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October 11, 2005

Re: UNS Gas Surcharge Request; Docket No. G-04204A-05-0596

Dear Parties to the Docket:

I have reviewed the various options presented by Staff in its September 12 report on the proposed UNS Gas surcharge increase and would like the parties to analyze several additional options for collecting the surcharge balance.

As Staff notes, if the Company's proposal is implemented without alteration, the actual percent increase faced by the average UNS customer will be more than 39 percent at the height of the winter heating season. This is an enormous sum, and begs the question whether there are other ways to collect the Company's fuel costs without creating the kind of rate shock that would almost certainly accompany such a large increase.

Therefore, I would like Staff and the Company to more thoroughly analyze the merits and demerits of Option 9 as offered in the Staff report, under which the Company would be permitted to recover its fuel costs with a surcharge increase that is smaller in the winter but much larger in the summertime. I would also like the Parties to design and present to the Commission an option under which the amount paid by customers monthly due to the surcharge would be more even during all four seasons of the year.[1]

It appears that such a "shoulder period" recovery plan could mitigate the impact of the proposed increase by spreading out the cost recovery over both the summer and winter months.

Furthermore, as the Parties are aware, last year, as part of the passage of the three cent per therm surcharge that is currently in effect, we approved an amendment requiring Staff to analyze before January of 2006 whether the trigger for the UNS surcharge should be changed. The current $4.45 million trigger was adopted at a time when UNS had fewer customers and when gas prices were obviously much lower and far less volatile. (Recently, Staff recommended as part of the Southwest Gas case that the trigger for that Company's balancing account be increased, noting that the Company's customer base has grown since the last time the trigger was changed and fuel

[1] For instance, could the bank balance be reduced through a surcharge design that set the per therm charge at .15 cents in November through February; .25 cents in March and April; .30 cents in May and June; .35 cents in July through September; .25 cents in October and November; .20 cents in December 2007 through February; and .25 cents in March and April of 2007, or through a similar graduated rate design?

costs are up significantly). I would like to know whether it would be possible for Staff to present its recommendation on the proper trigger level for the UNS Gas bank balance for the Commission's consideration when we take up Company's surcharge request.

Finally, I would like Staff and the Company to respond to RUCO's assertion, filed in the docket on October 6, that the Commission should only alter the PGA rate to recover actually accrued balances, rather than setting the surcharge to meet projected accumulations in the account.

Thank you for your attention to these matters.

Sincerely,

Kris Mayes
Commissioner

cc: Chairman Jeff Hatch-Miller
Commissioner Marc Spitzer
Commissioner William Mundell
Commissioner Mike Gleason
Ernest Johnson
Brian McNeil
Heather Murphy
Stephen Ahearn