

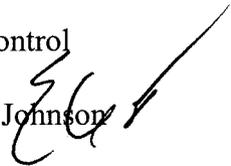
ORIGINAL



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MEMORANDUM

TO: Docket Control

FROM: Ernest G. Johnson 
Director
Utilities Division

DATE: December 15, 2006

RE: STAFF REPORT FOR UNS ELECTRIC, INC. AND UNS GAS, INC.
APPLICATION FOR A FINANCING ORDER AUTHORIZING VARIOUS
FINANCING TRANSACTIONS DOCKET NOS.: E-04204A-06-0493, AND G-
04204A-06-0493

Attached is the Staff Report for UNS Electric, Inc. and UNS Gas, Inc.'s joint application requesting authorization for (1) UNS Electric, Inc. to refinance and increase its long-term debt, (2) the entities to extend and increase the amount of their joint revolving credit facility, (3) pre-approved authority to subsequently renew their joint revolving credit facility, and (4) UNS Electric, Inc. to enter into security agreements granting liens on some or all of its properties. Staff recommends conditional approval.

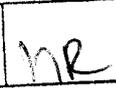
Any party who wishes may file comments to the Staff Report with the Commission's Docket Control by 4:00 p.m. on or before December 29, 2006.

EGJ:MEB:red

Originator: Michael Bailey

Attachment: Original and fourteen copies

Arizona Corporation Commission
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DEC 15 2006

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Service List for: UNS Electric, Inc. and UNS Gas, Inc.
Docket Nos. E-04204A-06-0493 and G-04204A-06-0493

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**STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION**

**UNS ELECTRIC, INC. AND UNS GAS, INC.
DOCKET NOS. E-04204A-06-0493 & G-04204A-06-0493**

**APPLICATION FOR A FINANCING ORDER
AUTHORIZING VARIOUS FINANCING TRANSACTIONS**

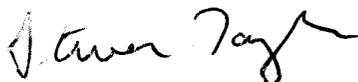
DECEMBER 15, 2006

STAFF ACKNOWLEDGMENT

The Staff Report for UNS Electric, Inc. and UNS Gas, Inc., Docket Nos. E-04204A-06-0493 and G-04204A-06-0493, respectively, was the responsibility of the Staff members listed below. Michael Bailey was responsible for the financial review and analysis. Steven Taylor was responsible for the engineering review and analysis.



Michael Bailey
Public Utilities Analyst III



Steven Taylor
Utilities Engineer - Electrical

EXECUTIVE SUMMARY
UNS ELECTRIC, INC. AND UNS GAS, INC.
DOCKET NOS. E-04204A-06-0493 & G-04204A-06-0493

On July 28, 2006, UNS Electric, Inc. ("UNS Electric") and UNS Gas, Inc. ("UNS Gas"), collectively ("Borrowers") filed a joint application with the Arizona Corporation Commission ("Commission") requesting authorization of various financing transactions.

The Borrowers are wholly owned subsidiaries of Unisource Energy Services, Inc. ("Parent"). UNS Electric provides electric transmission and distribution service to approximately 91,000 customers in Mohave and Santa Cruz counties and has a service office in Kingman. UNS Gas provides gas distribution services to approximately 142,000 customers in Mohave, Yavapai, Coconino, Navajo and Santa Cruz Counties and has a service office in Flagstaff. The Borrowers and Parent are all Arizona corporations headquartered in Tucson, Arizona.

The Borrowers are proposing the following transactions. First, UNS Electric proposes to refinance \$60 million in Senior Notes (interest-only with a balloon payment) due in August 2008 by issuing new long-term debt in an increased amount of \$100 million with a maturity of five to twenty years. The application states that this long-term debt would also provide capital for growth that is first financed with a revolving credit facility and subsequently converted to long-term debt.

Second, the Borrowers seek to increase the amount of their joint revolving credit facility from \$40 million to \$60 million. The terms of the revolving credit facility allow either entity to borrow up to 75 percent of the total. The obligations of each Borrower are several and not joint so neither entity guarantees the obligations of the other. The Borrowers also request authorization to amend or refinance the revolving credit facility with an ultimate maturity in August 2014 without having to reapply with the Commission for approval to take advantage of opportunities to obtain better terms as they arise in a timely manner.

In addition, UNS Electric requests to grant, if needed to complete the financing or to achieve lower interest rates, a lien on some or all of its properties, including properties acquired after the date of the grant of the lien, to secure its obligations under the new long-term debt and revolving credit facility and to secure any other obligations existing at the time the lien is granted which must be secured if such lien is granted.

For UNS Electric, Staff's analysis shows a pro forma times interest earned ratio ("TIER") of 1.40 and debt service coverage ratio ("DSC") of 1.04 would result from issuance of \$100 million of six-year amortizing debt at 7.61 percent and borrowing \$45 million on an interest-only with balloon payment revolving credit facility at 6.6 percent. The pro forma TIER and DSC indicate that UNS Electric would have sufficient cash flow to meet all obligations under these stringent terms. However, a stringent test applied by Staff excluding a \$10 million equity infusion in June 2006 results in a pro forma capital structure composed of 3.83 percent short-term debt, 69.76 percent long-term debt and 26.42 percent equity to provide a cautionary signal.

For UNS Gas, Staff's analysis shows a pro forma TIER of 1.73 and DSC of 2.42 would result from borrowing \$45 million on an interest-only with balloon payment revolving credit facility at 6.6 percent. These pro forma TIER and DSC indicate that UNS Gas would have sufficient cash flow to meet all obligations. The resulting pro forma capital structure composed of 64.5 percent long-term debt and 35.5 percent equity is adequate.

Staff concludes that the financing transactions proposed by the Borrowers are reasonable, are within their corporate powers, are compatible with the public interest, would not impair their ability to provide services and would be consistent with sound financial practices if subsequent to any debt issuance common equity represents at least 30 percent of total equity (common equity, preferred stock, long-term debt and short-term debt).

Staff recommends authorization of the financing transactions proposed by the UNS Electric and UNS Gas subject to several conditions including that subsequent to any debt issuance common equity represents at least 30 percent of total equity.

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Introduction

UNS Electric, Inc. (“UNS Electric”) and UNS Gas, Inc. (“UNS Gas”) (collectively as “Borrowers”) filed a joint application with the Arizona Corporation Commission (“Commission”) on July 28, 2006, requesting authorization for various financing transactions. Specifically, the application requests authorization for UNS Electric to refinance and increase its long-term debt, for the entities to extend and increase the amount of their joint revolving credit facility, for pre-approved authority to subsequently renew their joint revolving credit facility and for UNS Electric to enter into security agreements granting liens on some or all of its properties.

Notice

On October 16, 2006, the Borrowers filed affidavits of publication verifying public notice of its financing application. The Borrowers published notice of their financing application in the *Arizona Daily Sun* and *Lake Havasu’s Today’s News-Herald* on August 28, 2006; in the *Arizona Republic*, the *Kingman Daily Miner*, and the *White Mountain Independent* on August 29, 2006; the *Holbrook Tribune-News*, the *Prescott Courier*, and the *Sedona Red Rock News* on August 30, 2006; the *Nogales International* on September 19, 2006; the *Winslow Mail* on September 20, 2006; the *Verde Independent* on September 26, 2006; and the *Williams-Grand Canyon News* on September 29, 2006. The affidavits of publication are attached along with a copy of the Notices.

Compliance

There are no compliance issues outstanding for either UNS Electric or UNS Gas.

Background

The Borrowers are wholly owned subsidiaries of the Unisource Energy Services, Inc. (“Parent”), headquartered in Tucson, Arizona.¹ UNS Electric serves approximately 91,000 customers in Mohave and Santa Cruz Counties and maintains a service office in Kingman. UNS Gas serves approximately 142,000 customers in Mohave, Yavapai, Coconino, Navajo and Santa Cruz Counties and maintains a service office in Flagstaff.

Purpose

Long-term Debt – UNS Electric

The purpose of UNS Electric’s proposed issuance of \$100 million in long-term debt is twofold. First, \$60 million of the proceeds would refinance existing interest-only long-term debt (“Senior Notes”) that matures in August 2008. Second, the remainder would provide long-term capital to refinance capital improvements needed for growth that are first financed with a revolving credit facility.

