

**LEWIS
AND
ROCA**
LLP
LAWYERS

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

Tucson Office
One South Church Avenue
Suite 700
Tucson, Arizona 85701-1611
Facsimile (520) 622-3088
Telephone (520) 622-2090

Las Vegas Office
3993 Howard Hug
Suite 600
Las Vegas, Nevada
Facsimile (702) 949-8200
Telephone (702) 949-8200



0000053676

ORIGINAL

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

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February 2, 2004

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

Arizona Corporation Commission
DOCKETED

FEB 02 2004

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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”).

UES and PWCC have continued discussions relating to restructuring options for the PSA. UES representatives met with Staff on November 21, 2003 and discussed the ongoing negotiating efforts and related matters prior to the last progress report (December 1, 2003).

UES and PWCC have continued to work towards reaching a new contract structures that would provide a reduction in near-term rates while meeting the long-term interests and goals of UES and its customers. One such contract structure that has been discussed was delineated in the confidential enclosures to the October 1, 2003 progress report. While this structure meets many of the criteria UES desires in a new agreement, given current market conditions, it does not result in pricing and terms which UES believes are in the long-term interests of its customers.

With the market conditions remaining unfavorable throughout these last several months, UES has met with PWCC to discuss alternative options and tactics to move the negotiation effort forward.

In a January 6, 2004 meeting between PWCC and UES, the two companies agreed that an alternative solution for restructuring the PSA may come from bidding out the energy

supply through an RFP process. This RFP will hopefully provide other market solutions to serve the UES load. Part of the RFP process will involve negotiating terms with PWCC under which they would dissolve the current PSA. The effects of those terms will be evaluated in the final processes of the RFP. UES expects to release the RFP by mid February.

Very truly yours,

LEWIS AND ROCA LLP



Thomas H. Campbell

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