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BEFORE THE ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
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KRISTIN K. MAYES
COMMISSIONER
GARY PIERCE
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF UNS ELECTRIC, INC. THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF THE PROPERTIES OF UNS ELECTRIC, INC. DEVOTED TO ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA AND REQUEST FOR APPROVAL OF RELATED FINANCING.	Docket No. E-04204A-06-0783

NOTICE OF FILING SURREBUTTAL TESTIMONY

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Surrebuttal Testimonies of Marylee Diaz, Cortez, CPA, William A. Rigsby, CRRA and Rodney L. Moore, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 24th day of August 2007.

Arizona Corporation Commission
DOCKETED
AUG 24 2007
DOCKETED BY nR

Daniel W. Pozefsky
Attorney

AN ORIGINAL AND THIRTEEN COPIES of the foregoing filed this 24th day of August 2007 with:

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By Ernestine Gamble
Ernestine Gamble
Secretary to Daniel Pozefsky

UNS ELECTRIC, INC.

DOCKET NO. E-04204A-06-0783

SURREBUTTAL TESTIMONY

OF

MARYLEE DIAZ CORTEZ, CPA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

August 24, 2007

INTRODUCTION

Q. Please state your name for the record.

A. My name is Marylee Diaz Cortez.

Q. Have you previously filed testimony in this docket?

A. Yes. I filed direct testimony in this docket on June 28, 2007 and July 12, 2007.

Q. What is the purpose of your surrebuttal testimony?

A. In my surrebuttal testimony I will respond to the positions and arguments set forth by various UNS Electric witnesses in their rebuttal testimony. I will show that certain arguments are without merit and demonstrate why such arguments should be rejected.

Q. What issues will you address in your surrebuttal testimony?

A. I will address the following issues in my surrebuttal testimony:

Generation

* Black Mountain Generating Station
* Purchased Power and Fuel Adjustor Clause

Rate Base

* CWIP
* Accumulated Deferred Income Taxes - CIAC
* Accumulated Deferred Income Taxes – A&G Capitalization

Operating Income

* Miscellaneous Service Fees
* Bad Debt Expense
* Fleet Fuel Expense
* Year-end Accruals
* A&G Capitalization
* CWIP Property Taxes
* Corporate Cost Allocations
* Valencia Turbine Fuel
* Outside Services – DSM

Rate Design

GENERATION

Black Mountain Generating Station

Q. Please discuss the Company's rebuttal comments pertaining to RUCO's recommended ratemaking treatment of the Black Mountain Generating Station (BMGS).

A. The Company claims that not rate basing the BMGS at this juncture (prior to even being built) is short-sighted and that a determination of prudency on this related party transaction is warranted now. The Company further argues that the requested ratemaking treatment does not violate Arizona ratemaking principles.

Q. Please explain.

A. First, the Company argues that the known and measurable principle is not violated because by the time June 2008 arrives, and the proposed step rate increase for the BMGS goes into effect, the costs will be known and measurable. Further, UNS Electric argues that because it has limited its request to $60 million, regardless of actual costs, that the $60 million is in fact known and measurable.

Q. Please respond.

A. Despite these arguments, the fact remains that the Company is requesting rate base authorization for an asset that does even exist as yet. By no standard can this meet the known and measurable principle. Further, the fact that the Company has agreed to limit its rate request in this case to $60 million for the BMGS only renders the price known and measurable for this case. The Company fully intends to recover the actual completed cost of BMGS in its next rate case. Thus, the ultimate cost to ratepayers is not known and measurable at this juncture.

Q. Please discuss the Company's matching principle argument.

A. The Company claims that the BMGS will be serving existing customers and therefore does not violate the matching principle of ratemaking.

Q. Do you agree?

A. No. The Company's proposal does violate the matching principle in that the customer count in June 2008 will be different[1] than the customer count included in this rate case based on a test year ended December 2006. The Company's proposal would have rate recognition of this additional investment yet ignore the increased revenue due to growth.

Q. Please discuss the Company's comments related to the historical test-year principle.

A. The Company appears to acknowledge that this principle is violated by its proposal, yet argues that such violation is justified because its purchased power contract with APS will expire outside of the test year.

Q. Does that fact justify the authorization to rate base assets that do not even exist at this time?

A. No. Until such time as the asset actually exists, there is no basis for rate base authorization.

Q. Please discuss the used and useful argument.

A. The Company indicates that it plans to file a completion report in June 2008 that will confirm the plant is used and useful.

[1] The customer count will most likely be greater in 2008 than it was during the test year given the historical growth rate.

Q. Please respond.

A. Again, the Company wants approval of rate recovery of this plant prior to its construction, let alone in-service date. This does not meet the used and useful standard.

Q. Please discuss the Company's rebuttal comments regarding related party transactions.

A. The Company argues that because it committed to acquire the BMGS at "cost" that the fact that this is a related party transaction should not be a concern.

Q. Please respond.

A. Precisely because the ultimate "cost" of this asset is under the control of a related party is cause for concern.

Q. Do you continue to retain your position on this issue as set forth in your direct testimony?

A. Yes. The Company's ratemaking proposal for the BMGS is premature and violates all ratemaking principles. As stated in my direct testimony, the Company is free to acquire power from the BMGS once it is completed and to have timely recovery of those costs through RUCO's proposed PPFAC. Once the BMGS is completed and in-service if the Company continues to believe acquisition of the BMGS is a good idea, then it can request rate base recovery at that time.

Purchased Power and Fuel Adjustment Clause (PPFAC)

Q. Please discuss the Company's rebuttal comments pertaining to the PPFAC.

A. In its rebuttal testimony, the Company changes the PPFAC it proposed in its direct testimony to adopting the Staff-proposed PPFAC.

Q. How does the Company's new proposed PPFAC differ from its original proposal?

A. The primary difference is that the Company now proposes that the PPFAC rate be set based on estimated projected fuel and purchased power costs instead of a historical twelve-month rolling average.

Q. Do you agree with the Company's new proposal?

A. No. I believe the historical twelve-month rolling average as originally proposed is a superior methodology. The rolling average methodology allows for a price signal when costs increase or decrease while at the same time smoothing any wide fluctuations. Further, the rolling average methodology, as modified by RUCO, provides a number of safeguards and protections including a cap on the magnitude by which the surcharge can move in a given year, and a 90/10 sharing mechanism that is designed to incent the Company to control its fuel and purchased power costs.

Q. The Company argues that its rebuttal proposed PPFAC is patterned after a PSA recently authorized for APS. Please comment.

A. The Company's proposed PPFAC is very similar to a PSA recently authorized for APS. However, I would note that APS' fuel and purchased power requirements are of an entirely different nature than UNS Electric. APS' PSA is comprised primarily of fuel costs, since APS owns the majority of its generation. UNS Electric is subject primarily to market prices and purchased power contracts. The historical price of these procurements is a more accurate measure of these costs than market projections. Thus, I believe the PPFAC methodology as proposed by RUCO is a better solution to fuel and purchased power recovery than either the Company or Staff's proposed methodology.

RATE BASE

Rate Base Adjustment #3 - Construction Work in Progress (CWIP)

Q. Please discuss the Company's rebuttal comments regarding CWIP.

A. The Company argues that CWIP in rate base is an accepted ratemaking concept that is routinely recognized in many states. The Company further expounds that, contrary to my testimony, CWIP inclusion in rate base does not require extraordinary circumstances.

Q. Please respond.

A. While CWIP in rate base may be accepted ratemaking treatment in some states, it is not accepted ratemaking in Arizona. In fact, Arizona has always required extraordinary circumstances before it even considered rate base treatment for CWIP. The Commission explicitly stated such in Decision No. 54247:

> Beginning in Decision No. 53909 (January 30, 1984) and again in Decision No. 54204, the Commission has recognized that the **extraordinary** inclusion of Palo Verde CWIP necessitates an equally extraordinary reward to ratepayers for their admittedly involuntary investment in Palo Verde carrying costs. [Decision No. 54247, dated November 28, 1984, page 5-6]

Q. What other arguments does the Company make on the CWIP issue?

A. The Company further argues that RUCO's exclusion of CWIP from rate base creates a mismatch because some of those projects have CIAC balances associated with them, which are included in the test-year rate base.

Q. Please respond.

A. As just discussed, Arizona has historically excluded CWIP in rate base and historically included CIAC in rate base. Thus, under RUCO's recommendations, UNS Gas is being afforded the same rate base treatment for these two items that every other utility in Arizona is afforded.

Q. In fact, isn't it the Company's proposal to rate base CWIP that creates a mismatch?

A. Yes. Mismatches result from the Company's CWIP proposal because while it has included its investment in CWIP in rate base, it has failed to recognize the additional revenues those construction projects will generate.

Rate Base Adjustment # 4 – Accumulated Deferred income Taxes – CIAC

Q. Please discuss the Company's rebuttal comments pertaining to your CIAC ADIT adjustment.

A. The Company argues that RUCO has confused water and wastewater CIAC accounting with electric CIAC accounting. UNS claims that electric utilities do not have a separate CIAC account, but rather any CIAC funds are credited directly to the plant accounts.

Q. Do you agree with this argument?

A. No. The NARUC Uniform System of Accounts for A & B Electric companies contains an account 271 for CIAC. Thus, the Company is wrong that such an account is only used for water and wastewater utilities. Since there is no CIAC balance in UNS Electric's account 271 I have removed the deferred income taxes related to these non-existent balances.

Rate Base Adjustment #5 – Accumulated Deferred Income Taxes (ADIT) – A&G Capitalization

Q. Please discuss the Company's rebuttal comments pertaining to your A & G Capitalization Adjustment.

A. The Company does not agree with my A & G Capitalization adjustment and therefore objects to my companion adjustment to ADIT.

Q. What is your position?

A. As is discussed in the Operating Income section of my testimony I believe my recommended A & G Capitalization adjustment is necessary and appropriate, and therefore I continue to recommend the companion adjustment to ADIT.

OPERATING INCOME

Operating Adjustment #1 – Miscellaneous Service Fees

Q. Please discuss the Company's rebuttal comments regarding RUCO's recommendation to set miscellaneous service charges at cost.

A. The Company states that it does not object to this recommendation.

Operating Adjustment #6 – Bad Debt Expense

Q. Please discuss the Company's rebuttal comments regarding RUCO's Bad Debt expense adjustment.

A. In its rebuttal testimony[2] the Company acknowledges that it has erroneously calculated its bad debt expense using gross bad debt write-offs as opposed to the net bad debt expense. Thus, the Company agrees with this portion of my bad debt expense adjustment.

Q. Is this issue no longer in contention?

A. No. While the Company agrees that the bad debt ratio should be based on net bad debt expense write-off, it argues that this ratio should be applied to the average bad debt expense over several years.

Q. Do you agree?

A. No. The Company has this propensity to use average expense levels for purposes of setting rates as opposed to test year actuals. This methodology is known as normalization and should only be applied when specific abnormal conditions are identified in the test year data. The Company has presented no evidence of events that transpired during the test year that would render special normalization treatment for its bad debt expense. My adjustment uses the actual net bad debt ratio and applies it

[2] Rebuttal Testimony of Dallas Dukes at page 21, lines 22-24

to RUCO's adjusted revenue. This is the appropriate ratemaking treatment.