¹ UNS Electric and UNS Gas are also sister companies to Tucson Electric Power (“TEP”).

The Borrowers are “requesting authority a year in advance of this maturity date in order to begin testing the market and to obtain proposals from various lenders or arrangers of debt. If UNS Electric believes it is prudent and cost effective to refinance senior notes prior to maturity, it will be able to act quickly with the Commission’s prior approval.”²

Revolving Credit Facility

The application states that the purpose of increasing the Borrower’s revolving credit facility from \$40 million to \$60 million is to improve access to funds for short-term liquidity and working capital purposes to fund growth. The Borrowers assert that conditions in the bank credit markets have improved since they entered into their existing revolving credit facility and that companies with similar credit profiles are currently paying more advantageous rates and reduced commitment fees. Thus, an opportunity exists for the Borrowers to obtain reduced pricing and at the same time extend the term of the facility. The Borrowers cite their service area’s four-to-five percent annual growth and the need for infrastructure to grow along with it to support an increase in the facility.

Additionally, the Borrowers note that increased borrowing capacity will facilitate issuing letters of credit as credit enhancement for energy purchases and for hedging arrangements for UNS Gas. UNS Gas purchases a portion of its gas supply on a forward basis in order to hedge against commodity price volatility. In the future, UNS Gas’ gas suppliers or financial hedging counterparties may require credit enhancement in the form of letters of credit. UNS Electric’s full requirements power purchase contract with Pinnacle West Capital Corporation expires in 2008 and UNS Electric may be required to provide credit enhancement under future power purchase agreements.

The Borrowers also request authorization to enter into amendments to their existing facility or to refinance by entering into new agreements with an ultimate maturity date in August 2014. The application asserts that such refinancing authority would allow the Borrowers to take advantage of opportunities to obtain better terms as they arise in a timely manner.

Engineering Analysis

Staff concludes that the activities contemplated by UNS Electric and UNS Gas in this application are appropriate and its cost estimates are reasonable. Staff makes no “used and useful” determination in this proceeding. The rate-making treatment for any plant improvements resulting from the proposed financing is deferred to a future rate proceeding.

² Application, page 8, lines 15 – 19.

Description and Terms of Proposed Financing

Long-term Debt

UNS Electric proposes to issue \$100 million of long-term debt with a maturity date between five and twenty years. Terms for loan type (e.g., amortizing or interest-only with balloon payment) and interest rate are yet to be negotiated by the Borrowers.³

Revolving Credit Facility

The application states that the Borrowers request to extend the maturity of the existing facility, to increase the amount of the facility from \$40 million to \$60 million and to enter into similar amendments or refinancings to extend the facility during the subsequent three-year period should favorable opportunities arise. It also notes that the applicable borrowing rate at June 30, 2006, was the London Interbank Offered Rate ("LIBOR") plus 1.50 percent and that an annual commitment fee of 0.45 percent applied to the unused balance. The Borrowers response to Staff data request MB 1.1 notes that the agreement governing the facility was amended and restated on August 11, 2006, as follows:⁴

The interest rate payable on any borrowings under the facility is LIBOR + 1.00% for Eurodollar borrowings, or at the agent bank's reference rate (generally Prime Rate) for any Alternate Base Rate ("ABR") borrowings. The commitment fee on the unused commitment is 15 basis pts. per annum. Previously, these amounts were LIBOR + 1.50% for Eurodollar borrowings and 45 basis pts. for the commitment fee.

Any borrowings outstanding at maturity are due and payable at the time. Interest is payable quarterly for any ABR borrowings. For example, if a borrower borrowed on a Eurodollar basis for one month, interest would be payable at the end of that one month period.

The Borrowers amended agreement for which they seek authorization extends the maturity date of the facility to August 11, 2011. The terms of the revolving credit facility allow either entity to borrow up to 75 percent of the total. The obligations of each Borrower are several and not joint so neither entity guarantees the obligations of the other. The Borrowers also request authorization in this proceeding to amend or refinance and extend the maturity date of the facility to August 2014.

³ The interest rate on UNS Electric's Senior Notes due in 2008 is 7.61 percent.

⁴ The terms of the amendment and restatement are subject to Commission approval.

Security Interest

UNS Electric requests to grant, if needed to complete the financing or to achieve lower interest rates, a lien on some or all of its properties, including properties acquired after the date of the grant of the lien, to secure its obligations under the new long-term debt and revolving credit facility and to secure any other obligations existing at the time the lien is granted which must be secured if such lien is granted. UNS Gas is not requesting authority to grant liens on its properties.

Financial Analysis

UNS Electric

Staff's analysis for UNS Electric is presented in Schedules MEB-1, MEB-2 and MEB-3. Column [A] presents selected financial information from the financial statements for the year ended December 31, 2005. Column [B] modifies Column [A] to recognize a \$100 million loan at 7.61 percent, repayment of the existing \$60 million Senior Notes and repayment of the \$5 million outstanding revolving credit facility balance. Schedule MEB-1 reflects a five-year amortization, MEB-2 reflects a 6-year amortization and MEB-3 reflects a five-year non-amortizing loan. Column [C] in each schedule is the same as Column [B] modified to reflect a \$45 million (interest-only with balloon payment) revolving credit facility⁵ at 6.6 percent.⁶ Schedules MEB-1, MEB-2 and MEB-3 also present the capital structure and ratios for debt service coverage ("DSC") and times interest earned ("TIER").

TIER represents the number of times earnings cover interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but does not mean that debt obligations cannot be met in the short term.

DSC represents the number of times internally generated cash will cover required principal and interest payments on short-term and long-term debt. A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations. A DSC less than 1.0 means that debt service obligations cannot be met by cash generated from operations and that another source of funds is needed to avoid default.

The pro forma TIER and DSC for UNS Electric shown in Schedule MEB-1, Column [C] are 1.42 and 0.91, respectively. This DSC below 1.0 indicates that operating results are not sufficient to meet all obligations for this scenario. However Schedule MEB-2 shows that changing the amortization period for the \$100 million loan from five years to six years increases the pro forma DSC to 1.04, indicating that operating results would be sufficient to meet all obligations. Schedule MEB-3 shows that a non-amortizing loan increases the pro forma DSC to

⁵ UNS Electric may draw up to 75 percent or \$45 million (.75 x \$60 million) from the proposed new revolving credit facility as long as the combined UNS Electric and UNS Gas draws do not exceed \$60 million.

⁶ LIBOR plus 100 basis points, as of 9-1-06 LIBOR was at 5.6 percent.

1.34. These pro forma TIER and DSC assume there is no repayment of the outstanding balance on the revolving credit facility or the non-amortizing loan.

UNS Electric's capital structure at December 31, 2005, consisted of 4.41 percent short-term debt, 52.36 percent long-term debt and 43.23 percent equity. The pro forma capital structure resulting from issuance of the proposed \$100 million long-term debt with a six-year amortization, repayment of the \$60 million existing debt and drawing \$45 million on the line of credit is composed of 3.83 percent short-term debt, 69.76 percent long-term debt and 26.42 percent equity.⁷ This highly leveraged capital structure provides a cautionary signal.

UNS Gas

Staff's analysis for UNS Gas is presented in Schedule MEB-4. Column [A] presents selected financial information from the financial statements for the year ended December 31, 2005. Column [B] is the same as Column [A] modified to reflect a \$45 million (interest-only with balloon payment) revolving credit facility⁸ at 6.6 percent. Schedule MEB-4 also presents the capital structure, DSC and TIER.

The pro forma TIER and DSC for UNS Gas shown in Schedule MEB-4, Column [C] are 1.73 and 2.42, respectively, showing that operating results are sufficient to meet all obligations. These pro forma TIER and DSC reflect interest payments with no repayment of any outstanding debt.

UNS Gas's capital structure at December 31, 2005, consisted of 0.00 percent short-term debt, 55.62 percent long-term debt and 44.38 percent equity. The pro forma capital structure composed of 64.5 percent long-term debt and 35.5 percent equity resulting from recognition of a \$45 million draw at 6.6 percent on the revolving credit facility is adequate.

Conclusions and Recommendations

Staff concludes that the financing transactions proposed by the Borrowers are reasonable, are within their corporate powers, are compatible with the public interest, would not impair their ability to provide services and would be consistent with sound financial practices if subsequent to any debt issuance common equity represents at least 30 percent of total equity (common equity, preferred stock, long-term debt and short-term debt) for the borrowing entity.

