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September 1, 2009

Commissioner Gary Pierce
Commissioner Sandra Kennedy
Commissioner Paul Newman
Commissioner Bob Stump

Re: Declining natural gas prices and possible acceleration of refund of the over-collections in Arizona Public Service Company's and Unisource Natural Gas Company's Power Supply and Purchased Gas adjustor accounts; Docket E-01345A-08-0172 and [redacted].

Dear Parties to the Dockets:

Yesterday, Commissioner Pierce filed a letter asking several questions regarding the recent decline in natural gas prices and the implication of those decreases in the Arizona Public Service Company ("APS") rate case. I appreciate these questions as they mirror the inquiries I have been making in both the Unisource Natural Gas ("UNS Gas") and APS rate cases. In the last several weeks, I have questioned APS and AECC witnesses on the issue of the over-collections in the APS Power Supply Adjustor Mechanism, introduced as exhibits a copy of an article from the *Wall Street Journal* noting dramatic declines in wholesale electricity prices and a copy of a Platt's Daily natural gas tracker showing lower natural gas prices at the Permian and San Juan gas trading hubs, and asked UNS Gas executives whether they would be making an Application to refund their over-collected Purchased Gas Adjustor mechanism in the near future. In the course of asking these questions during the hearings in these two cases, it was revealed that APS has – as of last week – over-collected gas costs from its customers totaling $52.8 million, an amount that will climb even higher by the end of this year.[1] The UNS Gas adjustor mechanism is more than $6 million over-collected, and also rising.[2] Officials from both cases have stated that the refunds to customers would significantly reduce the overall amount of the rate increase proposed in both cases.[3]

None of the officials I questioned in these two cases has indicated a willingness to contemplate a more immediate refund of these over-collected ratepayer monies, but given the current economic climate in Arizona, and evidence that we are not coming out of the recession as quickly as other states,[4] I believe the Commission should be given an opportunity to consider refunding this

[1] See testimony of APS witness Jeff Guldner, transcript, Volume V, page 1126-1130.
[2] See testimony of UNS Gas witness Dave Hutchens, transcript, volume I, page 106. Mr. Hutchens testified that the gas adjustor would be $10 million over-collected at the time of a Commission Decision in the UNS Gas case.
[3] In the APS case, witnesses have testified that the gas credit would result in an overall rate increase of one percent.
[4] See http://www.azdailysun.com/articles/2009/09/01/news/state/20090901_arizo_202881.txt.

money to consumers more quickly than is being anticipated in these cases. In the case of UNS Gas, when the over-collected threshold for making a refund to customers is $10 million, at which point the Company must come to the Commission with an Application to make a refund. In the case of APS, there is no threshold in place for a refund, and the Company has indicated that it plans to make the refund only at the point at which the Commission makes a decision on the APS rate case.[5]

Therefore, I would like Staff, and APS and UNS Gas, to tell the Commission whether they have plans to make Applications for refunds immediately, and if not, why they believe it is in the public interest to withhold these funds from Arizona consumers. If the Parties in the APS rate case feel they are unable to make such a recommendation because they signed the Settlement Agreement and agreed to defend it, I would like the Commission's legal Staff to be prepared at an upcoming Staff meeting to inform the Commissioners of our options regarding this issue.

Additionally, it would appear that the Salt River Project, after hearing from consumers concerned over that entity's proposed rate increase, is considering a delayed implementation date for at least a portion of its proposed rate increase.[6] I would like the Parties in the APS rate case to be prepared, when hearings resume, to state whether it would be in the public interest to delay the implementation of the base rate increase portion of the proposed APS rate increase for several months in order to allow consumers a reprieve from higher bills, and if not, why not.

Thank you for your attention to this matter.

Sincerely,

Kris Mayes
Chairman

Ernest Johnson
Steve Olea
Janice Alward
Lyn Farmer
Rebecca Wilder

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[5] A Decision is not expected until late 2009 or early 2010.
[6] See Arizona Republic, "Board Members Sideline SRP Rate Increase," http://www.azcentral.com/business/articles/2009/08/27/20090827biz-srp0828.html.