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AZ CORP COMMISSION  
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BEFORE THE ARIZONA CORPORATION COMMISSION

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MARC SPITZER  
Chairman

JIM IRVIN  
Commissioner

WILLIAM A. MUNDELL  
Commissioner

MIKE GLEASON  
Commissioner

JEFF HATCH-MILLER  
Commissioner

Arizona Corporation Commission

DOCKETED

MAY 20 2003

DOCKETED BY *CM*

IN THE MATTER OF THE APPLICATION )  
OF THE ARIZONA ELECTRIC DIVISION )  
OF CITIZENS COMMUNICATIONS )  
COMPANY TO CHANGE THE CURRENT )  
PURCHASED POWER AND FUEL )  
ADJUSTMENT CLAUSE RATE, TO )  
ESTABLISH A NEW PURCHASED )  
POWER AND FUEL ADJUSTMENT )  
CLAUSE BANK, AND TO REQUEST )  
APPROVED GUIDELINES FOR THE )  
RECOVERY OF COSTS INCURRED IN )  
CONNECTION WITH THE ENERGY )  
RISK MANAGEMENT INITIATIVES. )

DOCKET NO. E-01032C-00-0751

IN THE MATTER OF THE APPLICATION )  
OF CITIZENS COMMUNICATIONS )  
COMPANY, ARIZONA GAS DIVISION, )  
FOR A HEARING TO DETERMINE THE )  
FAIR VALUE OF ITS PROPERTIES FOR )  
RATEMAKING PURPOSES, TO FIX A )  
JUST AND REASONABLE RATE OF )  
RETURN THEREON, AND TO APPROVE )  
RATE SCHEDULES DESIGNED TO )  
PROVED SUCH RATE OF RETURN. )

DOCKET NO. G-01032A-02-0598

1 IN THE MATTER OF THE JOINT )  
2 APPLICATION OF CITIZENS )  
3 COMMUNICATIONS COMPANY AND )  
4 UNISOURCE ENERGY CORPORATION )  
5 FOR THE APPROVAL OF THE SALE OF )  
6 CERTAIN ELECTRIC UTILITY AND )  
7 GAS UTILITY ASSETS IN ARIZONA, )  
8 THE TRANSFER OF CERTAIN )  
9 CERTIFICATES OF CONVENIENCE )  
10 AND NECESSITY FROM CITIZENS )  
11 COMMUNICATIONS COMPANY TO )  
12 UNISOURCE ENERGY CORPORATION, )  
13 THE APPROVAL OF THE FINANCING )  
14 FOR THE TRANSACTIONS AND OTHER )  
15 RELATED MATTERS. )

DOCKET NO. E-01933A-02-0914  
DOCKET NO. E-01032C-02-0914  
DOCKET NO. G-01032A-02-0914

10 **NOTICE OF JOINT FILING LATE-FILED EXHIBIT**

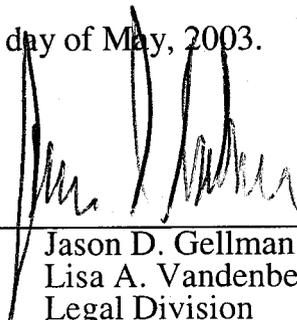
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12 In response to a request made by Commissioner Gleason at the Hearing in  
13 this matter, Joint Applicants and the Arizona Corporation Commission Staff jointly file the  
14 attached financial analyses as a late-filed exhibit. Attached are the following two sets of  
15 analyses:

16 (1) The first analysis (attached as Exhibit "A") focuses on UniSource  
17 Energy Services, Inc. (the holding company designated to wholly own ElecCo and  
18 GasCo). This analysis isolates the cash flow from UniSource Energy Services, Inc. and  
19 calculates the expected cash flow/interest coverage ratios through 2007. The analysis  
20 shows coverage ratios under three scenarios: (1) straight cash flow; (2) cash flow as if the  
21 \$50 million TEP loan were being covered by the new operations; and, (3) the latter  
22 scenario with an additional \$50 million revolving credit debt obligation. The analysis  
23 shows that the interest coverage ratios remain healthy even when the TEP loan and the  
24 revolving credit are loaded onto UniSource Energy Services, Inc.  
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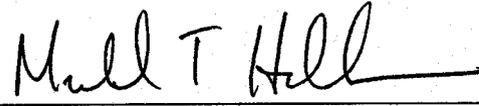
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(2) The second analysis (attached as Exhibit "B") consists of a balance sheet, income statement, and a range of financial ratios used as credit metrics by Standard & Poor's for rating utility companies. The credit metrics present the results of a conservative *assumption* that UniSource borrows \$90 million from a third party to fund its equity investment in UniSource Energy Services, Inc. The \$90 million is in addition to the estimated \$140 million of debt at the UniSource Energy Services, Inc. operating level.

