

ORIGINAL

Tucson Electric Power Company



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2007 AUG 23 A 11: 41
James S. Pignatelli
Chairman, President &
Chief Executive Officer
AZ CORP COMMISSION
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Arizona Corporation Commission
August 3, 2007
DOCKETED

AUG 23 2007

Commissioner Kristin Mayes
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007-2996

DOCKETED BY
NR

RE: UNS Gas, Inc.'s Purchased Gas Adjustor Bank Balance G-04204A-05-0046

Dear Commissioner Mayes:

I am in receipt of your August 3, 2007 letter regarding UNS Gas, Inc.'s, ("UNS Gas") recent Purchased Gas Adjustor ("PGA") filing regarding its over-collected bank balance. I will address your concerns and request.

As you know, natural gas prices have been extremely volatile; the last two months have been a prime example of this volatility. When UNS Gas filed its PGA report on July 18, 2007, the Company based its projections on forward prices and purchases as of June 30, 2007. While natural gas prices had fallen in the later part of June, the Company did not deem it prudent to recommend a credit to customers based on what was then a recent, and possible fleeting, price decrease.

After the filing, gas prices for the winter remained at the lower levels for a period of time as shown in Attachment 1. These same forward prices were reflected in the PGA bank graph, provided to you by the Company at your request. Even in this projection, the bank balance increases above the over-collection threshold in a few short months and remains above that level; the bank balance then exceeds the under-collection threshold late next year.

While forward gas prices have increased dramatically over the past week, they are not back to the levels seen in the earlier part of the summer. I have included as Attachment 2 several PGA credit and bank balance scenarios for this winter for the Commission's consideration, based on this most recent pricing information. However, please keep two important pieces of information in mind when reviewing these proposals. First, they are based on current forward price projections and as such are just estimates, subject to future price changes. Second, in every scenario the bank balance increases rapidly this winter and becomes under-recovered by the end of the winter, even if no credit is applied. Any credit simply amplifies the amount of under-recovery during this, and future, winters.

Commissioner Kristin Mayes
August 23, 2007
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Based on these projections, the Company would support a 2 cents per therm credit to customer bills from October 1, 2007 through April 30, 2008.

I believe this provides you, and the other Commissioners, with the information you need to understand both the issues and the risks surrounding the Company's bank balance and proposal. Please do not hesitate to contact me if there is additional information relating to our bank balance levels and projections that you would like us to provide to the Commission.

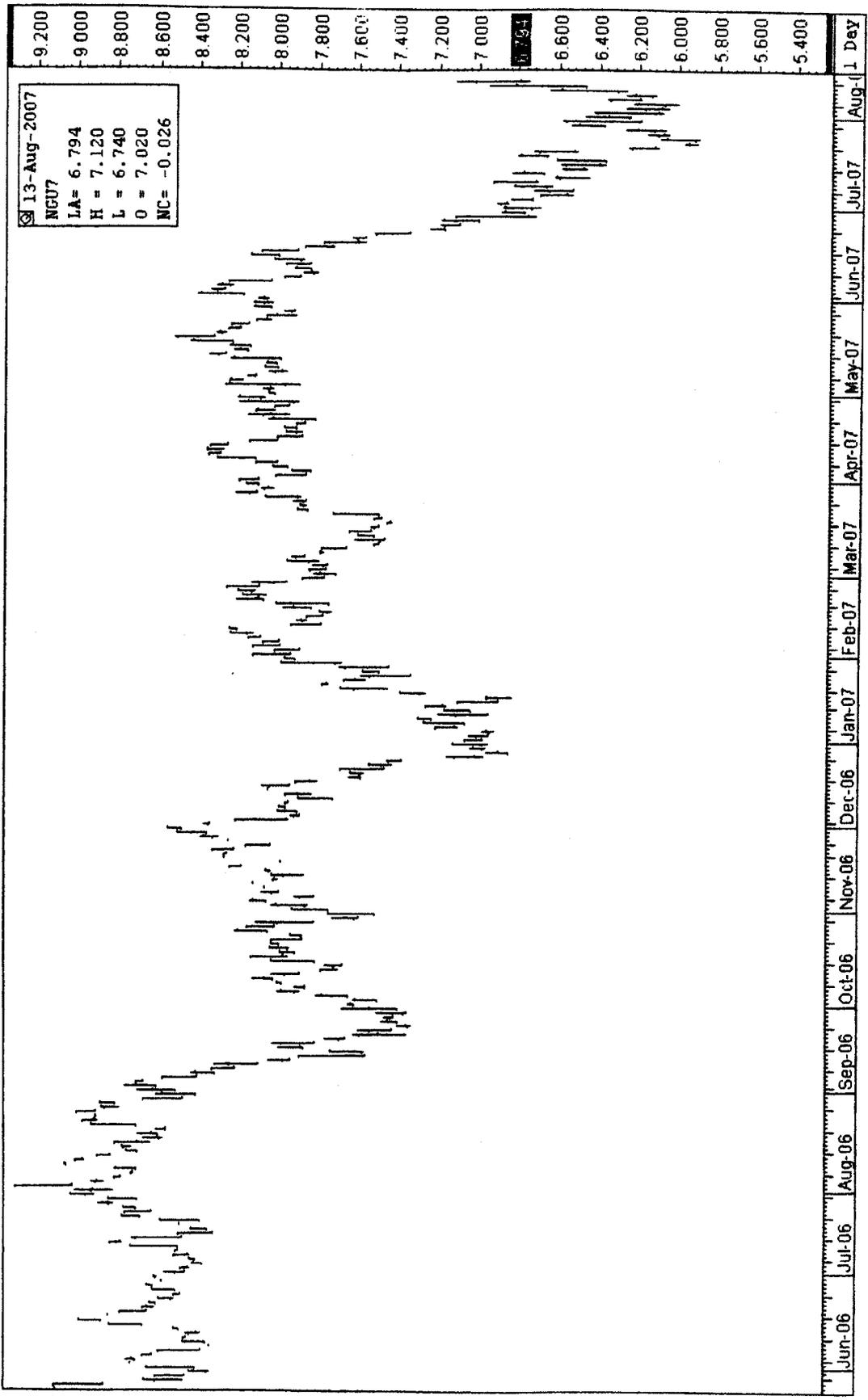
Sincerely,



James S. Pignatelli

cc: Docket Control
Chairman Mike Gleason
Commissioner William A. Mundell
Commissioner Jeff Hatch-Miller
Commissioner Gary Pierce
Lace Collins
Ernest Johnson
Heather Murphy

Attachment 1



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Jun-06 Jul-06 Aug-06 Sep-06 Oct-06 Nov-06 Dec-06 Jan-07 Feb-07 Mar-07 Apr-07 May-07 Jun-07 Jul-07 Aug-07

1 Day

Attachment 2

Attachment 2: Projected PGA Bank Balance

