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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
SKW

Re: UNS Gas Bank Balance; \$4.45 million over-collection; Docket No. G-04204A-06-048⁶³

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.

Mr. James Pignatelli
September 19, 2006
Page 2

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,



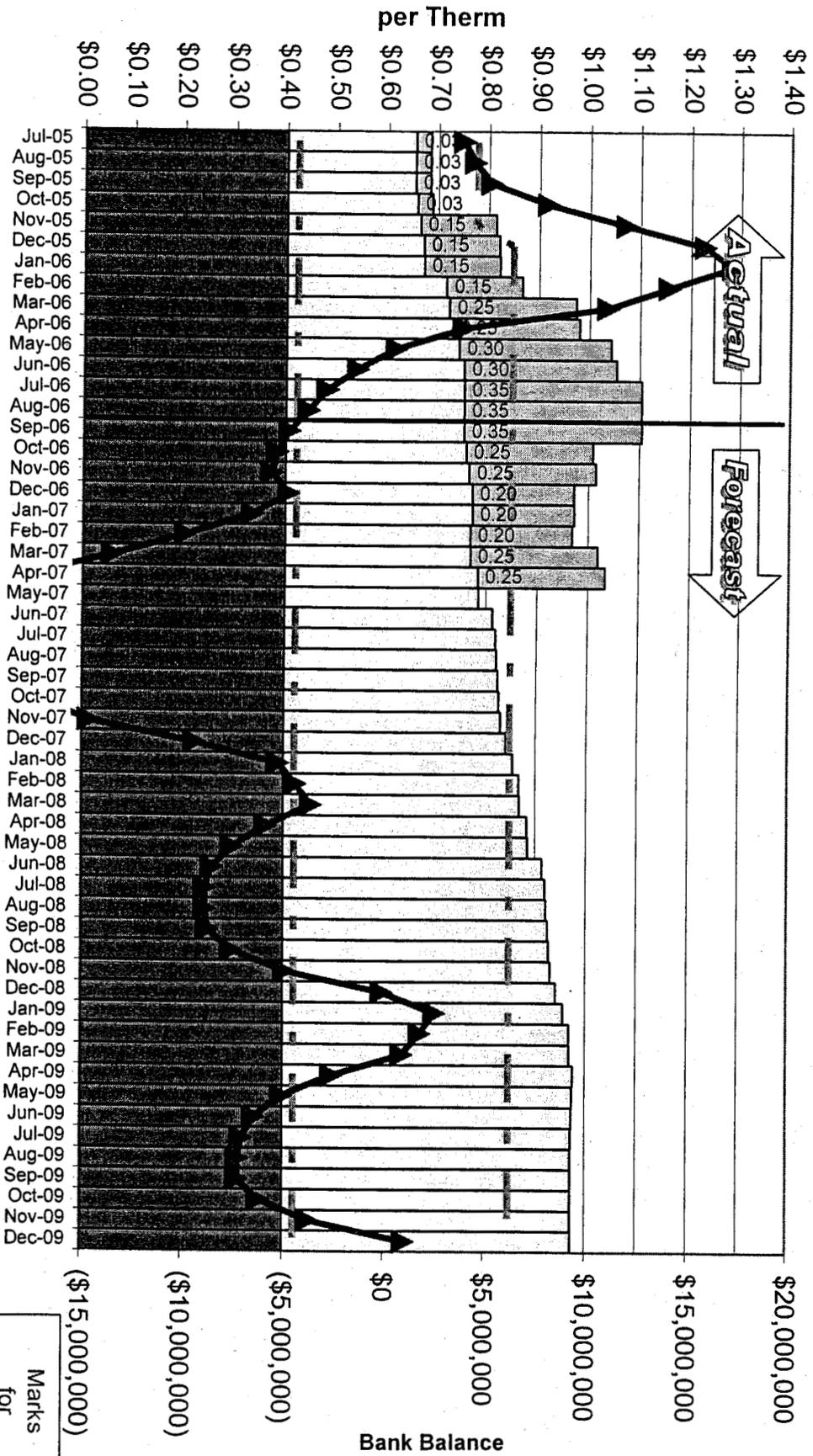
Kris Mayes
Commissioner

Cc: Chairman Jeff Hatch-Miller
Commissioner William Mundell
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Ernest Johnson
Heather Murphy

Projected PGA Bank Balance

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

Prices vs Mkt Sales vs Fcst
 100% 100%



Marks for 09/15/06