Staff further concludes:

1. That the UNS Electric \$100 million long-term debt should be financed for a term not more than 20 years and if it is an amortizing loan for a term not less than 6 years.

⁷ Does not reflect a \$10 million equity infusion in June 2006.

⁸ UNS Gas may draw up to 75 percent or \$45 million (.7 x \$60 million) from the proposed new revolving credit facility as long as the combined UNS Gas and UNS Electric draws do not exceed \$60 million.

2. That the maximum allowable draw for either UNS Electric or UNS Gas under the joint \$60 million revolving credit facility should be \$45 million.
3. That any authorization to amend or refinance the revolving credit facility should terminate on August 11, 2011.
4. That any amendment or refinancing of the revolving credit facility should not include a maturity after August 11, 2011.
5. That Amendments and renegotiations of the revolving credit facility should be supported by a filing with Docket Control explaining the business rationale for the transaction and a demonstration that the rates and terms were consistent with those generally available to comparable entities at the time.

Staff recommends authorization of the financing transactions (including granting of liens by UNS Electric) proposed by the UNS Electric and UNS Gas subject to the following conditions: 1) the UNS Electric \$100 million long-term debt should be financed for a term not more than 20 years and if it is an amortizing loan for a term not less than 6 years; 2) Forty-five million dollars is the maximum allowable draw for either UNS Electric or UNS Gas under the joint \$60 million revolving credit facility; 3) that subsequent to any additional debt incurrence by either UNS Electric or UNS Gas common equity represents at least 30 percent of total equity in the borrowing entity's capital structure and 4) that any amendment or refinancing of the revolving credit facility should not include a maturity after August 11, 2011 .

Staff further recommends authorizing the Borrowers to engage in any transactions and to execute or cause to be executed any documents so as to effectuate the authorizations requested with the application.

Staff further recommends that the Borrowers file with Docket Control within 60 days of any financing transaction authorized herein a copy of all notes and other documents memorializing the transaction.

FINANCIAL ANALYSIS

Selected Financial Information
Five-year Amortization Scenario

	[A]		[B]		[C]		
	<u>12/31/2005</u>		<i>Pro Forma</i> ¹		<i>Pro Forma</i> ²		
			<u>With \$100 Million Debt</u>		<u>With \$100 Million Debt & \$45 Million LOC</u>		
1	Operating Income	\$ 11,711,000	\$ 11,711,000		\$ 11,711,000		
2	Depreciation & Amort.	10,289,000	\$ 10,289,000		10,289,000		
3	Income Tax Expense	3,291,000	\$ 3,291,000		3,291,000		
4							
5	Interest Expense ³	5,385,000	7,629,213		10,599,213		
6	Repayment of Principal	0	17,086,101		17,086,101		
7							
8							
9	TIER						
10	[1+3] + [5]	2.79	1.97		1.42		
11	DSC						
12	[1+2+3] + [5+6]	4.70	1.02		0.91		
13							
14							
15							
16	Short-term Debt	\$5,086,000	4.41%	\$7,108,213	5.06%	\$7,108,213	3.83%
17							
18	Long-term Debt	\$60,439,000	52.36%	\$83,352,899	59.39%	\$128,352,899	69.25%
19							
20	Common Equity ⁴	\$49,898,000	43.23%	\$49,898,000	35.55%	\$49,898,000	26.92%
21							
22	Total Capital	\$115,423,000	100.00%	\$140,359,112	100.00%	\$185,359,112	100.00%
23							
24							
25							

¹ Column (B) is Column (A) adjusted to recognize a pro forma \$100 million 6-year amortizing loan at 7.61 percent, removal of the existing \$60 million interest only loan, and repayment of \$5 million of short-term debt.

² Column (C) is Column (B) modified to reflect an additional \$45 million interest only loan (i.e., LOC) at 6.6 percent.

³ The Column (A) amount reflects interest expense recorded in 2005 plus \$188,000 of interest recorded as Allowance for Funds Used During Construction (AFUDC). The Column (B) amount is Column (A) adjusted to recognize pro forma interest expense on a \$100 million 5-year amortizing loan at 7.61 percent and removal of the existing \$60 million interest only loan at 6.6 percent. The Column (C) amount is Column (B) adjusted to recognize pro forma interest expense on an additional \$45 million loan at 6.6 percent.

⁴ Does not reflect a \$10 million equity infusion in June 2006.

FINANCIAL ANALYSIS

Selected Financial Information
Six-year Amortization Scenario

	[A] <u>12/31/2005</u>	[B] <i>Pro Forma</i> ¹ <u>With \$100 Million Debt</u>	[C] <i>Pro Forma</i> ² <u>With \$100 Million Debt & \$45 Million LOC</u>			
1 Operating Income	\$ 11,711,000	\$ 11,711,000	\$ 11,711,000			
2 Depreciation & Amort.	10,289,000	\$ 10,289,000	10,289,000			
3 Income Tax Expense	3,291,000	\$ 3,291,000	3,291,000			
4						
5 Interest Expense ³	5,385,000	7,746,647	10,716,647			
6 Repayment of Principal	0	13,672,466	13,672,466			
7						
8						
9 TIER						
10 [1+3] + [5]	2.79	1.94	1.40			
11 DSC						
12 [1+2+3] + [5+6]	4.70	1.18	1.04			
13						
14						
15						
16 Short-term Debt	\$5,086,000	4.41%	\$7,225,647	5.02%	\$7,225,647	3.83%
17						
18 Long-term Debt	\$60,439,000	52.36%	\$86,766,534	60.30%	\$131,766,534	69.76%
19						
20 Common Equity ⁴	\$49,898,000	43.23%	\$49,898,000	34.68%	\$49,898,000	26.42%
21						
22 Total Capital	\$115,423,000	100.00%	\$143,890,181	100.00%	\$188,890,181	100.00%
23						
24						
25						

¹ Column (B) is Column (A) adjusted to recognize a pro forma \$100 million 6-year amortizing loan at 7.61 percent, removal of the existing \$60 million interest only loan, and repayment of \$5 million of short-term debt.

² Column (C) is Column (B) modified to reflect an additional \$45 million interest only loan (i.e., LOC) at 6.6 percent.

³ The Column (A) amount reflects interest expense recorded in 2005 plus \$188,000 of interest recorded as Allowance for Funds Used During Construction (AFUDC). The Column (B) amount is Column (A) adjusted to recognize pro forma interest expense on a \$100 million 6-year amortizing loan at 7.61 percent and removal of the existing \$60 million interest only loan at 6.6 percent. The Column (C) amount is Column (B) adjusted to recognize pro forma interest expense on an additional \$45 million loan at 6.6 percent.

⁴ Does not reflect a \$10 million equity infusion in June 2006.

FINANCIAL ANALYSIS

Selected Financial Information
Five-year Non-Amortizing Scenario

	[A] <u>12/31/2005</u>	[B] <i>Pro Forma</i> ¹ <u>With \$100 Million Debt</u>	[C] <i>Pro Forma</i> ² <u>With \$100 Million Debt & \$45 Million LOC</u>			
1 Operating Income	\$ 11,711,000	\$ 11,711,000	\$ 11,711,000			
2 Depreciation & Amort.	10,289,000	\$ 10,289,000	10,289,000			
3 Income Tax Expense	3,291,000	\$ 3,291,000	3,291,000			
4						
5 Interest Expense ³	5,385,000	8,217,000	11,187,000			
6 Repayment of Principal	0	0	0			
7						
8						
9 TIER						
10 [1+3] + [5]	2.79	1.83	1.34			
11 DSC						
12 [1+2+3] + [5+6]	4.70	3.08	2.26			
13						
14						
15						
16 Short-term Debt	\$5,086,000	4.41%	\$86,000	0.06%	\$86,000	0.04%
17						
18 Long-term Debt	\$60,439,000	52.36%	\$100,439,000	66.77%	\$145,439,000	74.42%
19						
20 Common Equity ⁴	\$49,898,000	43.23%	\$49,898,000	33.17%	\$49,898,000	25.53%
21						
22 Total Capital	\$115,423,000	100.00%	\$150,423,000	100.00%	\$195,423,000	100.00%
23						
24						
25						

¹ Column (B) is Column (A) adjusted to recognize a pro forma \$100 million 5-year non-amortizing loan at 7.61 percent, removal of the existing \$60 million interest only loan, and repayment of \$5 million of short-term debt.