Operating Adjustment #7 – Fleet Fuel Expense

Q. Please discuss the Company's rebuttal comments regarding the Fleet Fuel Adjustment.

A. In its rebuttal testimony the Company agrees with RUCO and the Staff that the cost of fuel used in this adjustment should be updated to reflect current costs. The Company uses an updated figure of $2.82 per gallon. While different than RUCO's updated number, RUCO is willing to accept the Company's position as reasonable.

Operating Adjustment # - 9 Year-end Accruals

Q. Please discuss the Company's rebuttal comments regarding your year-end accrual adjustment.

A. The Company agrees with this adjustment to remove out-of test year expense accruals.

Operating Adjustment #10 – A&G Capitalization

Q. Please discuss the Company's rebuttal comments regarding your A&G Capitalization adjustment.

A. The Company defends its adjustment to increase test year expenses by $301,187 to reclassify costs that were capitalized during the test year by arguing that this is a "prospective adjustment" that is recurring and therefore appropriate.

Q. Please respond.

A. It appears the Company is insistent that its capitalization rate during the test-year is too high and over $300,000 in test-year capitalized costs should be reclassified to expense. However, it appears the Company wants to have it both ways.

Q. Please explain.

A. If the Company is insistent that it capitalized too much A&G expense during the test year - it cannot simply increase its expenses without making the corresponding adjustment to decrease its rate base to remove the amount it no longer intends to capitalize. Thus, if the Company continues to insist on reclassifying test year capitalized expenses to test year expenses, it needs to reduce the rate base by the same amount that it is increasing expenses.

Operating Expense Adjustment #11 – CWIP Property Taxes

Q. Please discuss the Company's rebuttal arguments regarding CWIP property taxes.

A. As discussed earlier in the rate base section of my surrebuttal testimony, the Company continues to argue that its CWIP balances should be afforded rate base treatment. Likewise, it argues that it should be allowed recovery of property taxes related to those CWIP balances.

Q. Please respond.

A. Again, as discussed in the rate base section of my testimony, rate base treatment of CWIP is extraordinary ratemaking for which the Company has provided no compelling justification. Likewise, property taxes associated with CWIP should not be recovered through rates.

Q. Does the ADOR assess property taxes on CWIP?

A. No. The formula the ADOR uses to assess property taxes does not include CWIP balances. Thus, the Company has no liability for CWIP property taxes and no need for rate recovery of such taxes. The Company's proposal is unnecessary and results in higher rates.

Operating Income Adjustment # 12 - Corporate Cost Allocations

Q. Please discuss the Company's rebuttal comments regarding RUCO's Corporate Cost Allocation adjustment.

A. The Company has accepted $1,823 of this adjustment related to allocations of Discretionary Meals & Entertainment and Travel Meals & Entertainment. The Company argues that the remaining $8,187 of this adjustment related to Advertising – Corporate Relations/Communications should be allowed.

Q. Do you agree?

A. No. As discussed in my direct testimony, these expenses primarily benefit shareholders and as such should appropriately be recovered from shareholders.

Operating Adjustment #14 – Valencia Turbine Fuel

Q. Please discuss the Company's rebuttal comments pertaining to RUCO's Valencia Fuel adjustment.

A. The Company continues to maintain that its test year expenses should be increased by $265,198 to include its estimated cost of Valencia Fuel. It argues that the adjustment is necessary to "accurately reflect the base cost of fuel and purchased power and energy".

Q. Do you agree with this argument?

A. As discussed in my direct testimony, the Company acknowledged that these costs were to be recovered through the proposed PPFAC. RUCO supports the concept of a twelve-month average adjusting PPFAC, and accordingly on a going forward basis these costs will be recovered through the PPFAC mechanism and not base rates.

Operating Income Adjustment #21 – Outside Services DSM

Q. Please discuss the Company's rebuttal comments regarding your Outside Services adjustment.

A. The Company indicates that it agrees with my adjustment to remove $49,920 in DSM expenses from the test year since it intends to prospectively recover all DSM related expenditures through a surcharge. However, UNS claims that $32,865 of this amount was already removed as part of its own DSM and renewables adjustment.

Q. Do you agree?

A. No. The Company provided workpapers detailing each item that was included in its DSM and renewables adjustment. None of the invoices included in my $49,920 DSM adjustment are included in the Company's DSM and renewables adjustment. Thus, it is necessary to remove the entire $49,920 from test-year expenses as these costs will be recovered through the DSM surcharge proposed in this case.

Operating Adjustment #22 – Income Tax Expense

Q. Please discuss the Company's rebuttal comments regarding RUCO's income tax expense adjustment.

A. The Company argues that RUCO income tax calculation is incorrect because it does not separate current income tax expense from deferred income tax expense.

Q. Do you agree with this criticism?

A. No. It is standard practice in ratemaking to account for income tax *expense* on a current basis. The accounting for tax timing differences is appropriately reflected for ratemaking purposes in the *rate base*. Tax timing differences that are assets (i.e. the Company pays taxes to the IRS prior to receiving payment from ratepayers) are reflected as rate base additions and tax timing differences that are liabilities (i.e. ratepayers pay the taxes to the Company prior to the Company paying the IRS) are reductions to rate base. In this manner, ratepayers and the Company are credited or debited with the impact of deferred income taxes. Thus, it is inappropriate to repeat this process on the income statement as suggested by the Company.

RATE DESIGN

Q. Please discuss the Company's rebuttal comments regarding RUCO's propped rate design.

A. The Company is generally supportive of RUCO's proposed rate design including RUCO's acceptance of rate consolidation, mandatory TOU rates, inverted block rates, and modifications to the CARES discount.

Q. Does this conclude your surrebuttal testimony?

A. Yes.

UNS ELECTRIC, INC.
TEST YEAR ENDED JUNE 30, 2006

SURREBUTTAL
TABLE OF CONTENTS TO RUCO SCHEDULES

UNS ELECTRIC, INC.
TEST YEAR ENDED JUNE 30, 2006
RATE BASE ADJUSTMENT # 6 - WORKING CAPITAL

DOCKET NO. E-04204A-06-0783
SCHEDULE SURR MDC-1

SURREBUTTAL

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	MATERIALS & SUPPLIES PER UNS	$5,650,559	SCH. B-5, PG. 1
2	MATERIALS & SUPPLIES PER RUCO	5,650,559	SCH. B-5, PG. 1
3	ADJUSTMENT	0	LINE 2 - LINE 1
4	PREPAYMENTS PER UNS	351,825	SCH. B-5, PG. 1
5	PREPAYMENTS PER RUCO	351,825	SCH. B-5, PG. 1
6	ADJUSTMENT	0	LINE 5 - LINE 4
7	CASH WORKING CAPITAL PER UNS	(2,634,713)	SCH. B-5, PG. 2
8	CASH WORKING CAPITAL PER RUCO	(1,055,056)	SCHEDULE MDC-
9	ADJUSTMENT	1,579,657	LINE 8 - LINE 7
10	TOTAL ADJUSTMENT (See RLM-4, Column (G))	$1,579,657	SUM LINES 3, 6 & 9

UNS ELECTRIC, INC.
TEST YEAR ENDED JUNE 30, 2006
RATE BASE ADJUSTMENT # 6 - WORKING CAPITAL

DOCKET NO. E-04204A-06-0783
SCHEDULE SURR MDC-1

SURREBUTTAL
LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTM'TS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Operating Expenses:					
	Non-Cash Expenses					
1	Bad Debts Expense	$ 579,538	$ (203,038)	$ 376,500	0	$ -
2	Depreciation	15,594,232	(4,492,305)	11,101,927	0	$ -
3	Amortization	(3,781,658)	3,781,658	-	0	$ -
4	Deferred Income Taxes	494,521	-	494,521	0	$ -
5	Total Non-Cash Expenses	$ 12,886,633	$ (913,685)	$ 11,972,948		$ -
	Other Operating Expenses:					
6	Salaries & Wages (UNS Dir.Emp's)	$ 4,571,466	$ -	$ 4,571,466	23.33	$ 106,652,302
7	Incentive Pay (UNS Dir. Emp's)	98,247	(98,247)	-	267.00	-
8	Purchased Power	106,021,950	(266,198)	105,755,752	33.79	3,573,486,860
9	Transmission Other	7,009,878	-	7,009,878	40.67	285,091,738
10	Meter Reading	730,556	(618)	729,938	33.67	24,577,022
11	Customer Records & Collections	2,982,604	(91,308)	2,891,296	34.94	101,021,877
12	Office Supplies and Expenses	535,854	(39,280)	496,574	50.89	25,270,670
13	Injuries and Damages	512,417	(80,013)	432,404	70.52	30,493,121
14	Pensions and Benefits	1,172,133	(103,004)	1,069,129	51.37	54,921,159
15	Support Services - TEP(Dir. Labor)	5,631,155	-	5,631,155	44.77	252,106,809
16	Property Taxes	3,096,371	(596,407)	2,499,964	213.00	532,492,377
17	Payroll Taxes	348,088	(8,320)	339,768	19.87	6,751,190
18	Current Income Taxes	1,342,818	2,340,043	3,682,861	41.42	152,544,114
19	Interest on Customer Deposits	217,492	-	217,492	182.50	39,692,290
20	Other Operations and Maintenance	2,587,216	(739,078)	1,848,138	41.21	76,161,770
21	Total Other Operating Expenses	$136,858,245	$ 317,571	$137,175,816		$ 5,261,263,299
22	Total Operating Expenses	$149,744,878	$ (596,114)	$149,148,764		$ 5,261,263,299
	Other Cash Working Capital Elements:					
23	Interest on Long-Term Debt	$ 5,819,157	$ (501,147)	$ 5,318,010	90.22	$ 479,790,902
24	Revenue Taxes and Assessments	13,983,561	-	13,983,561	45.71	639,188,573
25	Total Other Cash Working Capital	$ 19,802,718	$ (501,147)	$ 19,301,571		$ 1,118,979,475
26	TOTAL			$168,450,335		$ 6,380,242,774
27	Expense Lag	Line 23, Col. (E) / (D)	37.88			
28	Revenue Lag	Company Workpapers	35.59			
29	Net Lag	Line 25 - Line 24	(2.29)			
30	RUCO Adjusted Expenses	Col. (C), Line 23	$168,450,335			
31	Cash Working Capital	Line 26 X Line27 / 365 Days	(1,055,056)			
32	Company As Filed	Co. Schedule B-5, Page 1	(2,634,713)			
33	ADJUSTMENT (See MDC-2, Pg 1, L 9)	Line 28 - Line 29	1,579,657			

References:
Column (A): - Company Schedule B-5, Page 3
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (B) - (A)
Column (D): Company Schedule B-5, Page 3
Column (E): Column (C) X Column (D)

UNS ELECTRIC, INC.
TEST YEAR ENDED JUNE 30, 2006
OPERATING ADJ #7 - FLEET FUEL EXPENSE

DOCKET NO. E-04204A-06-0783
SURREBUTTAL SCHEDULE MDC-4

LINE NO.	DESCRIPTION	AMOUNT	REFERENCE
1	AVERAGE CONSTRUCTION FTE	109.2	UNSE(0783)02106
2	AVERAGE MILES DRIVEN	14,293	UNSE(0783)02106
3	CONSTRUCTION FTE FOR JULY 2006	114.5	UNSE(0783)02106
4	2006/2007 MILEAGE	1,636,549	LINE 2 x LINE 3
5	MILES PER GALLON	7.63	UNSE(0783)02106
6	GALLONS PURCHASED	214,497	UNSE(0783)02106
7	2007 AVERAGE PRICE PER GALLON	2.82	DR STF 11.24
8	PROFORMA FUEL EXPENSE	604,882	LINE 6 x LINE 7
9	PER COMPANY	647,407	CO. SCH. C-2, PG 3
10	FUEL EXPENSE ADJUSTMENT	($42,525)	LINE 8 - LINE 9

UNS ELECTRIC, INC.

