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THIS AMENDMENT:
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RECEIVED _____ Failed _____ Not Offered _____ Withdrawn
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Arizona Corporation Commission

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AZ CORP COMMISSION
DOCKET CONTROL

PIERCE PROPOSED AMENDMENT #3

DATE PREPARED: November 5, 2007

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COMPANY: UNS Gas, Inc.

DOCKET NOS: G-04204A-06-0463, G-04204A-06-0013 and G-04204A-06-0831

OPEN MEETING DATES: November 5, 2007

AGENDA ITEM: U-2

Page 56, Line 25: STRIKE “makes significant movement” and INSERT “moves”

Page 56, Line 27: INSERT “as initial rates,” after “Accordingly,”

Page 57, line 3: INSERT the following text as a new paragraph

“However, while we agree with RUCO and Staff that the Company’s proposal violates the principle of gradualism—moving the monthly fee from \$7 to \$17 is too much to accomplish in a single bite—we do not believe that RUCO’s or Staff’s proposals go far enough towards the baseline principle of cost-based rates. RUCO and Staff do not disagree with the Company’s compelling assertion that more closely aligning fixed costs with fixed charges lessens the cross-subsidies from cold climates to warm climates. We note that another benefit of aligning fixed costs with fixed charges is that it lessens the risk of rate recovery to the Company. While the removal of this risk initially benefits the Company, it ultimately benefits the ratepayer as the Company will be entitled to a lower rate of return on equity in future rate proceedings. For these reasons, we will adopt Staff’s proposal to set the monthly charge at \$8.50 for the Residential R10 customer class, but increase the monthly fixed charge to \$10.00 on January 1, 2009 and \$12.00 on January 1, 2011. These increases in the monthly fixed charge are not intended to impact the Company’s overall revenue and we will ask the Company to submit, for Commission approval, corresponding decreases in its commodity rates to offset the increase in the fixed monthly charge. This approach will eventually increase the Company’s monthly fee by \$5—half of its request—but do so over time so as not to offend the principle of gradualism. The calculation of the reduction in commodity rates shall assume all pertinent facts from this rate case, e.g., revenue requirement, expenses, billing determinants, fair value rate base, rate of return, etc.”

Page 57, Line 5: INSERT “initial” after “Based on these”

INSERT new ordering paragraph on page 87:

IT IS FURTHER ORDERED that by June 1, 2008 the Company shall submit, for Commission approval, commodity rates that correspond with the increased monthly fixed charges of \$10.00 and \$12.00 that the Commission has approved in this proceeding and that Staff will prepare its recommendation regarding the Company's submission for the Commission's consideration at an Open Meeting in August 2008.

Conforming changes.