² Column (C) is Column (B) modified to reflect an additional \$45 million interest only loan (i.e., LOC) at 6.6 percent.

³ The Column (A) amount reflects interest expense recorded in 2005 plus \$188,000 of interest recorded as Allowance for Funds Used During Construction (AFUDC). The Column (B) amount is Column (A) adjusted to recognize pro forma interest expense on a \$100 million 5-year non-amortizing loan at 7.61 percent and removal of the existing \$60 million interest only loan at 6.6 percent. The Column (C) amount is Column (B) adjusted to recognize pro forma interest expense on an additional \$45 million loan at 6.6 percent.

⁴ Does not reflect a \$10 million equity infusion in June 2006.

FINANCIAL ANALYSIS

Selected Financial Information

	[A]		[B]	
	<u>12/31/2005</u>		<u>Pro Forma¹</u>	<u>With \$45 million LOC</u>
1 Operating Income	\$ 13,847,000		\$ 13,847,000	
2 Depreciation & Amort.	6,773,000		\$ 6,773,000	
3 Income Tax Expense	3,349,000		\$ 3,349,000	
4				
5 Interest Expense ²	6,952,000		9,922,000	
6 Repayment of Principal	0		0	
7				
8				
9 TIER				
10 [1+3] + [5]	2.47		1.73	
11 DSC				
12 [1+2+3] + [5+6]	3.45		2.42	
13 Cash Coverage Ratio				
14 [1+2+3] + [5]	3.45		2.42	
15				
16				
17				
18 Short-term Debt	\$0	0.00%	\$0	0.00%
19				
20 Long-term Debt	\$100,000,000	55.62%	\$145,000,000	64.50%
21				
22 Common Equity	\$79,804,000	44.38%	\$79,804,000	35.50%
23				
24 Total Capital	\$179,804,000	100.00%	\$224,804,000	100.00%
25				
26				
27				

¹ Column (B) is Column (A) adjusted to reflect a \$45 million interest only loan (i.e., LOC) at 6.6 percent.

² The Column (A) amount reflects interest expense recorded in 2005 plus \$231,000 of interest recorded as Allowance for Funds Used During Construction (AFUDC). The Column (B) amount is Column (A) adjusted to recognize pro forma interest expense on an additional \$45 million loan at 6.6 percent.

MEMORANDUM

TO: Michael Bailey
Public Utility Analyst III
Utilities Division

FROM: Steve Taylor *Steve Taylor*
Electric Utilities Engineer
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: November 16, 2006

SUBJECT: UNS ELECTRIC AND UNS GAS FINANCING APPLICATION DATED JULY 28, 2006; DOCKET NOS. E-04204A-06-0493 AND G-04204A-06-0493

On July 28, 2006, UNS Electric and UNS Gas submitted a joint application to the Arizona Corporation Commission ("Commission") for authorization to:

(1) Refinance \$60 million of long term debt and increase long term debt up to \$100 million for UNS Electric. The term of the existing debt will also be increased from "Notes due in 2008" to a maturity date of five to twenty years and includes the increased debt.

(2) Enter into security agreements granting liens on some or all of UNS Electric properties.

(3) Extend the term (now maturing in 2008) of the joint UNS Electric and UNS Gas revolving credit facility up to three years and increase the amount of the facility from \$40 million to \$60 million.

(4) Pre approve UNS Electric and UNS Gas authority to subsequently renew the joint revolving credit facility over the next three years as refinancing opportunities arise.

Items (1) and (2) are specific to UNS Electric and these additional funds will be used to support some of their capital needs between now and 2008. Items (3) and (4) apply to both UNS Electric and UNS Gas jointly and increase their joint credit facility to provide liquidity for general corporate expenses.

Utility Overview

UNS Electric and UNS Gas are subsidiaries of Unisource Energy Services ("Parent"). UNS Electric provides electric transmission and distribution service to approximately 91,000 customers in Mohave and Santa Cruz counties. UNS Gas provides gas distribution services to approximately 142,000 customers in Mohave, Yavapai, Coconino, Navajo and Santa Cruz Counties. UNS Electric and UNS Gas and Unisource Energy Services are all Arizona corporations headquartered at One South Church Avenue, Tucson, AZ 85702. UNS Gas has a

service office at 2901 W. Shamrell Blvd suite 110, Flagstaff, AZ 86001, and UNS Electric has a service office at 2498 Airway Avenue, Kingman, AZ 86402.

Load Growth for UNS Electric

UNS Electric is projecting an overall load growth at an annual average rate of 7.03% for the 2007 through 2010 time period. They have experienced a 4.6% load growth rate for the 2003 through 2006 time period. This load growth is consistent and comparable across the residential, commercial and industrial classes of customers and shows a significantly increasing trend in the next two years (2007, 2008).

The growth estimates are based on UNS Electric's review of developers' estimates for new residential and commercial construction primarily in the Kingman and Havasu areas of Mohave County. This forecast construction is expected primarily from an influx of retirees from California, an influx of Nevada residents facilitated by the soon to be completed Hoover Dam Bypass as well as the historical load growth of the area. UNS Electric has adjusted the developer's estimates downward to reflect the recent slowdown in residential and commercial construction to arrive at the above noted overall 7.03% annual growth rate for the next four years.

Customer Outage History for UNS Electric

Customer outages in the utility industry are typically measured in terms of SAIDI (system average interruption duration index), SAIFI (system average interruption frequency index), MAIFI (momentary average interruption frequency index) and CAIDI (customer average interruption duration index). Although there are generally no standards imposed on utilities, the measures are still a good indicator of how well a utility is doing from year to year and also a good way to compare themselves with similar utilities.

UNS Electric is showing an increasing trend in the SAIDI and SAIFI metrics for the last 3 years indicating that the average interruption duration and interruption frequency are increasing. Much of this increase is possibly due to storm activity and it is not practical to normalize these numbers for weather. However it is noted that their MAIFI metric is increasing greatly in the last 3 years indicating momentary outages generally attributable to storms.

UNS Electric is showing an increasing trend also in CAIDI (SAIDI divided by SAIFI) which is an indicator of how long an individual with an outage is likely to experience it. The statistics are repeated below:

	2004	2005	2006YTD
CAIDI (minutes)	73.126	92.959	100.269
SAIDI (minutes)	75.371	141.600	217.484
SAIFI	1.031	1.523	2.173
MAIFI	0.158	3.709	3.608

The outage results are not untypical of the utility industry; however, the increasing trend indicates a need for infrastructure investment to ensure the trends show an improvement pattern over time.

Construction Work Plan for 2006 through 2010 For UNS Electric

UNS Electric has submitted Five Year Capital Budget Expenditures with itemization by classes as noted and discussed below:

New Business:

Year	2006	2007	2008	2009	2010
\$ (millions)	12.0	11.4	11.9	12.7	13.8

The new business class covers capital cost for all new customers and related infrastructure on the distribution system to support the cost of constructing reliable facilities. The detailed breakdown of planned expenditures in the various categories (new services, meters, etc.) is appropriate and in line with expectations from the load growth data above.

System Reinforcement:

Year	2006	2007	2008	2009	2010
\$ (millions)	19.2	18.7	7.6	8.7	11.4

System reinforcement covers upgrades to the distribution and transmission systems to maintain and improve service to customers. The detailed breakdown of planned expenditures in the various categories (reconductor line, replace station breakers, etc.) is appropriate for the years 2006 and 2007 and in line with expectations from the load growth and outage history data above.

The years beyond 2007 are typically not in the time frame that accurate predictions can be made for specific infrastructure reinforcement therefore the lower numbers are not unexpected. It is likely these numbers will increase as those time frames approach and a better understanding of needed reinforcements is determined.