Respectfully submitted this 20th day of May, 2003.

By   
Jason D. Gellman  
Lisa A. Vandenberg  
Legal Division  
1200 West Washington  
Phoenix, AZ 85007  
(602) 542-3402

LEWIS AND ROCA LLP

By   
Thomas H. Campbell  
Michael T. Hallam  
40 N. Central Avenue  
Phoenix, Arizona 85004  
Attorneys for Joint Applicants

ORIGINAL AND seventeen (17) copies of the foregoing hand-delivered this 20th day of May, 2003, to:

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

1 COPY of the foregoing hand-delivered  
this 20th day of May, 2003, to:  
2  
3 Marc Spitzer  
Chairman  
Arizona Corporation Commission  
4 1200 W. Washington Street  
Phoenix, Arizona 85007  
5  
6 Jim Irvin  
Commissioner  
Arizona Corporation Commission  
7 1200 W. Washington Street  
Phoenix, Arizona 85007  
8  
9 William A. Mundell  
Commissioner  
Arizona Corporation Commission  
10 1200 W. Washington Street  
Phoenix, Arizona 85007  
11  
12 Mike Gleason  
Commissioner  
Arizona Corporation Commission  
13 1200 W. Washington Street  
Phoenix, Arizona 85007  
14  
15 Jeff Hatch-Miller  
Commissioner  
Arizona Corporation Commission  
16 1200 W. Washington Street  
Phoenix, Arizona 85007  
17  
18 Jason Gellman  
Lisa A. Vandenberg  
Legal Division  
19 Arizona Corporation Commission  
1200 W. Washington Street  
20 Phoenix, Arizona 85007  
21  
22 Dwight D. Nodes  
Assistant Chief Administrative Law Judge  
Arizona Corporation Commission  
1200 W. Washington Street  
23 Phoenix, Arizona 85007  
24  
25 Ernest Johnson, Director  
Utilities Division  
Arizona Corporation Commission  
1200 W. Washington Street  
26 Phoenix, Arizona 85007

1 Christopher Kempley, Chief Counsel  
2 Legal Division  
3 Arizona Corporation Commission  
4 1200 W. Washington Street  
5 Phoenix, Arizona 85007

6 COPY of the foregoing sent by mail  
7 this 20th day of May, 2003,  
8 to:

9 Andrew W. Bettwy  
10 Assistant General Counsel  
11 Southwest Gas Corporation  
12 5241 Spring Mountain Road  
13 Las Vegas, Nevada 89150

14 Scott Wakefield  
15 Daniel W. Pozefsky  
16 RUCO  
17 1110 West Washington  
18 Suite 220  
19 Phoenix, Arizona 85007

20 Walter Meek, Esq.  
21 Arizona Utility Investors Association  
22 2100 N. Central Ave., Suite 210  
23 Phoenix, Arizona 85004

24 Christine Nelson  
25 John White  
26 Deputy County Attorney  
P.O. Box 7000  
Kingman, Arizona 86402-7000

Susan Mikes Doherty  
John D. Draghi  
Huber Lawrence & Abell  
605 3<sup>rd</sup> Avenue  
New York, New York 10158

Marshall Magruder  
Lucy Magruder  
P.O. Box 1267  
Tubac, Arizona 85646

- 1 Robert J. Metli  
Cheifetz & Iannitelli, P.C.  
2 3238 N. 16<sup>th</sup> Street  
Phoenix, Arizona 85016
- 3  
4 Jose L. Machado  
City Attorney, City of Nogales  
777 N. Grand Avenue  
5 Nogales, Arizona 85621
- 6  
7 Holly J. Hawn  
Martha S. Chase  
Santa Cruz County Attorney  
8 2150 N. Congress Drive  
Suite 201  
9 Nogales, Arizona 85621
- 10 Vincent Nitido  
Tucson Electric Power  
11 One S. Church Ave., Suite 1820  
Tucson, Arizona 85701
- 12 Deborah Scott, Associate General Counsel  
13 Citizens Communications Company  
2901 N. Central Avenue  
14 Suite 1660  
Phoenix, Arizona 85012-2736
- 15 L. Russell Mitten  
16 Citizens Communications Company  
Three High Ridge Park  
17 Stamford, CT 06905
- 18 Gary Smith  
19 Citizens Communications Company  
2901 W. Shamrell Boulevard  
Suite 110  
20 Flagstaff, Arizona 86001
- 21 Raymond Mason, Director, Corporate Regulatory Affairs  
Citizens Communications Company  
22 Three High Ridge Park  
Stamford, CT 06905
- 23 Tom Ferry  
24 P.O. Box 3099  
Kingman, Arizona 86402-3099
- 25  
26