DOCKET NO. E-04204A-06-0783

SURREBUTTAL TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

August 24, 2007

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please state the purpose of your surrebuttal testimony.

A. The purpose of my surrebuttal testimony is to respond to UNS Electric Inc.'s ("UNS" or "Company") rebuttal testimony on RUCO's recommended rate of return on invested capital (which includes RUCO's recommended cost of debt and cost of common equity) for the Company's electric distribution operations in Mohave and Santa Cruz Counties.

Q. Have you filed any prior testimony in this case on behalf of RUCO?

A. Yes, on June 28, 2007, I filed direct testimony with the Arizona Corporation Commission ("ACC" or "Commission"). My direct testimony addressed the cost of capital issues that were raised in UNS' application requesting a permanent rate increase ("Application") based on a test year ended June 30, 2006.

...

Q. How is your surrebuttal testimony organized?

A. My surrebuttal testimony contains five parts: the introduction that I have just presented; a summary of UNS' rebuttal testimony; a section on capital structure; a section on cost of debt; and a section on cost of equity capital.

Q. Have you made any revisions to the cost of capital recommendations that you presented in your direct testimony?

A. No, I have not.

SUMMARY OF UNS ELECTRIC, INC.'S REBUTTAL TESTIMONY

Q. Have you reviewed UNS' rebuttal testimony?

A. Yes. I have reviewed the rebuttal testimony, filed on August 14, 2007, of Company witnesses James S. Pignatelli and Kentton C. Grant.

Q. Please summarize Mr. Pignatelli's rebuttal testimony.

A. Mr. Pignatelli's rebuttal testimony presents an overview of the rebuttal testimony filed by the Company's witnesses. His testimony also provides a summary of the cost of capital recommendations being made by the Company, RUCO and ACC Staff. Mr. Pignatelli presents the argument of Mr. Grant, the Company's cost of capital witness, that the lower recommended rates of return being recommended by both RUCO and ACC Staff are not sufficient or reasonable because they do not take into account the unique business risk and customer growth that UNS faces.

Mr. Pignatelli also presents the argument that neither RUCO's nor ACC Staff's cost of capital recommendations were based on the results of a cash flow analysis.

Q. Please summarize Mr. Grant's rebuttal testimony.

A. Mr. Grant's rebuttal testimony discusses in detail the arguments presented in Mr. Pignatelli's rebuttal testimony regarding the rate of return recommendations being made by RUCO and ACC Staff. Mr. Grant also argues that RUCO's and ACC Staff's recommended rates of return do not meet the cost of capital standards set forth in the Hope and Bluefield decisions cited in my direct testimony. Mr. Grant further expresses his belief that my cost of equity recommendation is too low as a result of the estimate that I obtained from my discounted cash flow ("DCF") analysis and explains why he believes that my growth estimates are unrealistic. In addition to his arguments directly related to cost of capital issues, Mr. Grant opines that both RUCO's and ACC Staff's recommendations not to include construction-work-in-progress ("CWIP") in rate base was the single largest factor in the lower level of rate relief being recommended by both of those parties to the case. RUCO's position on the CWIP issue will be addressed in the surrebuttal testimony of RUCO witness Marylee Diaz Cortez.

CAPITAL STRUCTURE

Q. Have you made any changes to your recommended capital structure for UNS Electric?

A. No, I have not. Mr. Grant and I are in agreement with my recommendation to adopt the Company-proposed capital structure which is comprised of 3.97 percent short-term debt, 47.18 percent long-term debt and 48.85 percent common equity.

Q. How does your recommended capital structure compare with the capital structure being recommended by ACC Staff?

A. ACC Staff's cost of capital witness, David C. Parcell, is recommending a slightly different capital structure comprised of 3.96 percent short-term debt, 47.21 percent long-term debt and 48.83 percent common equity.

COST OF DEBT

Q. Have you made any adjustments to your recommended costs of short-term and long-term debt?

A. No, I have not. Mr. Grant and I are also in agreement with my recommendations to adopt the Company-proposed costs of short-term and long-term debt.

...

Q. Briefly summarize the current positions of the parties to the case regarding cost of debt, cost of equity and weighted cost of capital.

A. To date, UNS, RUCO and ACC Staff ("the parties to the case") are in agreement on the Company proposed 6.36 percent cost of short-term debt. The parties to the case are currently recommending the following costs of long-term debt:

UNS	8.22%
ACC Staff	8.16%
RUCO	8.22%

In regard to the cost of common equity, the parties to the case are presently recommending the following:

UNS	11.80%
ACC Staff	10.00%
RUCO	9.30%

Mr. Parcell's 10.00 percent cost of common equity recommendation is the mid-point of his recommended range of 9.50 percent to 10.50 percent.

...

The weighted costs of capital being recommended by the parties to the case are as follows:

UNS	9.89%
ACC Staff	8.97%
RUCO	8.67%

As can be seen above, there is presently a 122 basis point difference between the Company-proposed 9.89 percent weighted cost of capital and RUCO's recommended weighted cost of capital of 8.67 percent. RUCO and ACC Staff's recommended costs of capital fall within 30 basis points of each other.

COST OF EQUITY CAPITAL

Q. Has there been any recent activity in regard to interest rates?

A. Yes. On August 7, 2007, the Federal Reserve decided not to increase or decrease the Federal Funds rate for the ninth straight time, and left its target rate unchanged at 5.25 percent.[1] At the time of the Fed's decision, analysts speculated that a rate cut over the next several months was unlikely given the Fed's concern that inflation will fail to moderate. However, within days of the Fed's decision to stand pat on rates, a

[1] Ip, Greg, "Markets Gyrate As Fed Straddles Inflation, Growth" The Wall Street Journal, August 8, 2007

borrowing crises, rooted in the recent deterioration of the market for U.S. subprime mortgages and securities linked to them, forced the Fed to inject $24 billion in funds (raised through open market operations) into the credit markets.[2] By Friday, August 17, 2007, after a turbulent week on Wall Street, the Fed made the decision to lower its discount rate (i.e. the rate charged on direct loans to banks) by 50 basis points, from 6.25 percent to 5.75 percent, and took steps to encourage banks to borrow from the Fed's discount window in order to provide liquidity to lenders. According to an article that appeared in the August 18, 2007 edition of The Wall Street Journal,[3] the Fed has presently used all of its tools to restore normalcy to the financial markets. If the markets fail to settle down, the Fed's only weapon left is to cut the Federal Funds rate – possibly before the next scheduled FOMC meeting on September 18, 2007. The article went on to state that, despite the Fed's concerns with inflation, traders in the futures market are now expecting the Fed to make quarter point cuts in the Federal Funds rate during the FOMC's September and October meetings, and expect the rate to drop a full 100 basis points to 4.25 percent by the end of the year. If the traders' forecasts are correct, the prime rate, which generally moves in lockstep with the Federal Funds rate, should also fall to 7.25 percent by the end of December, 2007.

[2] Ip, Greg, "Fed Enters Market To Tamp Down Rate" The Wall Street Journal, August 9, 2007

[3] Ip, Greg, Robin Sidel and Randall Smith, "Fed Offers Banks Loans Amid Crises" The Wall Street Journal, August 9, 2007

Q. What is the current situation in regard to the yields on U.S. Treasury Instruments?

A. As can be seen in Attachment A, the short-term 91-day T-Bill rate, which I used as the risk-free rate of return in my capital asset pricing model ("CAPM") analysis, has fallen to 4.09 percent as of August 15, 2007, and is presently 94 basis points lower than the benchmark long-term 30-year T-Bond yield of 5.03 percent. The current yield of 4.09 percent is 76 basis points lower than the six-week average 91-day T-Bill rate of 4.85 percent that I used in my CAPM analysis.

Q. What would happen if you were to incorporate the lower recent 4.09 percent 91-day T-Bill rate in your CAPM model?

A. If I were to recalculate my CAPM estimates using the lower recent 4.09 percent T-Bill rate, my CAPM results would move in the direction of the estimates derived in my DCF model.

Q. Please address Mr. Grant's criticism that the growth rates used in your DCF model are problematic from the standpoint of market expectations.

A. Mr. Grant presents two arguments in regard to the growth rates used in my DCF model. His first argument states that investors expect a convergence of individual growth rates towards the industry average growth rate and that my growth rate estimates fail to take this into account. Mr. Grant's second argument states that my growth estimates are not in line with long-term inflation-adjusted estimates of U.S. gross domestic product ("GDP") which is the long-term growth component used in the multi-stage DCF model that he has relied on for his cost of equity estimation. Both arguments presented by Mr. Grant should be given no weight.

Q. Please explain why Mr. Grant's first argument regarding your growth rate estimates should not be afforded any weight.

A. Mr. Grant's first argument assumes that investors place their funds in an individual electric service provider's stock because they expect the individual electric service provider's growth rates to converge with the long-term average of the electric power industry. In other words, if you've seen one electric utility company stock, you've seen them all because you are investing in an industry as opposed to an individual utility. If his argument were true, then investors would be investing in the electric utility industry as a whole (i.e. through an investment vehicle such as a mutual fund) as opposed to investing in an individual electric utility company. His argument totally ignores the premise that rational investors place their funds in individual stocks because they feel comfortable with the dividend yields and the growth potentials offered by the individual electric utilities that they are investing in. I believe that rational investors also weigh other factors such as superior management, corporate culture and philosophy, and past records of performance when making their investment decisions.

If you subscribe to Mr. Grant's argument, then it would not make any difference which electric utility company you made an investment in since they will all eventually provide the same returns in growth. This begs the question as to why there is so much investor information available on individual companies or why the managements of publicly traded firms tout their ability to provide returns that will exceed industry averages.