There are several additional classes of expenditures that comprise the total UNS Electric capital 5 year budget and these other classes do not materially change the above conclusions. The total capital budget is noted below:

Total Capital Budget:

Year	2006	2007	2008	2009	2010
\$ (millions)	34.9	33.3	21.5	22.0	25.7

Assessment for UNS Gas

A review of compliance, safety record, construction program and customer service with a representative of the Office of Pipeline Safety indicates that UNS Gas is meeting its customer service obligations and all pipeline safety obligations. There are no safety complaints on file and all compliance issues are up to date and promptly addressed. There are no customer complaints of note indicating an adequately built out system that is well planned. The construction program is active with the scheduled replacement of older pipe and the timely build out to meet new customer requirements.

Conclusions and Recommendations

Based on the review of UNS Electric's anticipated Load Growth, Outage statistics and 2006-2010 Work Plans, it is Staff's conclusion that the activities included in the Work Plans are appropriate, and the costs associated with these activities are reasonable. However, this does not imply a specific treatment for rate base or rate making purposes in UNS Electric's future rate filings.

bailey

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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER- CHAIRMAN
WILLIAM A. MUNDELL
MIKE GLEASON
KRISTIN K. MAYES
BARRY WONG

RECEIVED
OCT 16 2006
AZ CORP COMM
Director Utilities

IN THE MATTER OF THE APPLICATION OF) DOCKET NO. E-04204A-06-0493
UNS ELECTRIC, INC. AND UNS GAS, INC.FOR) DOCKET NO. G-04204A-06-0493
A FINANCING ORDER AUTHORIZING)
VARIOUS FINANCING TRANSACTIONS.) UNS ELECTRIC, INC. AND UNS
) GAS, INC.'S SUPPLEMENTAL
) RESPONSE TO STAFF'S FIRST SET
) OF DATA REQUESTS

UNS Electric, Inc. and UNS Gas, Inc., through undersigned counsel, hereby respond to
"Staff's First Set of Data Requests" as follows:

UNS Electric, Inc. and UNS Gas, Inc. hereby provide a supplemental response to Data
Requests MB 1.3.

RESPECTFULLY SUBMITTED this 16th of October 2006

ROSHKA DEWULF & PATTEN, PLC

By 
Michael W. Patten
J. Matthew Derstine
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004
Attorneys for UNS Electric, Inc. and UNS Gas, Inc.

ROSHKA DEWULF & PATTEN, PLC
ONE / NA CENTER
400 EAST VAN L. / N STREET - SUITE 800
PHOENIX, ARIZONA 85004
TELEPHONE NO 602-256-6100
FACSIMILE 602-256-6800

1 Copy of the foregoing hand-delivered/mailed
2 this 16th of October 2006 to:

3 Robin R. Mitchell, Esq.
4 Legal Division
5 Arizona Corporation Commission
6 1200 West Washington
7 Phoenix, Arizona 85007

8 Michael Bailey
9 Utilities Division
10 Arizona Corporation Commission
11 1200 West Washington
12 Phoenix, Arizona 85007

13 Michelle Livengood
14 Tucson Electric Power Company
15 One South Church, Suite 200
16 Tucson, Arizona 85701

17
18
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20
21
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26
27
By 

**UNS ELECTRIC, INC. AND UNS GAS, INC.
SUPPLEMENTAL RESPONSE TO
STAFF'S FIRST SET OF DATA REQUESTS TO
DOCKET NOS. E-04204A-06-0493 and G-04204A-06-0493
October 16, 2006**

MB 1.3 Please provide proof of notice of this matter duly published within newspapers of general circulation within UNS Gas' and UNS Electric's ("UNS") service territory.

RESPONSE: The affidavits of publication will be forwarded upon receipt.

RESPONDENT: Barbara McCormick
 Director, Capital Resources

SUPPLEMENTAL RESPONSE:

The affidavits of publication are attached as Bates Nos. UNSE/UNSG (0493)00170 to UNSE/UNSG (0493) 00189.

AFFIDAVIT/PROOF OF PUBLICATION

STATE OF ARIZONA

} ss.

County of Coconino

Bobbie Crosby being duly sworn, deposes and says:

That she is the legal clerk of the Arizona Daily Sun

a newspaper published at Flagstaff, Coconino County, Arizona; that the

Legal 8400

a copy of which is

hereunto attached, was first published in said newspaper in its issue dated

the 28 day of August, 2000, and was

published in each one issue of said newspaper for one

consecutive day the last publication being in the issue dated the

28 day of August, 2000.

[Signature]

Subscribed and sworn to before me this

_____ day of _____, 20____

Notary Public

My Commission expires _____

Legal No. 8400
PUBLIC NOTICE OF
AN APPLICATION BY
UNS ELECTRIC, INC.
AND UNS GAS, INC.
FOR A FINANCING
ORDER
AUTHORIZING
VARIOUS FINANCING
TRANSACTIONS

On July 28, 2006, UNS Electric, Inc. and UNS Gas, Inc. ("Applicants") filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicants to (1) extend the maturity of the \$40 million Revolving Credit Facility; (2) increase the amount of the Revolving Credit Facility from \$40 million to \$60 million; and (3) enter into similar amendments or refinancings to extend the Credit Facilities during the subsequent three-year period; should favorable opportunities arise. Furthermore, UNS Electric, Inc. is requesting authority to (1) refinance its \$60 million of Senior Notes due in August 2008 by issuing new long-term debt; (2) increase the amount of long-term debt from \$60 million to up to \$100 million; and (3) enter into indentures or security agreements which grant liens on some or all of the UNS Electric, Inc. properties. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, at 1200 West Washington Street, Phoenix, Arizona, and at the offices of the Applicants, One South Church Avenue, Tucson, Arizona 85701.

Intervention in the proceeding on this matter shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. The granting of motions to intervene shall be governed by A.A.C.R.14-3-105. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon Applicant and its counsel and to all parties of record and which, at a minimum, shall contain the following information:

- 1. The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.
- 2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the Applicants, a shareholder of the Applicants, etc.).
- 3. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant, its counsel and all parties of record. The granting of intervention, among other things, entitles a party to present sworn evidence at hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any person from appearing at the hearing and making a statement on such person's own behalf. The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Linda Hogan, ADA Coordinator, voice phone number 602/542-3931, E-mail lhogan@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.

PUB: Aug. 28, 2006 8400

UNSE/UNSG (0493)00170

**PUBLIC NOTICE
OF AN APPLICATION BY
UNS ELECTRIC,
INC. AND UNS
GAS, INC.
FOR A FINANCING ORDER
AUTHORIZING
VARIOUS FINANCING TRANS-
ACTIONS**

On July 28, 2006, which must be served upon Applicant and its counsel and to all parties of record, and which, at a minimum, shall contain the following information:
1. The name, address and telephone number of the proposed intervenor and upon whom service of documents is to be made if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g. a customer of the Applicants, a shareholder of the Applicant, etc.)
3. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant, its counsel and all parties of record.
The granting of intervention, among other things, entitles a party to present sworn evidence at hearing and to cross-examine other witnesses.

THE ARIZONA REPUBLIC

STATE OF ARIZONA }
COUNTY OF MARICOPA } SS.

Robert Lane, being first duly sworn, upon oath deposes and says: That he is a legal advertising representative of the Arizona Business Gazette, a newspaper of general circulation in the county of Maricopa, State of Arizona, published at Phoenix, Arizona, by Phoenix Newspapers Inc., which also publishes The Arizona Republic, and that the copy hereto attached is a true copy of the advertisement published in the said paper on the dates as indicated.

