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April 28, 2003

The Honorable Marc Spitzer, Chairman  
and Members of the Arizona Corporation Commission  
1200 West Washington Street  
Phoenix, Arizona 85007

E-01032C-00-0751  
G-01032A-02-0598  
E-01933A-02-0914  
E-01032C-02-0914  
G-01032A-02-0914

Dear Chairman Spitzer and Commission Members:

I am writing on behalf of the residents of Nogales, Arizona, to voice our strong objection to the request made by UniSource Energy for approval to raise our electric rates by 22 percent and our gas rates by 20.9 percent.

The total economic impact of this rate increase, on the greater Nogales area, would be devastating.

We have performed analyses for the electric increase on specific businesses and services in our Community. These entities are as necessary to the daily lives of our residents as utilities. Below are some examples of the rate increase impact:

- Restaurant (fast food) \$ 12,795.43 annually
- Auto Dealership \$ 3,971.72 annually
- Produce Warehouse \$ 1,946.01 annually
- "Average Residence" \$ 156.95 annually
- Santa Cruz County \$ 83,603.73 annually
- Nogales Schools \$145,559.36 annually
- City of Nogales \$195,847.74 annually

Taking into account the necessary increase in the cost of goods and services driven by the electric rate increase, the overall economic impact to all of Santa Cruz County will be triple the \$5,000,000 annual increase in electric rates UniSource is requesting. This equates to approximately \$390.82 annually for every man, woman and child in Santa Cruz County. In summary we will have residents with less money to spend on more expensive goods and services.

UniSource continues to promote the fact that the rate request equates to \$.43 per day for the average residential customer in the County. Our analysis shows this to be an extremely misleading example.

As the Commission is aware, for the past year the City of Nogales has attempted to form a partnership with Citizens and more recently UniSource in an effort to mitigate the rate increases requested. We have offered to utilize our inherent advantages of tax free financing, income tax exemption, and ability to secure a power supply at lower rates to offset the rate impact. We have further offered to allow UniSource to operate and maintain a City owned system... at a profit.

To date our attempts to form this partnership have been refuted by UniSource. They have sent key executives into our community spreading innuendo and divisiveness at community group meetings. Attempts have even been made by the company to divide our elected officials through repeated individual telephone and personal meetings. This is not the type corporate citizen we welcome into our community.

If UniSource is granted this rate request Santa Cruz County will have some of the highest electric rates in the State. This will virtually end economic development in the Santa Cruz area. Further, employers that cannot raise prices to accommodate their increased utility cost may be forced to reduce their labor force to remain competitive.

**An example of the immediate economic development impact is demonstrated by a new business with whom the City is currently negotiating. This employer's current electric billing, in the Midwest, is \$1,000,232. If they were to relocate to the existing Citizens territory, with the same plant, their billing would escalate to approximately \$1,275,795. If UniSource were granted their requested increase the customer billing would be approximately \$1,556,470. It is unlikely the potential employer would consider relocation with a 50% increase in electric cost.**

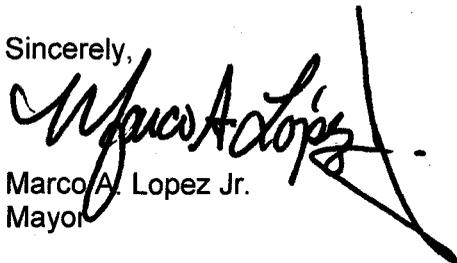
We are cognizant of the fact that inflation and other factors drive up the cost of goods and services over time. However, this rate increase is not driven by inflation. This rate request is needed to accommodate an ill-conceived power agreement between Citizens Utilities and Pinnacle West Capital Corporation. The poor decision to sign that agreement by Citizens reflects a power cost that is 25% over current market rates. They are now asking the citizens of Santa Cruz and Mohave Counties to pay for that decision. This is ludicrous.

When a private company acquires another, they assume debts, contracts and other liabilities. If liabilities are that substantial, they have to adjust their operations to remain competitive in their market place. If an acquisition is made that is unprofitable, the owners or stockholders absorb those losses.

This is no different than what we are asking the Commission to rule on the UniSource acquisition. If they desire to acquire Citizens, then Unisource should be willing to absorb the positives and negatives of the transactions. They cannot be allowed to place this burden on their customers for the negative portion of their purchase.

Please, help the citizens of Nogales by denying this large and unwarranted rate increase.

Sincerely,

A handwritten signature in black ink, appearing to read "Marco A. Lopez Jr.", written over a printed name and title.

Marco A. Lopez Jr.  
Mayor