Q. Please address Mr. Grant's second argument regarding your growth rate estimates.

A. Mr. Grant's second argument assumes that my growth rates are unrealistic because they do not take into consideration a long-term inflation-adjusted estimate of U.S. gross domestic product ("GDP"), which is a long-term growth component that he considered in developing the long-term growth rate used in his multi-stage DCF model. More to the point, I believe that Mr. Grant is suggesting that I should have used a multi-stage DCF model that uses a long-term inflation-adjusted estimate of U.S. GDP which is what the Federal Energy Regulatory Commission ("FERC") relies on in rate increase requests filed with that agency. If you subscribe to his inflation-adjustment argument then you have to believe that every individual electric utility company included in both mine and Mr. Grant's samples are going to have inflation-adjusted growth that mirrors the GDP of the entire U.S. economy into perpetuity. This in itself is a rather broad and unrealistic expectation. Professional analysts often have enough trouble making accurate projections of the near-term (i.e. one-year) earnings of the companies that they follow. It would be unrealistic to believe that projections that extend into perpetuity would be more accurate than the near-term projections. The growth estimates used in my DCF model are a balance of known historical 5-year growth figures and projected growth estimates over the next five-year period (i.e. 2007 through 2012). I believe that this is a reasonable horizon for future growth estimates, given the fact that utilities typically apply for rate relief within a three to five-year time frame.

Q. Are there any other reasons why you believe that Mr. Grant's second argument on your growth rate estimates is not realistic?

A. Yes. It is interesting to note that in the multi-stage DCF model adopted by the FERC, more emphasis is given to short-term growth expectations (i.e. the projected growth estimates over the next five-year period that I relied on for my DCF growth estimates) as opposed to inflation-adjusted estimates of future U.S. GDP growth. This can be seen in the following excerpt from the FERC's Cost-of-Service Rates Manual (Attachment B):

> "**Return on Equity or Cost of Equity:** This is the pipeline's actual profit, or return on its investment. The return on equity is derived from a range of equity returns developed using a Discounted Cash Flow (DCF) analysis of a proxy group of publicly held natural gas companies. The two-stage method projects different rates of growth in projected dividend cash flows for each of the two stages, one stage reflecting short-term growth estimates and the other long-

> term growth estimates. These estimates are then weighted, two-thirds for the short-term growth projection and one-third on the long-term growth, and utilized in determining a range of reasonable equity returns. Two-thirds is used for the short-term growth rate on the theory that short-term growth rates are more predictable, and thus deserve a higher weighting than long-term growth rate projections. An equity return is then selected within this zone based on an analysis of the company's risk."

As stated in the excerpt above, the FERC multi-stage DCF model weighs short-term estimates, similar to the ones used in my single stage DCF model, by a factor of two-thirds based on the fact that they are more predictable and deserve more weight than long-term estimates such as the ones produced in the unweighted multi-stage DCF model that Mr. Grant has relied on.

Q. Are there other arguments that you have with Mr. Grant's arguments regarding inflation?

A. Yes. The cost of capital estimates that I have developed from my DCF model actually do take inflation into account given the fact that investor expectations regarding inflation are reflected in the prices of the individual stocks that were included in my sample. The investment community always reacts to news on inflation. Reports in the mainstream financial press about investors buying or selling stocks based on news on inflation are extremely common. In fact inflation related buying and selling of stocks often occurs after Federal Reserve meetings when statements by the FOMC explain why inflation was a factor in their decision to act on interest rates. As I stated in my direct testimony, the lower costs of capital that I have calculated are largely influenced by the prices of electric utility stocks which have been high as a result of increased investor demand for such stocks because of their higher dividends. This was pointed out in The Value Line Investment Survey quarterly update of electric utilities in the western region of the U.S. that was exhibited as Attachment A of my direct testimony.

Furthermore, I should point out that in reality, utility rates are not set in perpetuity. Unless they have agreed to do otherwise, such as in the case of a long-term rate moratorium like the one entered into by the Company's parent, regulated utilities always have the option of filing for rate increases when they believe that they are not earning their authorized rates of return on invested capital. The five-year outlook used in my DCF model conforms better to this reality given the fact that it is reasonable to assume that a regulated utility will probably file for new rates within a three to five-year time frame.

Q. Have the comments made by Mr. Grant on page 6 of his rebuttal testimony caused you to change the views that you expressed in your direct testimony?

A. No. As I stated in my direct testimony, the Commission has consistently rejected issues such as company size, customer growth, and the historic test year concept as reasons for making upward adjustments to estimated costs of common equity.

The issue of high customer growth in UNS' service territory certainly never deterred the Company's parent, UniSource Energy Corporation ("UniSource"), from acquiring the natural gas and electric assets from Citizens Communications Company ("Citizens") in the first place. One cannot believe that the management of UniSource, which is based in Tucson, was blind to the fact that they were acquiring assets located in one of the fastest growing states in the U.S. High growth in Arizona is one of UniSource's biggest selling points to potential investors. UniSource even presents high growth in a positive light in the Chairman's Letter to Shareholders that appears in UniSource's 2005 Annual Report (Attachment C). More recently, this same attitude toward growth was reflected in a Company press release dated August 6, 2007 that announced UniSource's second quarter earnings. Nowhere in the press release is customer growth referred to as a negative factor in the Company"s ability to turn a profit. Obviously the investment community does not view UniSource's high growth service territories in a negative light given the fact that shares of UniSource have increased from $25.25, at the time RUCO successfully opposed an acquisition attempt by a limited liability partnership (which included the well heeled Wall Street investment firm of Kolberg Kravis Roberts & Co.), to a current price of $30.05 as of August 21, 2007.

In regard to regulatory lag, unless the utility is operating under an agreement that provides for a rate freeze as I noted earlier, it is the utility that decides when to apply for rate relief and generally utilities apply for rate relief at times when it is an advantage to them. Once again, UniSource's management was well aware of the regulatory environment that they would be operating in when they acquired the electric and natural gas assets from Citizens in 2003. For the reasons stated above I believe that Mr. Grant's arguments regarding additional risk resulting from high customer growth and regulatory lag should be given no weight in this proceeding.

Q. Please respond to Mr. Grant's position that your recommended rate of return falls short of the standards set by the Hope and Bluefield decisions.

A. RUCO believes that the rates it is recommending in this case will provide the Company with the opportunity to recover its operating expenses and provide a return on its invested capital. From that standpoint I believe that the capital attraction standards set forth in the Hope and Bluefield decisions have been satisfied. Ultimately it is up to the Company to manage its expenses and make prudent investments in order to achieve its authorized rate of return. This also means coming in for rate relief on a timely basis. Mr. Grant claims that the Company's projections indicate that UNS will not be able to achieve its authorized rate of return if RUCO's cost of capital recommendation is adopted by the ACC. These are projections made by UNS that are mere speculation. As I pointed out in my direct testimony, Arizona, like the rest of the country, is experiencing a slowdown in the housing market which may well give the Company a chance to take a breather from having to keep up with growth. In regard to the Company's Mohave County operations, unresolved water supply issues and fairly recent events, such as the housing slowdown just noted and a construction setback in the planned Hoover Dam bypass bridge[4], which will provide a faster and more direct route to Las Vegas from Mohave County, will provide the Company with additional time to deal with projected growth related to planned Las Vegas bedroom communities in that portion of UNS' service territory. Mr. Grant is critical of RUCO's position on CWIP, yet nowhere in his rebuttal testimony does Mr. Grant address the fact that RUCO supports the Company's request for a purchased power fuel adjustment clause ("PPFAC") which will mitigate fluctuations in operating income as a result of volatile fuel costs that are beyond the Company's control for the most part.

...

[4] Based on information obtained from a U.S. Department of Transportation newsletter for June 2007(http://www.hooverdambypass.org/Informational_Material.htm), the collapse of a crane has caused a delay of several years on the Hoover Dam Bypass Project. The completion of the bridge and bypass route that will link Mohave County, Arizona and Clark County, Nevada is now estimated to occur sometime toward the end of 2010.

Q. Does your silence on any of the issues or positions addressed in the rebuttal testimony of the Company's witnesses constitute acceptance?

A. No, it does not.

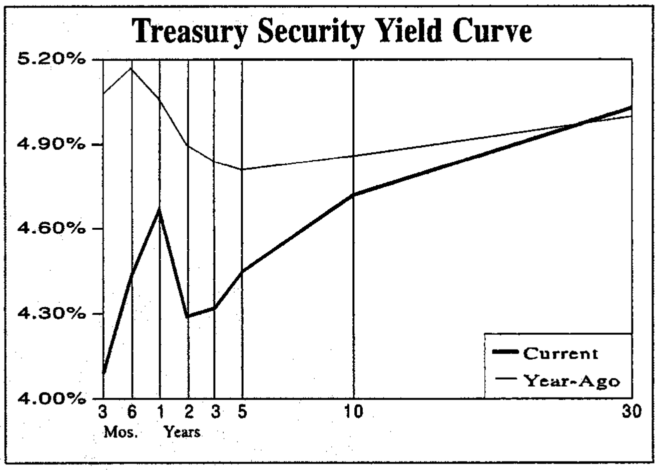
Q. Does this conclude your surrebuttal testimony on UNS?

A. Yes, it does.

ATTACHMENT A

Selected Yields

	Recent (8/15/07)	3 Months Ago (5/16/07)	Year Ago (8/17/06)
TAXABLE			
Market Rates			
Discount Rate	6.25	6.25	6.25
Federal Funds	5.25	5.25	5.25
Prime Rate	8.25	8.25	8.25
30-day CP (A1/P1)	5.26	5.24	5.23
3-month LIBOR	5.52	5.36	5.39
Bank CDs			
6-month	2.99	3.11	3.25
1-year	3.70	3.73	4.02
5-year	4.02	3.91	4.16
U.S. Treasury Securities			
3-month	4.09	4.73	5.08
6-month	4.43	4.84	5.17
1-year	4.67	4.85	5.06
5-year	4.45	4.62	4.81
10-year	4.72	4.71	4.86
10-year (inflation-protected)	2.52	2.37	2.28
30-year	5.03	4.88	5.00
30-year Zero	4.99	4.85	4.91



	Recent (8/15/07)	3 Months Ago (5/16/07)	Year Ago (8/17/06)
Mortgage-Backed Securities			
GNMA 6.5%	6.02	5.58	5.86
FHLMC 6.5% (Gold)	6.17	5.80	6.01
FNMA 6.5%	6.16	5.73	6.12
FNMA ARM	5.48	5.49	5.35
Corporate Bonds			
Financial (10-year) A	6.00	5.69	5.82
Industrial (25/30-year) A	6.19	5.89	6.04
Utility (25/30-year) A	6.28	6.07	6.07
Utility (25/30-year) Baa/BBB	6.41	6.21	6.46
Foreign Bonds (10-Year)			
Canada	4.44	4.24	4.27
Germany	4.34	4.30	3.92
Japan	1.65	1.67	1.83
United Kingdom	5.13	5.13	4.66
Preferred Stocks			
Utility A	7.34	7.29	7.19
Financial A	6.40	6.30	6.19
Financial Adjustable A	5.51	5.52	N/A
TAX-EXEMPT			
Bond Buyer Indexes			
20-Bond Index (GOs)	4.59	4.24	4.39
25-Bond Index (Revs)	4.67	4.44	4.97
General Obligation Bonds (GOs)			
1-year Aaa	3.62	3.60	3.50
1-year A	6.72	3.70	3.60
5-year Aaa	3.76	3.63	3.58
5-year A	3.86	3.74	3.87
10-year Aaa	4.10	3.76	3.91
10-year A	4.60	4.26	4.32
25/30-year Aaa	4.59	4.13	4.33
25/30-year A	4.84	4.43	4.66
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.88	4.55	4.45
Electric AA	4.84	4.45	4.42
Housing AA	4.95	4.63	4.65
Hospital AA	4.98	4.65	4.70
Toll Road Aaa	4.88	4.55	4.52

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	8/1/07	7/18/07	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	1573	1667	-94	1599	1561	1588
Borrowed Reserves	245	299	-54	179	132	199
Net Free/Borrowed Reserves	1328	1368	-40	1420	1429	1389

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	7/30/07	7/23/07	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1371.8	1360.1	11.7	-4.0%	0.3%	-0.1%
M2 (M1+savings+small time deposits)	7283.2	7272.6	10.6	4.8%	5.8%	6.4%

ATTACHMENT B

Cost-of-Service Rates Manual

Federal Energy Regulatory Commission
888 North Capitol Street, N.E.
Washington, D.C. 20426
United States of America
www.ferc.gov

June 1999

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$159,602,000, is equity financed. This means that the owners of Pipeline U.S.A. used their own funds to finance this portion of their investment.