The Arizona Republic

September 20, 2006

Sworn to before me this
26TH day of
September A.D. 2006


Notary Public
UNSE/UNSG (0493)00171

security agree- However, failure
ments which to intervene will
grant liens on not preclude
some or all of any person from
the UNS Elec appearing at the
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ties. The Applica making a state-
tion is available ment on such
for inspection person's own
during regular behalf
business hours The Commission
at the offices of does not dis-
the Commission criminate on the
in Phoenix, at basis of disabili-
1200 West Wash ty in admission
ington Street to its public
Phoenix, Arizo meetings. Per-
na, and at the of sons with a disa-
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plicants. One quest a reasona-
South Church ble accommoda-
Avenue Tucson tion such as a
Arizona 85701 sign language in-
- Intervention in terpreter, as
the proceeding well as request
on this matter this document
shall be permit in an alternative
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son entitled by tacting Linda Ho-
law to intervene gan, ADA Coordi-
and having a di nator, voice
rect and sub phone number
stantial interest 602/542-3931. E-
in the matter mail
The granting of lhogan@azcc.go
motions to inter v. Requests
vene shall be should be made
governed by as early as possi-
A.A.C.R.14-3-105. ble to allow
Persons desir time to arrange
ing to intervene t. h. e
must file a Mo. accommodation
tion to Inter-
vene with the Published: Au-
Commission gust 29, 2006

Affidavit of Publication

State of Arizona)
)ss.
County of Navajo,)

I, Francie Payne, being duly sworn, depose and say: I am

General Manager of THE HOLBROOK TRIBUNE-NEWS, a newspaper of general circulation published at Holbrook, County of Navajo and State of Arizona; that the

**Public Notice of an Application by
UNS Electric, Inc. and UNS Gas, Inc.
For a Financing Order Authorizing
Various Financing Transactions**

Legal #1429

attached hereto, was published in said newspaper, THE HOLBROOK TRIBUNE-NEWS, for 1 issue, and said notice was published in the regular and entire issue of every number of the paper during the period of the time of publication and was published in the newspaper proper and not in a supplement, the first

publication being dated August 30, 2006, and the last

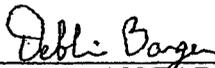
publication being dated August 30, 2006.

Publication Dates: 8/30



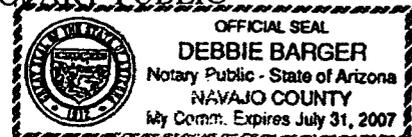
Francie Payne, General Manager

SUBSCRIBED AND SWORN TO before me this 30th day of August, 2006.



NOTARY PUBLIC

My commission expires July 31, 2007.



PUBLIC NOTICE OF AN APPLICATION BY UNS ELECTRIC, INC. AND UNS GAS, INC. FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

On July 28, 2006, UNS Electric, Inc. and UNS Gas, Inc. ("Applicants") filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicants to (1) extend the maturity of the \$40 million Revolving Credit Facility, (2) increase the amount of the Revolving Credit Facility from \$40 million to \$60 million, and (3) enter into similar amendments or refinancings to extend the Credit Facilities during the subsequent three-year period, should favorable opportunities arise. Furthermore, UNS Electric, Inc. is requesting authority to (1) refinance its \$60 million of Senior Notes due in August 2008 by issuing new long-term debt, (2) increase the amount of long-term debt from \$60 million to up to \$100 million, and (3) enter into indenture or security agreements which grant liens on some or all of the UNS Electric, Inc. properties. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, at 1200 West Washington Street, Phoenix, Arizona and at the offices of the Applicants, One South Church Avenue, Tucson, Arizona 85701.

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2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the Applicant's, a shareholder of the Applicant, etc.)
3. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant, its counsel and all parties of record.

The granting of intervention, among other things, entitles a party to present sworn evidence at hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any person from appearing at the hearing and making a statement on such person's own behalf.

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1429-18/30

AFFIDAVIT OF PUBLICATION

Kingman Daily Miner

3015 Stockton Hill Road, Kingman, AZ 86401

web: www.kingmandailyminer.com • e-mail: legals@kingmandailyminer.com

Phone (928) 753-6397, ext. 242 • Fax (928) 753-5661

"Serving Kingman since 1882"

STATE OF ARIZONA)
County of Mohave) ss.

I, **Melinda Mauser**, being first duly sworn on her oath says:
That she is the Legals Clerk of **THE KINGMAN DAILY MINER**
An Arizona corporation, which owns and publishes the Miner,
a Daily Newspaper published in the City of Kingman, County of Mohave,
Arizona; that the notice attached hereto, namely,

**Public Notice of an Application
Ad. No. 4640**

Has, to the personal knowledge of affiant, been published in the news-
paper aforesaid, according to law, from the **28th day of August, 2006**
to the **28th day of August, 2006** inclusive without change, interruption or
omission, amounting in 1 insertions, made on the following dates:
8/28/2006.

By: 
Legal Clerk, 29th Day of August, 2006

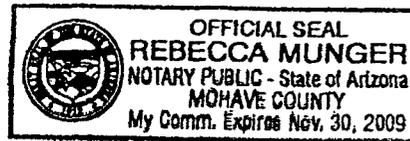
State of Arizona

County of Mohave

On this 29 day of August, 2006

Legal Clerk, whom I know personally to be
the person who signed the above document
and she proved she signed it.


Notary Public
My Commission Expires November 30, 2009



PUBLIC NOTICE OF AN APPLICATION BY UNS ELECTRIC, INC. AND UNS GAS, INC. FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

On July 28, 2006, UNS Electric, Inc. and UNS Gas, Inc.

("Applicants") filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicants to (1) extend the maturity of the \$40 million Revolving Credit Facility; (2) increase the amount of the Revolving Credit Facility from \$40 million to \$60 million; and (3) enter into similar amendments or refinancings to extend the Credit Facilities during the subsequent three-year period should favorable opportunities arise. Furthermore, UNS Electric, Inc. is requesting authority to (1) refinance its \$60 million of Senior Notes due in August 2008 by issuing new long-term debt; (2) increase the amount of long-term debt from \$60 million to up to \$100 million; and (3) enter into indentures or security agreements which grant liens on some or all of the UNS Electric, Inc. properties. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, at 1200 West Washington Street, Phoenix, Arizona, and at the offices of the Applicants, One South Church Avenue, Tucson, Arizona 85701.

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filed with the proposed intervenor and any person upon whom service of documents is to be made if different than the intervenor.

2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the Applicants, a shareholder of the Applicants, etc.).

3. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant, its counsel and all parties of record.

The granting of intervention, among other things, entitles a party to present sworn evidence at hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any person from appearing at the hearing and making a statement on such person's own behalf.

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Published: Aug. 28, 2006 Ad. No. 4640

AFFIDAVIT OF PUBLICATION

STATE OF ARIZONA }
COUNTY OF SANTA CRUZ } ss.

MANUEL COPPOAL being of first duly sworn,
deposes and says: that he/she is PUBLISHER
of the NOGALES INTERNATIONAL, a newspaper
published in the County of Santa Cruz, State of Arizona,
and of general circulation in said County, State and
elsewhere, and that the hereto attached legal notice

NOTRICE

was printed and published correctly in the regular and
entire issue of said NOGALES INTERNATIONAL for
1 issues; that the first publication was made on
the 1 day of SEPT, 20 06, and the
last publication thereof was made on the 19 day of
SEPT, 20 06

NOGALES INTERNATIONAL

By [Signature]
Subscribed and sworn to before me this 19
day of SEPT, 20 06.
[Signature]
Notary Public

My commission expires _____
 OFFICIAL SEAL
SANDRA L. MORALES
Notary Public Arizona
SANTA CRUZ COUNTY
My Comm Exp 01/04/2009

**PUBLIC NOTICE OF AN APPLICATION BY
UNS ELECTRIC, INC. AND UNS GAS, INC.
FOR A FINANCING ORDER AUTHORIZING
VARIOUS FINANCING TRANSACTIONS**

On July 28, 2006, UNS Electric, Inc and UNS Gas, Inc. ("Applicants") filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicants to (1) extend the maturity of the \$40 million Revolving Credit Facility; (2) increase the amount of the Revolving Credit Facility from \$40 million to \$60 million; and (3) enter into similar amendments or refinancings to extend the Credit Facilities during the subsequent three-year period, should favorable opportunities arise. Furthermore, UNS Electric, Inc. is requesting authority to (1) refinance its \$60 million of Senior Notes due in August 2008 by issuing new long-term debt; (2) increase the amount of long-term debt from \$60 million to up to \$100 million; and (3) enter into indentures or security agreements which grant liens on some or all of the UNS Electric, Inc. properties. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, at 1200 West Washington Street, Phoenix, Arizona, and at the offices of the Applicants, One South Church Avenue, Tucson, Arizona 85701.

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The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Linda Hogan, ADA Coordinator, voice phone number 602/542-3931, E-mail lhogan@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.

AFFIDAVIT OF PUBLICATION

STATE OF ARIZONA)
County of Yavapai) ss.