1 Nicholas J. Enoch  
2 Lubin & Enoch, P.C.  
3 349 N. Fourth Avenue  
4 Phoenix, AZ 85003

3

4

5

*Jayne Williams*

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**EXHIBIT A**

**UniSource Energy Services Financial Forecast  
Combined Results of ElecCo and GasCo  
Cash Flow Interest Coverage**

	2004	2005	2006	2007
(\$ millions)				
(A) Total UES Operating Cash Flow	\$29.5	\$34.7	\$32.5	\$36.0
(B) Total UES Interest Payments (1)	\$13.6	\$13.6	\$13.6	\$13.6
Cash Flow Interest Coverage [= (A + B) / B]	3.2	3.6	3.4	3.6

**Adjusted Cash Flow Interest Coverage  
(Includes Interest on TEP Loan to UniSource Energy Corp.)**

	2004	2005	2006	2007
(\$ millions)				
Maximum Principal Amount of TEP Loan to UniSource	\$50.0	\$50.0	\$50.0	\$50.0
x Estimated Interest Rate (2)	6.3%	6.3%	6.3%	6.3%
(C) Estimated Interest on TEP Note Paid by UniSource	\$3.2	\$3.2	\$3.2	\$3.2
Adjusted Interest Coverage [= (A + B) / (B + C)]	2.6	2.9	2.8	3.0

**Notes**

- (1) Reflects interest on estimated \$175 mil. loan balance at 7.75% interest rate  
(2) Reflects current yield to maturity of 2.5% on 4-year Treasury Notes plus 3.83% margin

**Adjusted Cash Flow Interest Coverage  
(Includes \$50 mil. Revolving Line of Credit)**

	2004	2005	2006	2007
(\$ millions)				
Maximum Amount of Revolving Line of Credit	\$50.0	\$50.0	\$50.0	\$50.0
x Estimated Interest Rate (3)	4.3%	4.3%	4.3%	4.3%
(D) Estimated Interest on Revolver	\$2.2	\$2.2	\$2.2	\$2.2
Adjusted Interest Coverage [= (A + B) / (B + C + D)]	2.3	2.6	2.4	2.6

**Notes**

- (3) Reflects one-month LIBOR of 1.30% plus 3.00% margin

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**EXHIBIT B**

**CREDIT METRICS**  
**STANDARD & POOR'S KEY UTILITY FINANCIAL RATIOS**  
**FOR**  
**UNISOURCE ENERGY CORPORATION**  
**WITH PRO FORMAS FOR CITIZENS ACQUISITIONS**

	<u>UNS</u> <u>2002</u>	<u>UNS</u> Pro Forma <u>2002</u>	
EBIT interest coverage	1.32	1.35	= EBIT / Tot. Int. Exp
EBITDA interest coverage	2.31	2.28	= EBITDA / Tot. Int. Exp.
Funds from operations/total debt	15%	14%	= FFO From IS / (LTD + Curr. Mat.)
Return on capital	9%	9%	= EBIT / (Equity + LTD + Cap. Lease Oblig.)
Operating income/sales	21%	*	
Long-term debt/capital	81%	83%	= (LTD + Cap. Lease Oblig) / Total Cap
Total debt/capital	82%	83%	= Same but includes current maturities

\* Cannot calculate without specifying forecasted revenues for acquired properties, which is non-public information.

**UNISOURCE ENERGY CORPORATION**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Year Ended 12/31/2002	UniSource Energy Services Pro Forma Adjustments*	UniSource Energy Corp. Pro Forma Adjustments*	Pro Forma Year Ended 12/31/2002
- Thousands of Dollars -				
<b>Operating Revenues</b>				
Electric Retail Sales	\$ 666,049			\$ 666,049
Electric Wholesale Sales	177,908			177,908
Other	12,265			12,265
<b>Total Operating Revenues</b>	<b>856,222</b>	-	-	<b>856,222</b>
<b>Operating Expenses</b>				
Fuel	209,712			209,712
Purchased Power	64,504			64,504
Coal Contract Termination and Amendment Fees	11,250			11,250
Other Operations and Maintenance	188,910			188,910
Depreciation and Amortization	127,923			127,923
Amortization of Transition Recovery Asset	24,554			24,554
Taxes Other Than Income Taxes	45,508			45,508
<b>Total Operating Expenses</b>	<b>672,361</b>	-	-	<b>672,361</b>
<b>Operating Income</b>	<b>183,861</b>	\$ 27,353	-	<b>211,214</b>
<b>Other Income (Deductions)</b>				
Interest Income	20,654			20,654
Other Income (Deductions)	189			189
<b>Total Other Income (Deductions)</b>	<b>20,843</b>	-	-	<b>20,843</b>
<b>Interest Expense</b>				
Long-Term Debt	65,620	10,850	6,975	83,445
Interest on Capital Leases	87,801			87,801
Interest Imputed on Losses Recorded at Present Value	1,166			1,166
Other Interest Expense, Net of Amounts Capitalized	(36)			(36)
<b>Total Interest Expense</b>	<b>154,551</b>	<b>10,850</b>	<b>6,975</b>	<b>172,376</b>
<b>Income Before Income Taxes</b>	<b>50,153</b>	<b>16,503</b>	<b>(6,975)</b>	<b>59,681</b>
Income Taxes	16,878	6,585	(2,783)	20,680
<b>Net Income</b>	<b>33,275</b>	<b>9,918</b>	<b>(4,192)</b>	<b>39,002</b>
<b>Net Income for Common Shareholders</b>	<b>\$ 33,275</b>	<b>\$ 9,918</b>	<b>\$ (4,192)</b>	<b>\$ 39,002</b>
<b>Average Shares of Common Stock Outstanding (000)</b>	<b>33,665</b>	<b>33,665</b>	<b>33,665</b>	<b>33,665</b>
<b>Basic Earnings per Share</b>	<b>\$ 0.99</b>	<b>\$ 0.29</b>	<b>\$ (0.12)</b>	<b>\$ 1.16</b>
EBIT	\$ 204,704	\$ 27,353	\$ -	\$ 232,057
EBITDA	\$ 357,181	\$ 35,020	\$ -	\$ 392,201
FFO	\$ 172,963	\$ 17,585	\$ (4,192)	\$ 186,356

