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**LEWIS
AND
ROCA**
LLP
LAWYERS

Phoenix Office
40 North Central Avenue
Phoenix, Arizona 85004-4429
Facsimile (602) 262-5747
Telephone (602) 262-5311

Tucson Office
One South Church Avenue
Suite 700
Tucson, Arizona 85701-1611
Facsimile (520) 622-3088
Telephone (520) 622-2090

Las Vegas Off
3993 Howard
Suite 600
Las Vegas, Ne.
Facsimile (702) 949-8398
Telephone (702) 949-8200

Michael T. Hallam
Direct Dial: (602) 262-5340
Direct Fax: (602) 734-3886
Internet: MHallam@lrlaw.com
Admitted in Arizona

Our File Number 43056-00001

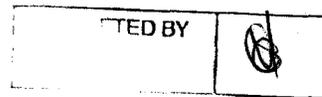
December 29, 2006

HAND DELIVERED

Arizona Corporation Commission
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DEC 29 2006

Arizona Corporation Commission
Utilities Division – Docket Control
1200 W. Washington Street
Phoenix, Arizona 85007



Re: UniSource Energy Services Progress Report
Docket Nos. E-01032C-00-0751, G-01032A-02-0598, E-01933A-02-0914, E-01032C-02-0914, G-01032A-02-0914
A.C.C. Decision No. 66028

Pursuant to A.C.C. Decision No. 66028, UniSource Energy Services (“UES”) files this progress report on the negotiations to restructure the Pinnacle West Capital Corporation (“PWCC”) Power Supply Agreement (“PSA”). The currently sustained environment of high and volatile natural gas and power prices has not been conducive to renegotiating the PWCC PSA to receive better terms. However, UES continues to evaluate other supply options for an advantageous contract restructuring opportunity.

Very truly yours,

LEWIS AND ROCA LLP

Michael T. Hallam

cc: Ernest Johnson, Utilities Division Director
A.C.C. Compliance Manager
All Parties of Record

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