I, **Deseree Zurcher**, being first duly sworn on her oath says:
That she is the **Legal Clerk** of **PRESCOTT NEWSPAPERS, INC.**, an Arizona corporation, which owns and publishes the **COURIER**, a Daily Newspaper published in the City of Prescott, County of Yavapai that the notice attached hereto, namely,

***Tuscon Electric Power
Public Notice of an Application by UNS Electric, Inc. and UNS Gas, Inc. for a
Financing Order Authorizing Various Financing Transactions***

has, to the personal knowledge of affidavit, been published in the news paper aforesaid, according to law, on **30 day of August, 2006 to 30 day of August, 2006** both inclusive without change, interruption or omission, amounting in all 1 insertions, made on the following dates:
August 30, 2006

By: Deseree Zurcher
Dated this 30 Day of August, 2006

By: Michal L. Knowlton
Notary Public

My commission expires:



PUBLIC NOTICE OF AN APPLICATION BY UNS ELECTRIC, INC. AND UNS GAS, INC. FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

On July 28, 2006, UNS Electric, Inc. and UNS Gas, Inc. ("Applicants") filed an Application with the Arizona Corporation Commission (Commission) for an order authorizing Applicants to: (1) extend the maturity of the \$40 million Revolving Credit Facility; (2) increase the amount of the Revolving Credit Facility from \$40 million to \$60 million; and (3) enter into similar amendments or refinancings to extend the Credit Facilities during the subsequent three-year period, should favorable opportunities arise. Furthermore, UNS Electric, Inc. is requesting authority to: (1) refinance its \$60 million of Senior Notes due in August 2008 by issuing new long-term debt; (2) increase the amount of ony-term debt from \$60 million to up to \$100 million; and (3) enter into indentures or security agreements which grant liens on some or all of the UNS Electric, Inc. properties. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix at 1200 West Washington Street, Phoenix, Arizona; and at the offices of the Applicants, One South Church Avenue, Tucson, Arizona 85701. Intervention in the proceeding on this matter shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. The granting of motions to intervene shall be governed by A.A.C. R.14-3-105. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon Applicant and its counsel, and to all parties of record, and which, at a minimum, shall contain the following information:

1. The name, address and telephone number of the proposed intervenor, and of any person upon whom service of documents is to be made, if different than the intervenor.
2. A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the Applicants; a shareholder of the Applicants, etc.).
3. A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant, its counsel, and all parties of record.

The granting of intervention, among other things, entitles a party to present sworn evidence at hearing and to cross-examine other witnesses. However, failure to intervene will not preclude any person from appearing at the hearing and making a statement on such person's own behalf.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Linda Hogan, ADA Coordinator, Voice phone number 602/542-3931. E-mail: lhogan@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.

JTC PUP August 30, 2006 Ad 9607

AFFIDAVIT OF PUBLICATION

PUBLIC NOTICES

PUBLIC NOTICES

PUBLIC NOTICES

STATE OF ARIZONA)
) ss.
COUNTY OF YAVAPAI)

PUBLIC NOTICE OF AN APPLICATION BY UNS ELECTRIC, INC AND UNS GAS, INC. FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

On July 28, 2006, UNS Electric, Inc and UNS Gas, Inc. ("Applicants") filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicants to (1) extend the maturity of the \$40 million Revolving Credit Facility; (2) increase the amount of the Revolving Credit Facility from \$40 million to \$60 million; and (3) enter into similar amendments or refinances to extend their credit facilities during the subsequent three year period should favorable opportunities arise. Furthermore, UNS Electric, Inc is requesting authority to (1) refinance \$60 million of Senior Notes due in August 2008 by issuing new long term debt; (2) increase the amount of long term debt from \$60 million to up to \$100 million; and (3) enter into amendments to security agreements which grant liens on some or all of the UNS Electric, Inc. property. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix at 1200 West Washington Street, Phoenix, Arizona, and at the offices of the Applicant at the South Chandel Avenue, Sedona, Arizona 85701.

Intervention in the proceeding on this matter shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. The granting of motions to intervene shall be governed by A.R.C. 14-3-105. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon Applicant and its counsel and to all interested parties. Such a motion shall contain the following information:

(1) The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor.

(2) A short statement of the proposed intervenor's interest in the proceeding (e.g., a customer of the Applicants, a shareholder of the Applicants, etc.)

(3) A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant and to all parties of record.

The right of intervention, among other things, entitles a party to present sworn evidence at trial and to be examined by witnesses. However, failure to intervene will not preclude any party from presenting evidence and making a statement on such person's own behalf.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting Elsie Hogan, ADA Coordinator, voice phone number 602-542-3931, E-mail: ehogan@azcc.gov. Requests should be made as early as possible to allow time to arrange the accommodation.

Subscribed and sworn to before me this _____ day of _____, 2006.

I, ROBERT B. LARSON, Publisher of the SEDONA RED ROCK NEWS,

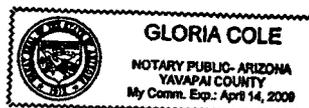
a newspaper of general circulation, printed and published in the County of Yavapai, State of Arizona, do solemnly swear that a copy of the attached notice, in the matter of Application For a Financing Order UNS Electric, Inc and UNS Gas, Inc

as per clipping attached, was published in the regular and entire section of said newspaper, and not in any supplement thereof, on the following schedule:

August 30, 2006.

ROBERT B. LARSON, Publisher

Subscribed and sworn to before me this 29th day of August, 2006.

Notary Public

PUBLISHER'S AFFIDAVIT

STATE OF ARIZONA,
County of Yavapai, }
ss }

Pam Hood first having
been duly sworn, on her oath says:

That she is the Publisher of The Verde Independent, a Three Times Weekly
Newspaper published at Cottonwood, Yavapai County, Arizona; that the ad
attached hereto was printed in the newspaper aforesaid on the following date(s)

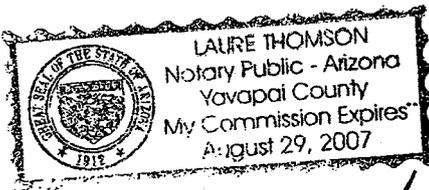
August 30, 2006

.....
.....
.....

Pam Hood

(Signature)

Subscribed and sworn to before me this *26th* day of *Sept*, 2006



Laire Thomson
Notary Public

My Commission Expires *August 29, 2007*

Green
Magic LANDSCAPING, Inc.
and AQUAGARDENS

Competitively priced paver installation.

284-9380

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ROC 129938 res. / ROC 179886 com.

**PUBLIC NOTICE OF AN APPLICATION BY
UNS ELECTRIC, INC. AND UNS GAS, INC.
FOR A FINANCING ORDER AUTHORIZING
VARIOUS FINANCING TRANSACTIONS**

On July 28, 2006, UNS Electric, Inc and UNS Gas, Inc. ("Applicants") filed an Application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicants to (1) extend the maturity of the \$40 million Revolving Credit Facility; (2) increase the amount of the Revolving Credit Facility from \$40 million to \$60 million; and (3) enter into similar amendments or refinancings to extend the Credit Facilities during the subsequent three-year period, should favorable opportunities arise. Furthermore, UNS Electric, Inc. is requesting authority to (1) refinance its \$60 million of Senior Notes due in August 2008 by issuing new long-term debt; (2) increase the amount of long-term debt from \$60 million to up to \$100 million; and (3) enter into indentures or security agreements which grant liens on some or all of the UNS Electric, Inc. properties. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, at 1200 West Washington Street, Phoenix, Arizona, and at the offices of the Applicants, One South Church Avenue, Tucson, Arizona 85701.

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Notice of Proof of Publication

STATE OF ARIZONA

COUNTY OF MOHAVE, ss

Angelique Van Meter

ANGELIQUE VAN METER,

being duly sworn, says that during the publication of the notice, as herein mentioned, she was and now is an Authorized Agent of Today's News-Herald, a seven-times weekly newspaper published on Sunday, Monday, Tuesday, Wednesday, Thursday, Friday and Saturday of each and every week at the City of Lake Havasu City, in Mohave County, State of Arizona. That said newspaper was printed and published as aforesaid on the following dates, to-wit:

PUBLIC NOTICE OF AN APPLICATION BY UNS ELECTRIC & UNS GAS INC FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

Published date(s):

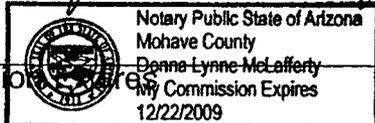
August 28, 2006

of which the annexed copy is a printed and true copy, was printed and inserted in each and every copy of said newspaper, printed and published on the dates aforesaid, and in the body of said newspaper and not in a supplement there. Subscribed and sworn to before me this 29th day of August, 2006.

