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James S. Pignatelli
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October 10, 2006

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Kristin K. Mayes
Commissioner
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

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

Dear Commissioner Mayes:

Thank you for your letter dated September 19, 2006 regarding the UNS Gas, Inc., ("UNS Gas") Purchase Gas Adjustor Bank Balance (the "PGA bank balance"). I, too, monitor the PGA bank balance and am concerned when it reflects a substantial under collection or over collection. This aspect of the PGA is one of the reasons that we have asked that the mechanism be revised. I am pleased that our request will be considered during the pending UNS Gas rate case.

As you know, the PGA bank balance is, has been and is predicted to continue to be in a state of constant fluctuation based upon volatile natural gas prices. Consequently, in the past twelve months, the PGA bank balance has swung from an under collected total of \$17 million to an over collected amount, as of the end of August 2006 of \$4 million.

We anticipate that our records will reflect that as of the end of September 2006 the PGA bank balance will exceed an over collection of \$4.45 million. Pursuant to Decision No. 67730, this will trigger the requirement that UNS Gas file with the Commission, within 45 days, "an application for adjustment...that illustrates that the threshold has been exceeded, or alternatively contact the ACC to discuss why the PGA rate adjustment is not necessary at the time." UNS Gas is preparing its filing and will be able to submit it to the Commission on or before October 16, 2006, well ahead of the application filing deadline

In your letter you reference payment of a rebate as an option for reducing the PGA bank balance. Our filing will not propose a rebate for customers. In light of the fluctuation of the bank balance and the volatility of natural gas prices, we believe that a rebate is not a viable or proper solution. Rather, UNS Gas will be recommending that the Commission reduce the current PGA surcharge commencing December 2006.

If, after you have reviewed UNS Gas' filing you have additional questions, please do not hesitate to raise them with us.

Sincerely,

James S. Pignatelli
Arizona Corporation Commission

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

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