** Pipeline U.S.A. issues its own debt which is not guaranteed by its parent, has its own bond rating and its capital structure is comparable to other equity capitalizations approved by the Commission. Therefore, Pipeline U.S.A. meets the Commission's criteria for using its own capital structure for setting its rates.*

Cost of Debt: This refers to the cost of long term debt incurred by the pipeline to construct or expand the pipeline. For ongoing pipelines that have been issuing debt, we use the actual imbedded cost of debt in the capital structure. The actual imbedded cost of debt is the weighted average of all the debt issued and the cost at which the debt was issued. For new pipelines that have indicated that they would issue debt to finance their investment, but have not yet actually issued the debt, we compute the cost of debt based on a projection, or recent historical debt cost such as historical average Baa utility bonds (Moody's Bond Survey), which is the most prevalent rating for utilities. We also use Moody's to compute the cost of debt if we decide use of a hypothetical capital structure is appropriate.

A-8, column 3, shows the cost of debt of Pipeline U.S.A. of 8.25%. The cost of debt represents a return to Pipeline U.S.A.'s bondholders. The debt return dollars appearing in Column 5 represents the cost to Pipeline U.S.A. to pay the interest on the debt to its bondholders. This debt return, or interest on debt, of $30,723,000 as shown in column (5) is included in the Return component of the cost-of-service.

Return on Equity or Cost of Equity: This is the pipeline's actual profit, or return on its investment. The return on equity is derived from a range of equity returns developed using a Discounted Cash Flow

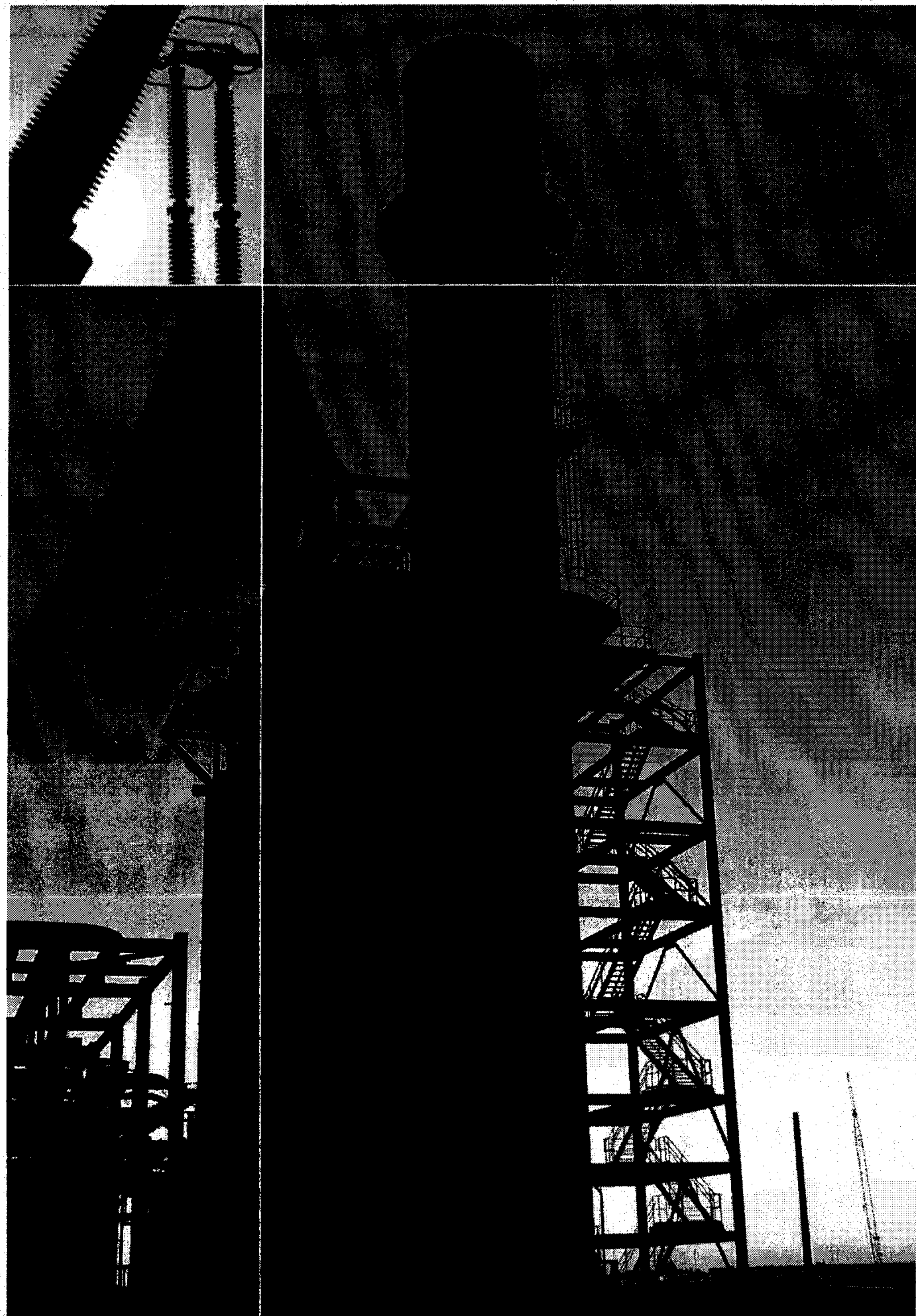
(DCF) analysis of a proxy group of publicly held natural gas companies. The Commission currently uses a two-stage Discounted Cash Flow (DCF) methodology. The two-stage method projects different rates of growth in projected dividend cash flows for each of the two stages, one stage reflecting short term growth estimates and the other long term growth estimates. These estimates are then weighted, two-thirds for the short-term growth projection and one-third on the long-term growth, and utilized in determining a range of reasonable equity returns. Two-thirds is used for the short-term growth rate on the theory that short-term growth rates are more predictable, and thus deserve a higher weighting than long term growth rate projections. An equity return is then selected within this zone based on an analysis of the company's risk. It is assumed, that most pipelines face risks that would place them in the middle of the zone of reasonableness. However, a case could be made depending on the facts of the specific pipeline that the return on equity should be outside the zone. As an example, a pipeline with a high debt capitalization ratio is usually considered more risky and thus, a higher return on equity would be expected.

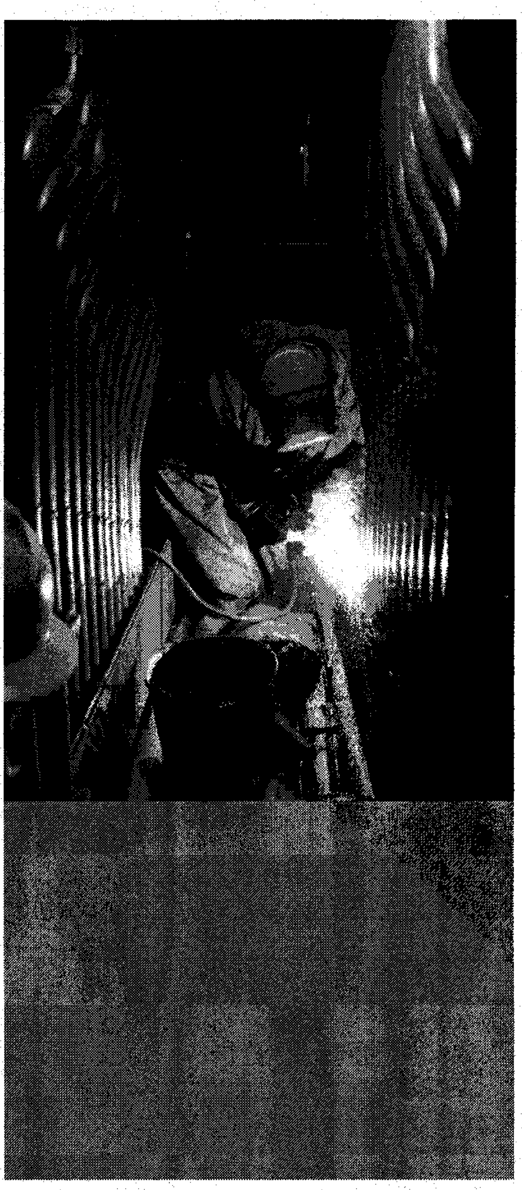
We have determined that a reasonable return on equity for Pipeline U.S.A. is 14.00%. This return was at the high end of our range of equity returns because Pipeline U.S.A. is a relatively new pipeline company with a high debt capitalization ratio. The equity portion of the return permitted to be collected in rates is $22,344,000 shown in column (5) of A-8.

Pretax Return. Pretax return is the amount earned by a pipeline before income taxes and debt interest payments. Pretax return is often calculated for pipelines and used to further settlement negotiations. Using a pretax return figure can avoid the lengthy discussions and debates that surround the issues of capitalization ratios and ROE calculations and analyses. Use of a pretax return reduces these issues down to one number, a pretax percentage that can easily be compared to other pipeline's pretax returns. The pretax return figure

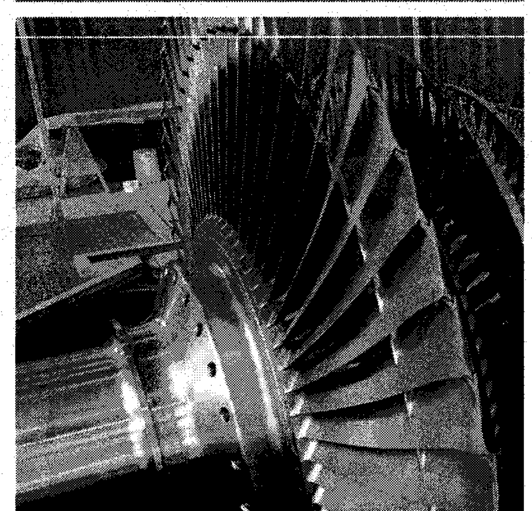
ATTACHMENT C

UniSource Energy Corporation
Annual Report 2005





Generating Success



Generating

Confidence

Dear Fellow Shareholder,

In many ways, UniSource Energy Corporation is focused on a single, powerful concept: generation.