Donna Lynne McLafferty

Notary Public

My Commission Expires



PUBLIC NOTICE OF AN APPLICATION BY UNS ELECTRIC, INC. AND UNS GAS, INC. FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

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Publish August 28, 2006

2882

State of Arizona)
)
County of Apache)

ss.

Affidavit of Publication

White Mountain Independent

I, Diane R. Janot being first duly sworn, depose and say: I am the agent of the White Mountain Publishing Company, publisher of the White Mountain Independent, a semi-weekly newspaper of general circulation published at St. Johns, County of Apache, Arizona and that the copy hereto attached is a true copy of the advertisement as published in the White Mountain Independent on the following dates:

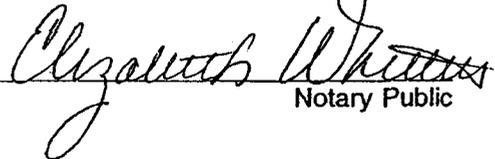
August 29, 2006

White Mountain Independent

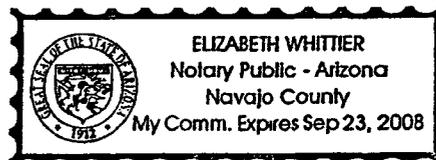


Sworn to me this day of

September 26th A.D. 2006



Notary Public



Police stopped Carlos An. ...
 26, of Show Low for a traffic violation and discover passenger, Alejandro Rosales, of Pinetop, had warrants for his arrest. Rosales allegedly gave police a false name because he knew he had warrants for his arrest. Police found out his real

MOUNTAIN BUILDERS
 Commercial ROC Lic#218003

- Ordering Concrete
- Excavating Dig and pour footings (clear lots)
- Foundation All flatwork (including curbs)
- Stamped/Colored
- Aggregate Foundations (block/rock)

a call if you need any of these services**



ABOL	LAST PRICE	CHANGE
AL INTEREST		
C	52.13	-38
V	13.50	-03
K	40.44	+38
N	10.87	+02
V	30.98	+35
AT	43.88	+81
O	87.21	+81
M	3.84	-01
)	33.48	+07
IT	53.16	-22
Q	47.82	-34
S	56.20	-47

DOWN 26.41 close at 11,284.05.
 3.18 to close at 2,140.29.
 @ was approx. 1,667,560 shares.

C Metzler
 ID ENT
 Mountain Road • Suite A
 Phoenix Arizona 85001
 602-777-8700
 All trades are executed through the book of a member of the National Futures Association.

PUBLIC NOTICE OF APPLICATION BY UNS ELECTRIC, INC. AND UNS GAS, INC. FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

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charges and a charge of marijuana possession.

Police stopped Carlos R. Chavez, 26, of Show Low for a traffic violation and discovered his passenger, Alejandro Rosales, 25, of Pinetop, had warrants for his arrest. Rosales allegedly gave police a false name because he knew he had warrants for his arrest. Police found out his real

MOUNTAIN BUILDERS

Commercial ROC Lic#218003

Workings - Concrete

Good working Dig and pour footings (clear lots)

All flatwork (including curbs)

Stamped/Colored

Aggregate

Foundations (block/rock)

Give us a call if you need any of these services**

Market

LOCAL INTEREST

SYMBOL	LAST PRICE	CHANGE
AC	52.13	-38
AM	15.52	-01
ZN	13.50	-03
FE	27.73	-01
MRK	40.44	+38
ICD	35.25	-5
IDN	10.87	+02
EP	54.18	-04
WY	30.98	+35
BY	2.64	+02
VMT	43.88	+81
	44.90	-31
J	87.21	+81
OM	70.4	-29
E	3.84	-01
ISF	25.85	-11
ID	33.48	+07
LOT	22.74	-06
MI	33.16	-22
WX	16.42	-03
VAG	47.82	-34
UTC	18.90	-34
JB	56.20	-47
INS	34.26	-03

is DOWN 20.41 close at 11,284.05.
P 3.18 to close at 2,140.29.
Volume was approx. 1,667,560 shares.

is reliable, but is not necessarily complete and cannot be guaranteed. Prices may be for informational purposes only. Past results do not indicate future performance.

Israel C. Meider
PRESIDENT
1010 Mountain Road - Suite A
Show Low, Arizona 85901
208-537-8700

and services are offered through Mountain Builders, LLC (MSBL), member NASD/SIPC. Mountain Builders, LLC is a separate entity from MSBL.



PUBLIC NOTICE OF AN APPLICATION BY UNS ELECTRIC, INC. AND UNS GAS, INC. FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

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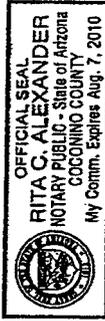
Affidavit of Publication

I, Douglas F. Wells, Publisher of the WILLIAMS-GRAND CANYON NEWS, a newspaper of general circulation published at Williams, Coconino County, Arizona, do solemnly swear that a copy of this notice, as per clipping attached, was published weekly in the regular and entire issue of said paper and not in any supplement thereof, one (1) week, commencing with issue dated September 20, 2006 and ending with issue dated September 20, 2006.


Douglas F. Wells, Publisher

Subscribed and sworn to before me this 29th day of September 2006.


Rita C. Alexander, Notary Public
My commission expires August 7, 2010.



PUBLIC NOTICE OF AN APPLICATION BY UNS ELECTRIC, INC. AND UNS GAS, INC. FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

On July 21, 2006, UNS Electric, Inc. and UNS Gas, Inc. ("Applicants") filed an application with the Arizona Corporation Commission ("Commission") for an order authorizing Applicants to extend the maturity of the revolving credit facilities (the "Revolving Credit Facilities") from \$40 million to \$60 million, and to enter into similar amendments or refinancings to extend the Credit Facilities during the subsequent three-year period, should favorable opportunities arise. Furthermore, UNS Electric, Inc. is requesting authority to (1) refinance its \$60 million of Senior Notes due in August 2009 by issuing a one-year debt to increase the amount of long-term debt from \$90 million to \$100 million, and (2) enter into amendments or security agreements which encumber some or all of the UNS Electric, Inc. properties. The Application is available for inspection during regular business hours at the offices of the Commission in Phoenix, Arizona, 100 Washington Street, Phoenix, Arizona, and at the offices of the Applicants, One South Church Avenue, Tucson, Arizona 85701.

Intervention in the proceeding on this matter shall be permitted to any person entitled by law to intervene and having a direct and substantial interest in the matter. The granting of motions to intervene shall be governed by A.R.C.R. 4-3-105. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon Applicant and its counsel and in all parties of record and which, at a minimum, shall contain the following information:

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- (b) a short statement of the proposed intervenor's interest in the proceeding; and
- (c) a statement certifying that a copy of the Motion to Intervene has been mailed to Applicant and counsel and all parties of record.

The granting of intervention to any other third party to present a would-be intervenor's claim and to cross-examine other witnesses. However, a third party will not be excluded a person from appearing and making a statement of public concern.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with disabilities require reasonable accommodation such as a sign language interpreter, as well as other accommodations, may request such accommodations by contacting Linda Hogan at the Commission, telephone number (602) 542-3021, E-mail: lhogan@azcc.gov. Requests for accommodations should be made as early as possible to allow time to arrange the accommodations.

AN APPLICATION BY
UNSE ELECTRIC INC
AND UNSGAS INC
FOR AUTHORIZING
ORDER AUTHORIZING
VARIOUS FINANCING
TRANSACTIONS

Affidavit of Publication

I, Doug Wells of the WINSLOW MAIL, a newspaper of general circulation published at Winslow, Navajo County, Arizona, do solemnly swear that a copy of this notice, as per clipping attached, was published in the regular and entire issue of said paper and not in any supplement thereof for one issue dated Wednesday, September 20, 2006.


Doug Wells, Publisher

SUBSCRIBED AND SWORN TO BEFORE ME

September 28, 2006
Rita C. Alexander
Rita C. Alexander, Notary Public
My commission expires August 7, 2010

