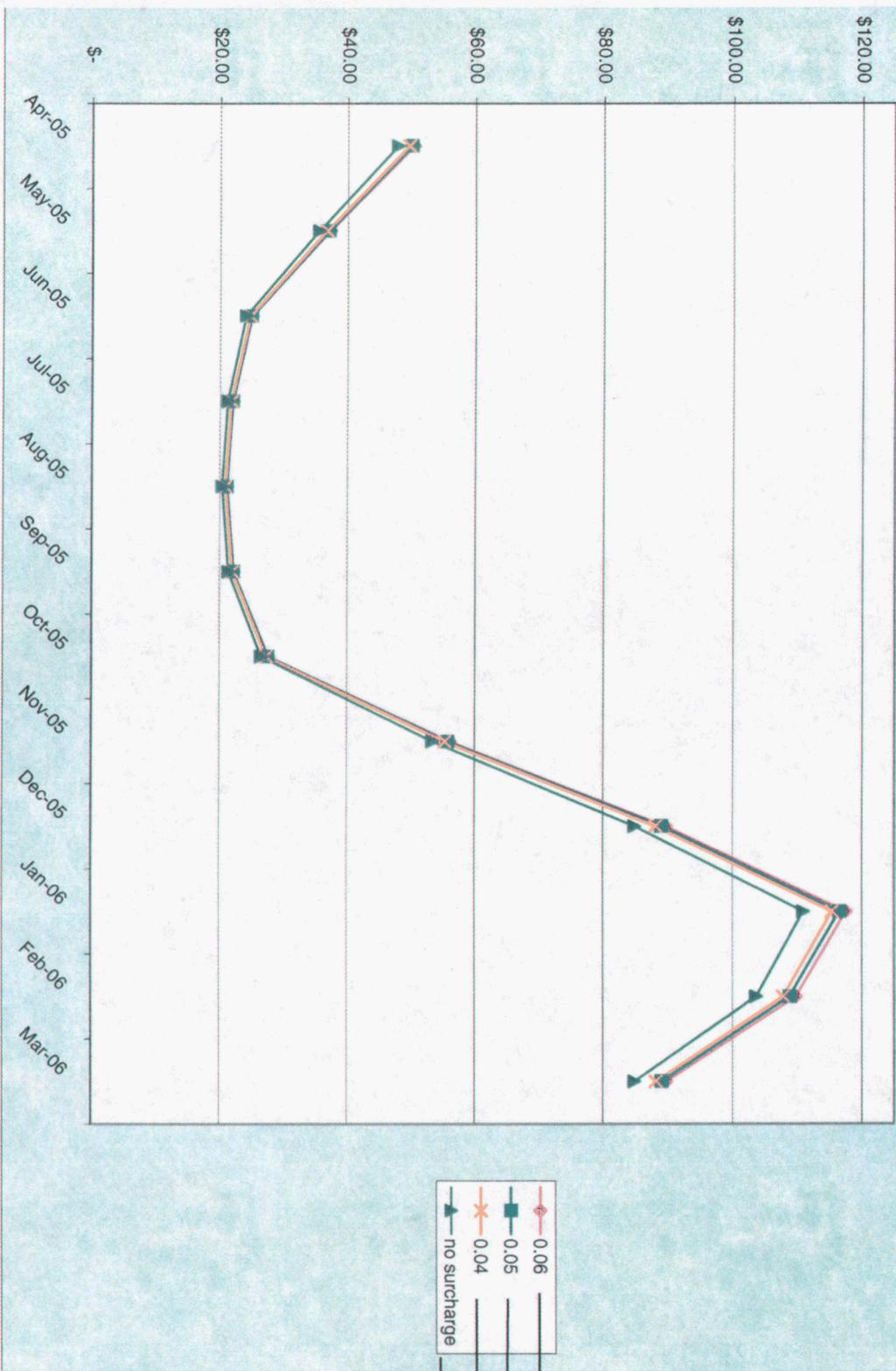
bank balance
includes 6 month period following termination of surcharge



