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G-04204A-06-0463,
G-04204A-06-0013
G-04204A-05-0831

Mr. James Pignatelli
President and CEO
UNS Gas
1 South Church Avenue
Mail Stop UE181
Tucson, AZ 85701

DOCKETED BY [Signature]

Re: UNS Gas Bank Balance; \$4.45 million over-collection; Docket No. G-04204A-06-043

Dear Mr. Pignatelli:

Pursuant to Decision Nos. 61225 and 68325, UNS Gas Co. ("Company") is required to notify the Commission when the Company's Purchased Gas Adjustor ("PGA") bank balance has become over-collected by \$4.45 million. Subsequent to this notification, the Company must either file a request with the Commission for a PGA rate adjustment designed to credit customer's bills in order to return the over-collected bank balance to zero or tell Commission Staff why a PGA rate adjustment is not necessary.

As you know, natural gas prices have dropped significantly in recent months. On Friday, September 15, 2006, natural gas prices tumbled to about \$3.60/MMBtu in the San Juan and Permian basins, with northern Rockies gas indexes dropping to a five-year low in the mid \$1.40s/MMBtu. High storage inventories, slack demand, and a potentially mild winter due to formation of an El Nino were among factors cited in the trade press for the drop-off in prices.

A UNS Gas bank balance report dated September 15, 2006, shows that the recent drop in natural gas prices caused an over-collection from customers of approximately \$5 million in August. According to UNS's projections, the over-collection swells to approximately \$20 million by the summer of 2007.¹

I understand that natural gas prices remain volatile and that the Company has filed a rate case in which it has suggested changes to the PGA mechanism. Nevertheless, the Company has an obligation to file for a rebate to its customers at the time the PGA bank balance becomes over-collected by \$4.45 million. The Company is quick to file with this Commission when it believes its customers are not paying enough, and I am sure you agree that the same principle should hold when customers are paying too much.

¹ I have attached Unisource's most recent bank balance projections to this letter.

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At the September 19, 2006 Commission Open Meeting, the Commission approved a rebate to Duncan Rural Service residential gas customers as a result of an over-collected bank balance. The Commission approved a rebate of \$0.05 per therm, or \$4.65 credit, to Duncan's residential customers that would erase some of the Company's over-collection while retaining a cushion in the Company's bank balance to be used to protect against a potential upsurge in wintertime gas prices.

I am writing to request that the Company tell the Commission whether it intends to file for a rebate to its customers of some of this year's over-collected PGA bank balance, and whether the rebate could be designed to return some of the over-collected bank balance this winter while retaining a hedge against any potential price spikes this winter. Further, please tell the Commission whether the Company plans to request a change in the surcharge mechanism that would draw down the projected \$20 million over-collection in 2007.

Thank you for your attention to these matters.

Sincerely,



Kris Mayes
Commissioner

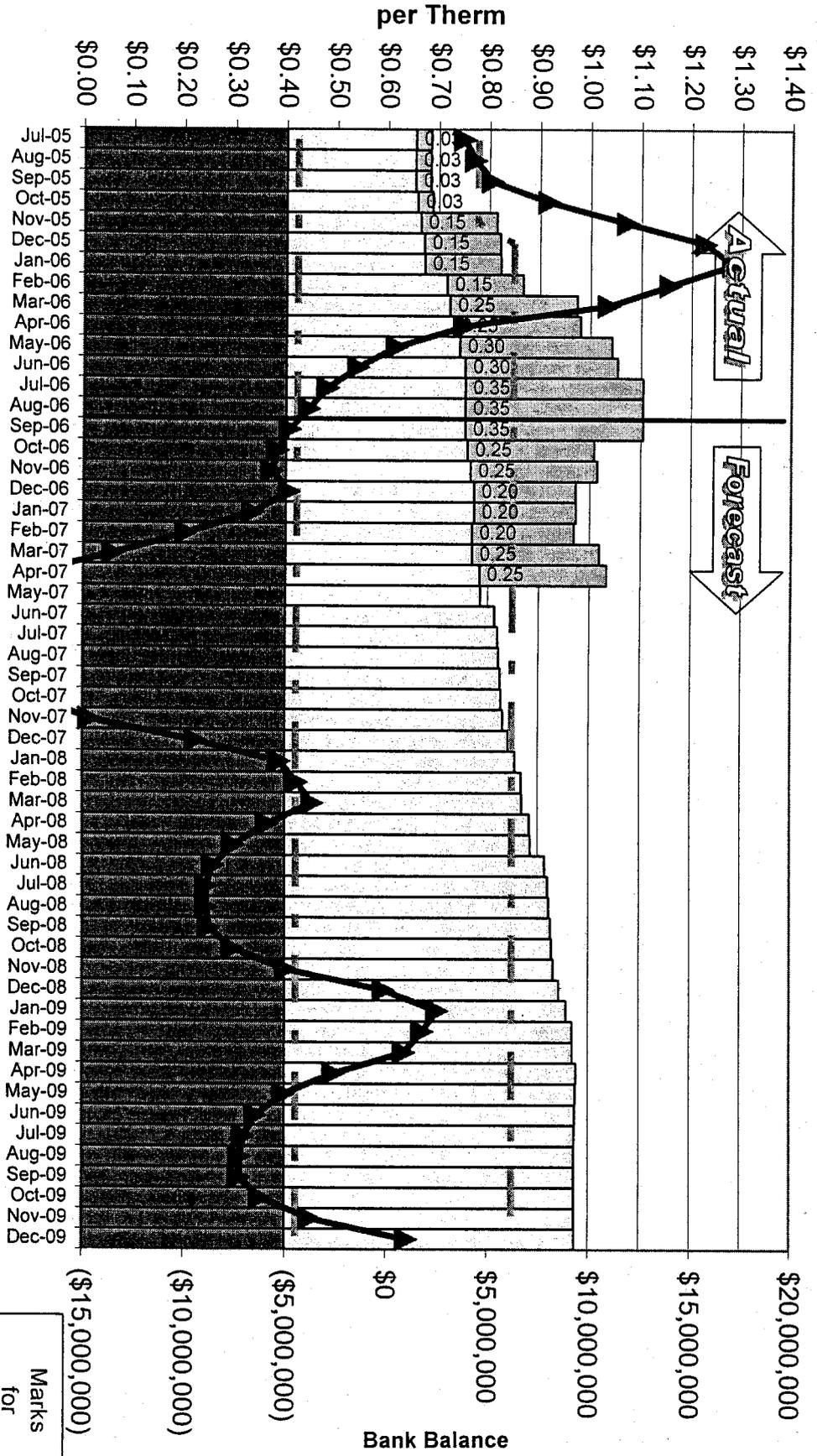
Cc: Chairman Jeff Hatch-Miller
Commissioner William Mundell
Commissioner Mike Gleason
Commissioner Barry Wong
Brian McNeil
Ernest Johnson
Heather Murphy

Projected PGA Bank Balance

Prices vs Mkt Sales vs Fcst

100% 100%

- Base Rate
- Upr Bank Bal Thrshld
- PGA Factor
- Lwr Bank Bal Thrshld
- PGA Surcharge
- Current Forecast



Marks for 09/15/06