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ARIZONA CORPORATION COMMISSION

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February 27, 2004

Commissioner William Mundell
Commissioner Jeff Hatch-Miller
Commissioner Mike Gleason
Commissioner Kris Mayes
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

Arizona Corporation Commission

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Re: Unisource Energy Services/Natural Gas Issues
Prescott Public Comment Meeting, February 24, 2004

Dear Colleagues:

The Public Comment sessions in Prescott were both helpful and educational. I have two goals for gas customers in Yavapai County and throughout the UES service territory:

- 1. Provide ratepayers immediate relief, consistent with Due Process; and
- 2. Ensure this type of "rate shock" never happens again.

I believe relief is warranted for the March billing cycle. However, the gas surcharge arising from winter 2000/2001 must be retired. The fact that today's customers are still paying for natural gas purchased for customers four years ago is unacceptable. We cannot "reinvent" history, but we can learn from it.

I believe now as I did in 2002 that the Circuit Breaker is the correct solution to the "rate shock" problem inherent in volatile commodity prices. I would propose that the circuit breaker be reduced and recalculated at 125% for the March billing cycle. I encourage UES to work with Commission Staff to implement this change **now**.

The best thing we can do for current and future ratepayers is retire (rather than defer) the commodity surcharge. The fact that we are debating over gas purchased before four of the current Commissioners assumed Office highlights the unwisdom of again robbing Peter to pay Paul.

I am directing our Staff to analyze the current status of both the PGA balance and the surcharge account. I would appreciate a report from UES on forward gas purchases and a projection for retirement of the surcharge, which I would hope to occur by the end of 2004.

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It is my belief that the Circuit Breaker mechanism, in tandem with a properly functioning adjustor mechanism and prudent procurement by UES, is the way to resolve this crisis and prevent a recurrence.

Very truly yours,

A handwritten signature in cursive script, appearing to read "Marc Spitzer".

Marc Spitzer
Chairman