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AZ CORP COMMISSION
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BEFORE THE ARIZONA CORPORATION COMMISSION

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 *CAH*

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

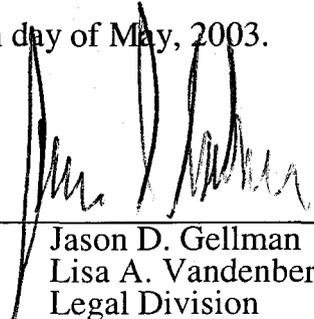
10 **NOTICE OF JOINT FILING LATE-FILED EXHIBIT**

11
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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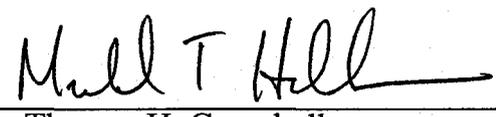
1 (2) The second analysis (attached as Exhibit "B") consists of a balance
2 sheet, income statement, and a range of financial ratios used as credit metrics by Standard
3 & Poor's for rating utility companies. The credit metrics present the results of a
4 conservative *assumption* that UniSource borrows \$90 million from a third party to fund its
5 equity investment in UniSource Energy Services, Inc. The \$90 million is in addition to the
6 estimated \$140 million of debt at the UniSource Energy Services, Inc. operating level.

7
8 Respectfully submitted this 20th day of May, 2003.

9
10
11 By 

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

24 Arizona Corporation Commission
25 Utilities Division – Docket Control
26 1200 W. Washington Street
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1 COPY of the foregoing hand-delivered
2 this 20th day of May, 2003, to:

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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 -				
Operating Revenues				
Electric Retail Sales	\$ 666,049			\$ 666,049
Electric Wholesale Sales	177,908			177,908
Other	12,265			12,265
Total Operating Revenues	856,222	-	-	856,222
Operating Expenses				
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
Total Operating Expenses	672,361	-	-	672,361
Operating Income	183,861	\$ 27,353	-	211,214
Other Income (Deductions)				
Interest Income	20,654			20,654
Other Income (Deductions)	189			189
Total Other Income (Deductions)	20,843	-	-	20,843
Interest Expense				
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)
Total Interest Expense	154,551	10,850	6,975	172,376
Income Before Income Taxes	50,153	16,503	(6,975)	59,681
Income Taxes	16,878	6,585	(2,783)	20,680
Net Income	33,275	9,918	(4,192)	39,002
Net Income for Common Shareholders	\$ 33,275	\$ 9,918	\$ (4,192)	\$ 39,002
Average Shares of Common Stock Outstanding (000)	33,665	33,665	33,665	33,665
Basic Earnings per Share	\$ 0.99	\$ 0.29	\$ (0.12)	\$ 1.16
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 -				
ASSETS				
Utility Plant				
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
Total Utility Plant	3,406,366	230,000	-	3,636,366
Less Accumulated Depreciation and Amortization	(1,346,101)			(1,346,101)
Less Accumulated Depreciation of Capital Lease Assets	(391,915)			(391,915)
Total Utility Plant - Net	1,668,350	230,000	-	1,898,350
Investments and Other Property	315,105			315,105
Current Assets	285,005			285,005
Regulatory and Other Assets	422,274			422,274
Total Assets	\$2,690,734	\$230,000	-	\$2,920,734
CAPITALIZATION AND OTHER LIABILITIES				
Capitalization				
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
Total Capitalization	2,368,803	140,000	90,000	2,598,803
Current Liabilities				
Current Obligations under Capital Leases	42,960			42,960
Current Maturities of Long-Term Debt	1,840			1,840
Other	174,580			174,580
Total Current Liabilities	219,380	-	-	219,380
Total Deferred Credits and Other Liabilities	102,551			102,551
Total Capitalization and Other Liabilities	\$2,690,734	\$140,000	\$90,000	\$2,920,734

*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