Utilities use that term to describe power production – the transformation of coal, natural gas, sunlight and other resources into the electricity that powers our modern lives. But generation means much more than power to UniSource Energy.

Our growing utility business generates positive returns for shareholders as it provides safe, reliable energy for customers. Our infusion of capital into Tucson Electric Power (TEP) and UniSource Energy Services (UES) in 2005 generated confidence in our financial standing, including a two-notch upgrade of TEP's credit rating from Moody's Investors Service. Our proposal to extend TEP's current rate agreement through 2010 would generate a level of price stability virtually unprecedented in today's volatile energy market. And our award-winning employee volunteer program continues to generate goodwill in the communities we serve.

In 2006, our commitment to generation will be apparent in its most literal sense. By year's end, we will have added two new plants to TEP's energy generating operations. The new units will complement the expanding operations of TEP and UES, which now combine to serve approximately 613,000 customers across Arizona.

These new facilities have been years in the making, and their completion will mark a historic expansion of our company's generating operations. But as our progress in other areas makes clear, UniSource Energy isn't just producing power – we're generating success.

Construction of a third unit at TEP's coal-fired Springerville Generating Station (SGS) remains on track with an accelerated timeline that calls for the 400-megawatt (MW) unit to be brought online during the third quarter of 2006. Crews working under the direction of project contractor Bechtel have made steady progress without sacrificing quality or safety. Through the end of 2005, workers had logged more than three million hours on the project without a single lost-time accident.

TEP will operate Unit 3. It also will purchase up to 100 MW of the unit's capacity for up to five years from Tri-State Generation and Transmission Association, a wholesale power cooperative that will lease the completed unit from a financial owner and control its output. In this way, we can capitalize on the expertise we've developed during two decades of power production at SGS while spreading the fixed costs of existing common facilities across an additional unit.

Phoenix-based Salt River Project (SRP), which will purchase 100 MW of Unit 3's output, also holds the right to build a fourth unit at SGS – a 400-MW generator that would be owned by SRP and operated by TEP. SRP has sought more time to evaluate its need for the unit's output.

While Unit 3 is still months away from completion, the expansion of SGS already has delivered significant benefits to TEP. As part of the project, Tri-State funded environmental improvements to Units 1 and 2 to ensure that the total regulated emissions from all four planned units will be significantly lower than previous emissions from the two existing 380-MW units.

Generating Growth

While the effects of those improvements are difficult to detect with the naked eye, they've had a noticeable impact on our bottom line. The reduction in sulfur dioxide (SO_2) output left TEP with a surplus of emissions allowances at a time when the price of this traded commodity was rising. The sale of SO_2 allowances contributed a $13 million pretax gain to TEP's results in 2005, and we're anticipating additional sales in 2006 and beyond.

The new gas-fired Luna Energy Facility, meanwhile, has been built from the ground up with state-of-the-art emissions controls and a combined cycle design that ensures it will serve as a clean, efficient source of power for decades to come.

TEP will share ownership of the facility with Phelps Dodge Energy Services and PNM, an Albuquerque-based utility. PNM will oversee operations of the plant, which is located two miles north of Deming in southern New Mexico. TEP and its partners each hold a one-third stake in the 570-MW facility and will split its output three ways.

Duke Energy had begun construction of the facility in October 2001, but it suspended work about a year later after investing $275 million in the project. TEP, Phelps Dodge and PNM bought the unfinished plant in November 2004 for $40 million. TEP invested about $50 million of internally generated cash toward the purchase and completion of the facility.

The power TEP will receive from both Luna and SGS 3 will expand our wholesale sales opportunities while ensuring our ability to meet the growing needs of our retail customers. Electric usage by TEP customers peaked at 2,225 MW in the summer of 2005, a nearly 7 percent increase over the previous year's peak. Usage should continue to rise along with Tucson's population. TEP's customer base is growing between 2 and 3 percent each year, well ahead of the nation's 1 percent annual population growth rate.

TEP has served this growth without sacrificing reliability or customer service. Our ability to minimize outages and to restore service promptly when interruptions do occur ranked well ahead of recent regional averages in 2005. Meanwhile, TEP once again finished among the leaders in customer satisfaction for western electric utilities last year, according to J.D. Power and Associates' 2005 Electric Utility Residential Customer Satisfaction Study.

Growth also is a defining characteristic of UniSource Energy Services, which serves some of Arizona's fastest growing communities. UES' gas utility, which operates in northern Arizona as well as Santa Cruz County on the U.S.-Mexico border, enjoyed greater than 4 percent customer growth last year. The customer base for the company's electric operations in Santa Cruz and Mohave Counties grew nearly 5 percent in 2005.

To help TEP and UES manage these dramatic growth levels, we completed a financial restructuring in 2005 that bolstered the stability of both utilities. Taking advantage of favorable financial markets, UniSource Energy issued $240 million in debt and used the proceeds, along with internal cash, to retire $320 million of debt obligations at TEP while contributing $20 million to UNS Electric and UNS Gas, the operating subsidiaries of UES. The transactions significantly improved the equity position of TEP while providing additional resources to help UES fund its growing needs.

Generating Stability

While skyrocketing natural gas prices and other cost increases have put upward pressure on utility expenses, retail customers of both TEP and UES enjoy the stability and predictability that come from long-term rate freezes. The base rates for UES service are frozen through at least August 2007, while TEP's rates are capped through the end of 2008.

Rising operational costs and increasing capital investments will compel us to file requests later this year for increased UES gas and electric rates that would take effect after the current rate freeze expires. In the meantime, we've asked the Arizona Corporation Commission (ACC) to update the formula used to calculate how wholesale gas costs are passed along to UNS Gas customers. At times, the current formula hasn't kept up with dramatic price increases, delaying recovery of our gas purchase costs.

For TEP, though, we're looking to extend the period of rate stability for customers for another two years. We've asked the ACC to maintain TEP's current rates through 2010 with the addition of an energy cost provision that would take effect in 2009. This new mechanism would help account for changes in market power costs since the settlement agreement establishing TEP's current rates was signed in 1999. This proposed extension was designed to provide TEP with some protection from market volatility while sparing customers from dramatic cost increases that could result from the initiation of market pricing contemplated under that settlement agreement.

The extended cap on TEP's rates has not prevented our Board of Directors from rewarding shareholders with rising dividend payments. Earlier this year, the Board voted to increase the quarterly payments to $0.21 per share, the sixth annual increase since the dividend was established at $.08 per share in 2000.

The Board's vote of confidence is particularly meaningful in light of our disappointing financial performance in 2005. UniSource Energy's year-end earnings of $46.1 million, or $1.33 per basic share of common stock, reflect the heavy toll of an extended shutdown of SGS Unit 2 and other plant outages. The unplanned outage struck SGS Unit 2 in August, when customer demand was high and energy prices were boosted by the impact of Gulf Coast hurricane activity. The outage contributed to an 82 percent increase in TEP's purchased power expense in 2005, offsetting our utility revenue growth and the benefits of our financial restructuring.

As a result, we did not achieve my 2005 earnings goal of $1.50 to $1.75 per share. And while the $276 million in operating cash produced by UniSource Energy was strong by most measures, it fell short of my $300 million goal for the year. Despite this shortfall, we internally funded our entire capital expenditure requirements of $203 million, including the Luna Energy Facility project.

I was further disappointed by increased losses at Millennium Energy Holdings, which contains UniSource Energy's unregulated investments. The increase was almost entirely due to higher costs at Global Solar Energy, a company that develops thin-film photovoltaic material. We have agreed to sell Global Solar in a transaction that would allow us to repurchase between 5 and 10 percent of the company for a nominal fee, giving us an opportunity to capitalize on its future success. The sale is consistent with our strategy of scaling back Millennium's involvement in actively managed investments to focus on UniSource Energy's core utility operations.

Generating Goodwill

That focus will continue to include a strong emphasis on community service. Employees at both TEP and UES joined their friends and families in contributing nearly 39,000 hours of their own time to charitable activities in 2005. We've also asked our employees to provide direction for UniSource Energy's corporate giving program, rewarding their efforts with critical support for the causes most important to them. This strategy, which continues to attract significant national acclaim, has served to strengthen the bonds between our employees and the communities we serve together.

Our bond with some of TEP's most critical employees was solidified earlier this year when the International Brotherhood of Electrical Workers Local 1116 ratified a comprehensive three-year labor agreement. The agreement, which will remain in effect through January 2009, provides a balanced wage and benefit package that serves the long-term interests of both the company and our employees.

With a committed work force, a solid financial base and expanding utility operations, UniSource Energy is in a strong position to produce improving results in 2006 and beyond. In addition to the completion of SGS 3 and the Luna Energy Facility, my goals for this year include improved availability from our existing generating units, particularly during the critical summer months. We'll also press for resolution of the disagreement over the basis of TEP's future rates while addressing the need to increase the rates charged by UNS Gas and UNS Electric.

Other goals include the successful implementation of a new billing system that will improve customer service and streamline the operations of TEP, UNS Gas and UNS Electric. The upgrade, which replaces three separate older systems, is a highlight of our ongoing campaign to improve our business processes – an effort that will receive even greater emphasis this year. The success of these measures and the continued growth of our utility businesses should help us achieve year-end earnings between $1.65 and $2.05 per share for 2006.

I would like to thank you, my fellow shareholders, for your continued faith in UniSource Energy. I would also like to thank our employees, who have pursued our goals with admirable resolve. Together, we've invested in our future and followed a course that leaves us poised to capitalize on growth instead of falling victim to it. Such strategic planning is key for regulated utilities because we operate in a unique environment; unlike other companies, we provide a product far more valuable than the price our customers pay. In so doing, we create significant benefits for customers at the same time we're producing value for our shareholders. In 2006 and beyond, UniSource Energy will remain committed to generating success on both these fronts.

Your fellow shareholder,

James S. Pignatelli
Chairman, President and CEO
UniSource Energy Corporation

ATTACHMENT D

News Releases

UniSource Energy Reports Second Quarter Earnings for 2007

TUCSON, Ariz., Aug 06, 2007 (BUSINESS WIRE) --

UniSource Energy Corp. (NYSE: UNS) today reported earnings for the second quarter of 2007 of $12 million, or $0.32 per diluted share of common stock. Last year, UniSource Energy reported second quarter earnings of $10 million, or $0.28 per diluted share. UniSource Energy modified its 2007 full-year earnings guidance to be between $1.55 and $1.85 per diluted share from its previous range of between $1.55 and $1.95 per diluted share.

The customer base at Tucson Electric Power (TEP), UniSource Energy's principal subsidiary, continued to grow at an annual rate of 2 percent. Customer growth was offset by a 14 percent decrease in the number of cooling degree days that led to reduced residential energy usage and only a modest increase in retail revenues compared with the same period last year.

Higher fuel and purchased power expenses were largely offset by increased wholesale revenues made possible by the improved availability of TEP's generating fleet. Revenues from the operation of a new coal-fired unit at TEP's Springerville Generating Station (SGS) and higher sales of sulfur dioxide (SO2) emissions credits mitigated increases in other expenses.

