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ARIZONA CORPORATION COMMISSION
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February 25, 2004

The Honorable Janet Napolitano
Governor, State of Arizona
Executive Office
1700 West Washington
Phoenix, Arizona 85007

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Arizona Corporation Commission
DOCKETED

MAR - 1 2004

Re: Soaring Energy Costs in Arizona

DOCKETED BY

Dear Governor Napolitano:

On the evening of February 24, 2004, I had the privilege of meeting with approximately 200 citizens of the Prescott, Prescott Valley, and Chino Valley area in response to the crisis caused by soaring natural gas prices. Residents and businesses are equally being affected. This crisis is real and requires immediate attention by governmental leaders.

All five Commissioners attended the public comment session in Prescott. Top management of UniSource Energy, the new natural gas provider in the area, also attended the meeting. The stories of economic hardship we heard from residents and business owners were moving, to say the least. During the meeting, we focused our attention on UniSource Energy's actions, on national energy policy and on the wholesale price of natural gas. Each of these factors clearly contributed to the shock being experienced by ratepayers in the region.

Members of the public approached us with their alarm and worry about their high natural gas bills. Some offered reasons for the increase. Still others offered solutions.

Several citizens referred to the high government taxes itemized on their billing statements. Several questioned the taxes themselves. Others pointed to their impact.

I have researched this tax issue and found that citizens in the Prescott area are subject to a combined rate of 10.57%. Breaking down this combined rate, 5.6% is attributable to the State of Arizona, 4% to the City of Prescott, and 0.75% for the Yavapai County. In January, the typical Prescott resident paid \$12.22 in combined pass-through taxes on a total gas bill of \$128. (The various tax rates are applied to a customer's total gas usage.)

My proposal is straightforward and simple. High governmental taxes, tacked on to the already above average cost of natural gas, are an unjustified revenue windfall to government. Further, it places an unjustified, unreasonable financial burden on citizens.

Governor Janet Napolitano
RE: Soaring Energy Costs in Arizona
February 25, 2004

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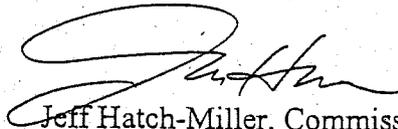
I propose that the State of Arizona, and other taxing districts, forgo taxes on that portion of a customer's bill representing the added cost of energy above historically normal ranges.

It is clear that the shock is, in some ways, collective – the shock is compounded by the concomitant increases in propane and gasoline prices. Because of these other escalating costs, I propose that government, at all levels, forgo the incremental taxes corresponding to the “added cost of energy above normal ranges” to these commodities as well.

I beg you to take quick and decisive action on this matter. Government cannot wait years, not even months, to do its part in relieving the burden of high energy prices. More importantly, government should not benefit at the expense of citizens who are currently being overwhelmed by historically high energy prices.

I look forward to speaking with you as soon as possible on this pressing matter.

Sincerely,



Jeff Hatch-Miller, Commissioner
Arizona Corporation Commission

JHM:tm