surcharge ending in March 06

Apr-05	May-05	Jun-05	Jul-05	Aug-05	Sep-05	Oct-05	Nov-05	Dec-05	Jan-06	Feb-06	Mar-06
815,674	4,851,120	4,352,026	4,356,179	4,537,429	4,849,050	5,832,879	7,335,822	9,289,254	10,394,927	9,473,602	8,323,534
371,755	4,079,691	3,385,288	3,240,813	3,284,225	3,448,059	4,241,063	5,403,831	6,790,434	7,057,051	5,403,576	3,654,963
260,776	3,886,834	3,143,604	2,961,972	2,970,925	3,097,811	3,843,109	4,920,834	6,165,729	6,222,581	4,386,069	2,487,821
149,796	3,693,977	2,901,919	2,683,130	2,657,624	2,747,563	3,445,155	4,437,836	5,541,024	5,388,112	3,368,563	1,320,678
Apr-06	May-06	Jun-06	Jul-06	Aug-06	Sep-06						
728,559	5,583,058	5,031,511	5,009,484	5,155,025	5,425,812						
51,508	897,511	337,451	306,897	443,894	706,123						
882,245	-273,876	-836,064	-868,750	-733,889	-473,799						
-287,018	-1,445,263	-2,009,579	-2,044,397	-1,911,671	-1,653,721						

Average residential user's anticipated monthly bill during surcharge implementation



Anticipated therm use	Anticipated bills
43.7	30.2
17.8	14.8
13.9	15.0
20.4	48.3
81.5	81.5
111.4	103.4
82.7	82.7

ATTACHMENT III

Monthly bills that result from seasonal average usage, by each rate proposition

	<u>Summer</u> <u>April '05 to Sept '05 period</u>	<u>Winter</u> <u>October '05 to March '06 period</u>
With 0.06 surcharge	\$29.85	\$82.14
With 0.05 surcharge	\$29.62	\$81.39
With 0.04 surcharge	\$29.40	\$80.65
With no surcharge	\$28.50	\$77.66

Seasonal monthly bills that result from various usage levels, by each rate proposition

	<u>Summer</u>	<u>Winter</u>
<u>With 0.06 surcharge</u>		
20 therms	\$27.24	\$77.51
23 therms (seasonal average)	\$29.85	\$82.14
35 therms	\$42.41	\$92.61
50 therms	\$57.59	\$102.69

	<u>Summer</u>	<u>Winter</u>
<u>With 0.05 surcharge</u>		
20 therms	\$27.04	\$76.81
23 therms (seasonal average)	\$29.62	\$81.39
35 therms	\$42.06	\$91.76
50 therms	\$57.09	\$101.74

	<u>Summer</u>	<u>Winter</u>
<u>With 0.04 surcharge</u>		
20 therms	\$26.84	\$76.11
23 therms (seasonal average)	\$29.40	\$80.65
35 therms	\$41.71	\$90.91
50 therms	\$56.59	\$100.79

	<u>Summer</u>	<u>Winter</u>
<u>No surcharge</u>		
20 therms	\$26.04	\$73.31
23 therms (seasonal average)	\$28.50	\$77.66
35 therms	\$40.31	\$87.51
50 therms	\$54.59	\$96.99

PLEASE READ: AN IMPORTANT NOTICE ABOUT GAS COSTS

UniSource Energy Services (UES) has asked the Arizona Corporation Commission (ACC) to approve a six cent-per-therm surcharge on customers' gas bills to recover the cost of natural gas purchases.

If approved, the surcharge would be applied to gas customers' bills beginning April 1 and removed one year later. It would add an estimated \$2.92, or about 5 percent, to the average UES residential gas bill, though the impact will vary depending on the amount of gas used. The surcharge will recover costs incurred to purchase gas for customers, and UES does not profit from it. Visit <http://www.uesaz.com> for more information about gas rates and the potential impact of this proposed surcharge.

The ACC is tentatively scheduled to discuss this matter Thursday, Mar. 24, in a meeting that begins at 10 a.m. in the ACC's first floor hearing room, 1200 W. Washington, Phoenix, AZ 85007. If this schedule changes, the new meeting date will be posted at <http://www.uesaz.com>. If you have any questions about this matter, you can contact UES by calling 1-800-635-8033. To find out how to comment on the proposed surcharge, you can call the ACC at 1-800-222-7000 or visit <http://www.cc.state.az.us>.

Staff note about this notice:

Please note that actual notice will be printed on a sheet that is cut to 1/3 the size of standard 8.5" X 11" paper. Also note that UNS has indicated that the paper will be 'colorstock' and the font size will be 12 point or larger.