UniSource Energy's second quarter results reflect TEP's rising power production costs, including a $9 million year-over-year increase in coal-related fuel expense. A 9 percent increase in kilowatt-hours generated from TEP's coal-fired plants and rising coal and rail costs led to the increase. The cost per ton of coal delivered to TEP's H. Wilson Sundt Generating Station in Tucson increased nearly 70 percent under a new agreement signed in December 2006. TEP also incurred higher mining costs associated with its interest in the San Juan Generating Station.

"Our reliable generation fleet and efficient operations have helped us manage the rising cost of serving our growing customer base on fixed rates," said James S. Pignatelli, UniSource Energy's Chairman, President and CEO.

TEP added 9,252 new customers during the past year, reaching 394,717 total customers by the end of the second quarter. Despite milder weather, the utility set a new retail peak on July 5 with a net hourly load of 2,370 megawatts (MW) compared with a peak retail load of 2,365 MW in 2006.

TEP filed a request last month for its first rate increase in more than a decade. The company has asked the Arizona Corporation Commission (ACC) to use one of three proposed methods to set new rates that would take effect no later than January 1, 2009. The proposals would increase retail rates by an average of 15 to 23 percent, depending on the approach used.

Second quarter earnings were slightly higher than last year at UniSource Energy Services (UES), which provides gas and electric service in northern and southern Arizona through subsidiaries UNS Electric and UNS Gas. UNS Electric reported earnings of $2 million, a small improvement compared with last year, while UNS Gas matched its $1 million quarterly loss.

Tucson Electric Power Company

TEP reported earnings for the second quarter of 2007 of $12 million compared with $11 million in 2006.

Factors affecting TEP's second quarter 2007 results include:

-- A $13 million increase in retail and wholesale revenues, mostly offset by a $12 million increase in fuel and purchased power costs. Retail revenues increased only $1 million due to milder weather;

-- A $6 million increase in other revenues for fees and reimbursements received from Tri-State Generation and Transmission Association (Tri-State) for fuel and operations and maintenance (O&M) costs related to SGS Unit 3;

-- A $3 million increase in O&M expense due primarily to costs related to TEP's operations of SGS Unit 3 that are reimbursed by Tri-State. O&M expense also includes a pre-tax gain of $5 million related to sales of excess SO2 Emission Allowances, compared with a pre-tax gain of $2 million in the same period last year;

-- A $2 million increase in expenses related to the amortization of the transition recovery asset; and

-- A $2 million decrease in interest expense due to lower capital lease obligation balances.

UNS Gas

UNS Gas reported a net loss of $1 million in the second quarters of 2007 and 2006.

Retail therm sales were flat compared with the second quarter of 2006 as a 3-percent increase in customers was offset by mild weather. Despite similar sales, retail revenues dropped due to a lower commodity surcharge.

UNS Gas filed a general rate case in July 2006 requesting an increase of $9.6 million, or about 7 percent, to cover the growing cost of serving customers. The case is pending before the ACC, and new rates are expected to go into effect in late 2007.

UNS Electric

UNS Electric reported earnings of $2 million for the second quarter of 2007, slightly ahead of last year. UNS Electric's operations are seasonal in nature, with peak energy demand occurring in the summer months. UNS Electric's customer base grew by approximately 3-percent from the same period last year.

In December 2006, UNS Electric filed a general rate case seeking an average rate increase of $8.5 million, or approximately 5.5 percent, to recover rising costs. ACC hearings in the case are scheduled to begin in September 2007, and new rates are expected to go into effect in early 2008.

Year-to-Date

UniSource Energy's consolidated year-to-date earnings through June 30, 2007, were $17 million, or $0.46 per diluted share of common stock. During the same period last year, UniSource Energy reported earnings of $27 million, or $0.73 per diluted share.

Earnings Per Share Summary

	2nd Quarter		Year-to-Date June 30,	
Net Income	2007	2006	2007	2006
	-Millions-		-Millions-	
Tucson Electric Power	$ 12.3	$ 11.2	$ 13.1	$ 27.8
UNS Gas	(1.1)	(1.3)	3.4	3.4
UNS Electric	1.5	1.4	1.9	2.1
Other (1)	(0.9)	(1.3)	(1.7)	(3.8)
Income Before Discontinued Operations and Cumulative Effect of Accounting Change	$ 11.8	$ 10.0	$ 16.7	$ 29.5
Discontinued Operations - Net of Tax (2)	-	-	-	(2.7)
Net Income	$ 11.8	$ 10.0	$ 16.7	$ 26.8
Avg. Basic Shares Outstanding (millions)	35.5	35.2	35.4	35.2

Earnings Per UniSource Energy Share	2nd Quarter 2007	2nd Quarter 2006	Year-to-Date June 30, 2007	Year-to-Date June 30, 2006
Tucson Electric Power	$ 0.35	$ 0.32	$ 0.37	$ 0.79
UNS Gas	(0.03)	(0.04)	0.09	0.10
UNS Electric	0.04	0.04	0.06	0.06
Other (1)	(0.03)	(0.04)	(0.05)	(0.11)
Income Before Discontinued Operations and Cumulative Effect of Accounting Change	$ 0.33	$ 0.28	$ 0.47	$ 0.84
Discontinued Operations - Net of Tax (2)	-	-	-	(0.08)
Net Income per Basic Share	$ 0.33	$ 0.28	$ 0.47	$ 0.76
Net Income per Diluted Share	$ 0.32	$ 0.28	$ 0.46	$ 0.73

(1) Includes UniSource Energy on a stand-alone basis and results from Millennium Energy Holdings, Inc. (Millennium), a wholly-owned subsidiary of UniSource Energy.
(2) Relates to the discontinued operations and sale of Global Solar Energy, Inc. by Millennium on March 31, 2006.

UniSource Energy believes the presentation of TEP, UNS Gas, UNS Electric and Other segment net income or loss on a per basic UniSource Energy share basis, which are non-GAAP financial measures, provides useful information to investors by disclosing the results of operations of its business segments on a basis consistent with UniSource Energy's reported earnings.

Earnings Outlook

UniSource Energy modified its 2007 full-year earnings to be between $1.55 and $1.85 per diluted share.

Numerous factors can affect UniSource Energy's ability to reach the 2007 estimate, including but not limited to: rising fuel and transportation costs; market prices for power in the second half of 2007; unexpected increases in O&M performance of TEP's generating plants; resolution of pending litigation matters; regulatory decisions; the weather; the pace and strength of the regional economy and changes in accounting standards.

UniSource Energy's earnings are subject to the seasonal energy sales of its utilities. Generally, TEP records a significant portion of its earnings during the third quarter as a result of peak energy usage during the summer.

Conference Call and Webcast

UniSource Energy officials will discuss second quarter 2007 earnings and outlook for 2007 on Tuesday, August 7, 2007 beginning at 12 p.m. EDT in a conference call that will be available live on the Internet. James S. Pignatelli, UniSource Energy Chairman, President and CEO, will host the call.

Internet Access

A live audio-only webcast of the conference call is available through a link at uns.com. Listeners are encouraged to visit the Web site at least 30 minutes before the event to register, download and install any necessary audio software. A recording of the webcast will be available for 30 days through a link at uns.com.

Telephone Access

To listen to the live conference call, dial 877-582-0446 five to 10 minutes prior to the event and reference confirmation code 10745561. A telephone replay will be available for seven days starting August 7. To listen to the replay, dial 800-642-1687 and reference confirmation code 10745561.

UniSource Energy's primary subsidiaries include Tucson Electric Power, which serves more than 394,000 customers in southern Arizona; UniSource Energy Services, provider of natural gas and electric service for approximately 240,000 customers in northern and southern Arizona; and Millennium Energy Holdings, parent company of UniSource Energy's unregulated energy businesses. For more information about UniSource Energy and its subsidiaries, visit uns.com.

This news release contains forward-looking information that involves risks and uncertainties that include, but are not limited to: changes in accounting standards; the outcome of regulatory proceedings; the ongoing restructuring of the electric industry; regional economic and market conditions which could affect customer growth and the cost of fuel and power supplies; changes to long-term contracts; performance of TEP's generating plants; the weather; changes in asset depreciable lives; changes related to the recognition of unbilled revenue; the cost of debt and equity capital; and other factors listed in UniSource Energy's Form 10-K and 10-Q filings with the Securities and Exchange Commission. The preceding factors may cause future results to differ materially from outcomes currently expected by UniSource Energy.

UNISOURCE ENERGY 2007 RESULTS

UniSource Energy Corporation
Condensed Consolidated Statements of Income

(in thousands of dollars, except per share amounts)	Three Months Ended June 30,		Increase / (Decrease)	
(UNAUDITED)	2007	2006	Amount	Percent
Operating Revenues				
Electric Retail Sales	$ 249,462	$ 247,387	$ 2,075	0.8
Electric Wholesale Sales	44,525	31,867	12,658	39.7
Gas Revenue	22,850	25,720	(2,870)	(11.2)
Other Revenues	12,935	10,417	2,518	24.2
Total Operating Revenues	329,772	315,391	14,381	4.6
Operating Expenses				
Fuel	72,208	69,143	3,065	4.4
Purchased Energy	81,229	74,403	6,826	9.2
Other Operations and Maintenance	63,304	61,735	1,569	2.5
Depreciation and Amortization	34,515	32,680	1,835	5.6
Amortization of Transition Recovery Asset	19,219	17,279	1,940	11.2
Taxes Other Than Income Taxes	12,166	12,360	(194)	(1.6)
Total Operating Expenses	282,641	267,600	15,041	5.6
Operating Income	47,131	47,791	(660)	(1.4)
Other Income (Deductions)				
Interest Income	4,456	5,142	(686)	(13.3)
Other Income	4,328	1,987	2,341	N/M
Other Expense	(1,614)	(246)	(1,368)	N/M
Total Other Income (Deductions)	7,170	6,883	287	4.2
Interest Expense				
Long-Term Debt	18,276	19,208	(932)	(4.9)
Interest on Capital Leases	16,126	18,526	(2,400)	(13.0)
Other Interest Expense	1,651	1,267	384	30.3
Interest Capitalized	(1,634)	(1,436)	(198)	(13.8)
Total Interest Expense	34,419	37,565	(3,146)	(8.4)

Income Before Income Taxes	19,882	17,109	2,773	16.2
Income Tax Expense	8,076	7,111	965	13.6
Net Income	$ 11,806	$ 9,998	$ 1,808	18.1
Weighted-average Shares of Common Stock Outstanding (000)	35,472	35,245	227	0.6
Basic Earnings per Share	$ 0.33	$ 0.28	$ 0.05	17.9
Diluted Earnings per Share	$ 0.32	$ 0.28	$ 0.04	14.3
Dividends Declared per Share	$ 0.225	$ 0.21	$ 0.015	7.1

Tucson Electric Power	Three Months Ended June 30,		Increase / (Decrease)	
Electric MWh Sales:	2007	2006	Amount	Percent
Retail Sales	2,447,563	2,428,745	18,818	0.8
Wholesale Sales	825,324	647,589	177,735	27.4
Total	3,272,887	3,076,334	196,553	6.4

N/M - Not Meaningful
Reclassifications have been made to prior periods to conform to the current period's presentation.