\*For illustrative purposes, a capital structure that includes 40% equity at UniSource Energy Services is used

Pro Forma Adjustments

- Operating Income determined by 11% ROE on \$90 mil. of UES equity (grossed-up for taxes) and 7.75% on \$140 mil. of UES debt
- Interest Expense reflects \$230 mil. of debt at 7.75%
- Income Tax at 40%

Funds from Operations

- Base year Funds from Operations equal to Cash from Operations per Statement of Cash Flows (not shown)
- Pro forma adjustment reflects net income plus depreciation of \$7.67 mil. (\$230 mil. straight-line, 30 years)

UNISOURCE ENERGY CORPORATION CONSOLIDATED BALANCE SHEETS WITH PRO FORMAS FOR CITIZENS ACQUISITIONS	December 31, 2002	UniSource Energy Services Pro Forma Adjustments*	UniSource Energy Corp. Pro Forma Adjustments*	Pro Forma Balance at 12/31/02
- Thousands of Dollars -				
<b>ASSETS</b>				
<b>Utility Plant</b>				
Plant in Service	\$2,598,884	\$230,000		\$2,828,884
Utility Plant under Capital Leases	747,556			747,556
Construction Work in Progress	59,926			59,926
<b>Total Utility Plant</b>	<b>3,406,366</b>	<b>230,000</b>	-	<b>3,636,366</b>
Less Accumulated Depreciation and Amortization	(1,346,101)			(1,346,101)
Less Accumulated Depreciation of Capital Lease Assets	(391,915)			(391,915)
<b>Total Utility Plant - Net</b>	<b>1,668,350</b>	<b>230,000</b>	-	<b>1,898,350</b>
<b>Investments and Other Property</b>	<b>315,105</b>			<b>315,105</b>
<b>Current Assets</b>	<b>285,005</b>			<b>285,005</b>
<b>Regulatory and Other Assets</b>	<b>422,274</b>			<b>422,274</b>
<b>Total Assets</b>	<b>\$2,690,734</b>	<b>\$230,000</b>	-	<b>\$2,920,734</b>
<b>CAPITALIZATION AND OTHER LIABILITIES</b>				
<b>Capitalization</b>				
Common Stock Equity	\$ 438,229			\$ 438,229
Capital Lease Obligations	801,611			801,611
Long-Term Debt	1,128,963	\$140,000	\$90,000	1,358,963
<b>Total Capitalization</b>	<b>2,368,803</b>	<b>140,000</b>	<b>90,000</b>	<b>2,598,803</b>
<b>Current Liabilities</b>				
Current Obligations under Capital Leases	42,960			42,960
Current Maturities of Long-Term Debt	1,840			1,840
Other	174,580			174,580
<b>Total Current Liabilities</b>	<b>219,380</b>	-	-	<b>219,380</b>
<b>Total Deferred Credits and Other Liabilities</b>	<b>102,551</b>			<b>102,551</b>
<b>Total Capitalization and Other Liabilities</b>	<b>\$2,690,734</b>	<b>\$140,000</b>	<b>\$90,000</b>	<b>\$2,920,734</b>

\*For illustrative purposes, a capital structure that includes 40% equity at UniSource Energy Services is used

Assumptions

- \$230 mil. acquisition price for plant in service
- Acquisition is financed by debt on a UniSource consolidated basis