UNISOURCE ENERGY 2007 RESULTS

UniSource Energy Corporation
Condensed Consolidated Statements of Income

(in thousands of dollars, except per share amounts)	Six Months Ended June 30,		Increase / (Decrease)	
(UNAUDITED)	2007	2006	Amount	Percent
Operating Revenues				
Electric Retail Sales	$ 445,212	$ 430,056	$ 15,156	3.5
Electric Wholesale Sales	93,290	88,554	4,736	5.3
Gas Revenue	84,960	88,535	(3,575)	(4.0)
Other Revenues	24,151	13,672	10,479	76.6
Total Operating Revenues	647,613	620,817	26,796	4.3
Operating Expenses				
Fuel	133,288	119,359	13,929	11.7
Purchased Energy	167,036	156,558	10,478	6.7
Other Operations and Maintenance	134,120	115,550	18,570	16.1
Depreciation and Amortization	68,981	63,437	5,544	8.7
Amortization of Transition				

Recovery Asset	34,205	29,121	5,084	17.5
Taxes Other Than Income Taxes	24,653	24,913	(260)	(1.0)
Total Operating Expenses	562,283	508,938	53,345	10.5
Operating Income	85,330	111,879	(26,549)	(23.7)
Other Income (Deductions)				
Interest Income	8,900	10,069	(1,169)	(11.6)
Other Income	5,643	3,622	2,021	55.8
Other Expense	(2,251)	(974)	(1,277)	N/M
Total Other Income (Deductions)	12,292	12,717	(425)	(3.3)
Interest Expense				
Long-Term Debt	36,265	37,892	(1,627)	(4.3)
Interest on Capital Leases	32,278	37,073	(4,795)	(12.9)
Other Interest Expense	3,412	2,573	839	32.6
Interest Capitalized	(3,029)	(3,348)	319	9.5
Total Interest Expense	68,926	74,190	(5,264)	(7.1)
Income From Continuing Operations Before Income Taxes	28,696	50,406	(21,710)	(43.1)
Income Tax Expense	11,947	20,917	(8,970)	(42.9)
Income From Continuing Operations	16,749	29,489	(12,740)	(43.2)
Discontinued Operations - Net of Tax	-	(2,669)	2,669	N/M
Net Income	$ 16,749	$ 26,820	$(10,071)	(37.6)
Weighted-average Shares of Common Stock Outstanding (000)	35,447	35,181	266	0.8
Basic Earnings (Loss) per Share				
Income from Continuing Operations	$ 0.47	$ 0.84	$ (0.37)	(44.0)
Discontinued Operations - Net of Tax	-	$ (0.08)	$ 0.08	N/M
Net Income	$ 0.47	$ 0.76	$ (0.29)	(38.2)
Diluted Earnings (Loss) per Share				
Income from Continuing Operations	$ 0.46	$ 0.80	$ (0.34)	(42.5)
Discontinued Operations - Net of Tax	-	$ (0.07)	$ 0.07	N/M
Net Income	$ 0.46	$ 0.73	$ (0.27)	(37.0)
Dividends Declared per Share	$ 0.45	$ 0.42	$ 0.03	7.1

Tucson Electric Power	Six Months Ended June 30,		Increase / (Decrease)	
Electric MWh Sales:	2007	2006	Amount	Percent
Retail Sales	4,459,834	4,302,561	157,273	3.7
Wholesale Sales	1,659,962	1,659,579	383	0.0
Total	6,119,796	5,962,140	157,656	2.6

N/M - Not Meaningful
Reclassifications have been made to prior periods to conform to the current period's presentation.

SOURCE: UniSource Energy Corp.

UniSource Energy Corp., Tucson
Art McDonald, 520-884-3628 (Media)
Jo Smith, 520-884-3650 (Financial Analyst)

Current Stock Price
UNS 29.62 + 1.11
Aug 13 4:07 PM ET
delayed 20 minutes

UNS ELECTRIC, INC.

DOCKET NO. E-04204A-06-0783

SURREBUTTAL TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

August 24, 2007

SURREBUTTAL TABLE OF CONTENTS

INTRODUCTION

Q. Please state your name for the record.

A. My name is Rodney Lane Moore.

Q. Have you previously filed testimony regarding this docket?

A. Yes, I have. I filed direct testimony in this docket on June 28, 2007 and additional direct testimony regarding rate design on July 12, 2007.

Q. What is the purpose of your surrebuttal testimony?

A. My surrebuttal testimony will address the Company's rebuttal comments pertaining to adjustments I sponsored in my direct testimony.

SUMMARY OF ADJUSTMENTS

Q. What areas will you address in your surrebuttal testimony?

A. My surrebuttal testimony will address the following RUCO proposed adjustments:

Rate Base:

Adjustment No. 2 – Test-Year Accumulated Depreciation.

Operating Income:

Adjustment No. 2 – Pension and Benefits;
Adjustment No. 3 – Worker's Compensation;
Adjustment No. 4 – Incentive Compensation;
Adjustment No. 5 – Rate Case Expense;
Adjustment No. 8 – Postage Expense;
Adjustment No. 13 – Test-Year Depreciation Expense;

Adjustment No. 15 – Property Tax;
Adjustment No. 16 – SERP;
Adjustment No. 17 – Unnecessary Expenses;
Adjustment No. 18 – Maintenance of Overhead Lines;
Adjustment No. 19 – Customer Service Cost Allocation;
Adjustment No. 20 – Non-Recurring/Atypical Expenses;
Adjustment No. 22 – CARES Revenue;
Adjustment No. 23 – Membership Dues Expense;
Adjustment No. 24 – Emergency Bill Assistance Expense;
Adjustment No. 25 – Payroll Expense;
Adjustment No. 26 – Payroll Tax Expense; and
Adjustment No. 27 – Income Tax Calculation.

To support the adjustments in my surrebuttal testimony, I have revised specific direct testimony Schedules and prepared Surrebuttal Schedules numbered SURR RLM-1 though SURR RLM-4, SURR RLM-7, SURR RLM-8, SURR RLM-10, SURR RLM-11, and SURR RLM-15 through SURR RLM-17, which are filed concurrently in my surrebuttal testimony.

These Schedules quantify the adjustments recommended in RUCO's surrebuttal testimonies and consist of revisions to:

1. Customer Assistance Residential Energy Support ("CARES") Revenues to accept the Company's adjustment;
2. Worker's Compensation to accept the Company's adjustment;
3. Fleet Fuel Expenses to accept the Company's adjustment;
4. Membership Dues Expenses to accept the Company's adjustment;
5. Emergency Bill Assistance Expense to accept the Company's adjustment;

6. Depreciation and Amortization Expense to accept the Company's adjustment;
7. Property Tax Expense to accept Company's assessment ratio;
8. Income Tax Expense to reflect changes in the operating expenses associated with the surrebuttal adjustments;
9. Rate Design, Proof of Recommended Revenue and Typical Bill Analysis to reflect changes in the operating expenses associated with the surrebuttal adjustments; and

RATE BASE

<u>RUCO Rate Base Adjustment No. 2 – Test-Year Accumulated Depreciation</u>

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to the test-year accumulated depreciation?

A. No. Despite the Company's extensive rhetoric in its rebuttal testimony about mid-year convention, salvage and removal costs, and group method depreciation the fact is the Company cannot substantiate the level of accumulated depreciation for December 31, 2003 as filed in this rate case.

However, the Company has provided a clear, concise spreadsheet in response to repetitive requests from RUCO to substantiate the level of gross plant and accumulated depreciation as of the acquisition date of August 11, 2003. Subsequently, the Company's workpapers also accurately state the level of gross plant as of December 31, 2003. Since the Company recorded no plant additions or retirements between August

11 and December 31, 2003, the calculation of the appropriate increase in accumulated depreciation over these 142 days associated with the Company's stated level of gross plant is a simple calculation of increasing the Company's stated level of accumulated depreciation as of August 11, 2003 by the sum of multiplying each plant account level by the Company's designated depreciation rate for each plant account and apportioning the total by 142/365 to recognize the partial year of accrual.

However, the Company strayed from this simple but recognized ratemaking procedure and understated the accumulated depreciation balance as of December 31, 2003 by $1,764,719.

RUCO's total calculation of accumulated depreciation through to the end of the test year adds an additional $503,393 to the Company's filed level of accumulated depreciation.

Moreover, the Company's rebuttal testimony discusses a 2005 correction to increase the accumulated depreciation balance by approximately $2 million in an attempt to provide the reconciliation for RUCO's adjustment. However, the Company's correction fails to address or even begin to substantiate the December 31, 2003 understatement. The Company's 2005 audited financial statement on page 8 shows this correction as only $0.5 million and since the correction was recorded in 2005 it is already embedded in UNS' test-year level of accumulated depreciation; therefore, the explanation also fails to explain RUCO's overall adjustment to increase test-year accumulated depreciation by $2.2 million.

In conclusion, the Company is unable to substantiate the December 31, 2003 accumulated depreciation balance, which is understated by $1,764,719. This shortfall becomes an integral component of the Company's test-year recorded level of accumulated depreciation and, despite all UNS' endeavors to explain it away, still represents the majority of RUCO's adjustment.

Therefore, as shown on SURR RLM-4, column (C) and supporting Schedule RLM-5, my proposed adjustment increases the test-year accumulated depreciation by $2,295,112 ($1,764,719 + $503,393 = $2,295,112).

OPERATING INCOME

<u>Operating Income Adjustment No. 2 – Pension and Benefits</u>

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to the pension and benefits expenses?

A. No, I removed these costs from operating expenses for the reasons outlined in my direct testimony. My adjustment reflects the information provided by the Company in its response to Staff data request 3.81. UNS quantifies the test-year expenses identified as gifts, awards, employee dinners, picnics and social events. RUCO removed these charges from operating expenses because it considers these benefits an inappropriate financial burden on ratepayers. Whereas, the Company insists on including them in the test-year operating expenses because as it states these are normal and recurring business expenses.

Therefore, as shown on Schedule SURR RLM-8, column (C), I reversed the Company's benefit expenses as listed on UNS response to Staff data request 3.81 and decreased test-year operating expenses by $11,612.

<u>Operating Income Adjustment No. 3 – Worker's Compensation</u>

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment on worker's compensation?

A. Yes, the Company has revised its adjustment. RUCO considers the Company's position to be reasonable and in the spirit of compromise RUCO will agree with the Company and accept its rebuttal adjustment.

Therefore, as shown on Schedule SURR RLM-8, column (D), I revised the worker's compensation expense to reflect the Company's adjustment and decreased test-year operating expenses by $79,978.

Operating Income Adjustment No. 4 – Incentive Compensation

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment on incentive compensation?

A. No, for the reasons outlined in my direct testimony, the Company has failed to justify why the ratepayers should be burdened with the additional costs of an incentive program that provides no direct ratepayer benefit.

RUCO's reasons for denying the pass through to the ratepayers of the costs associated with the 2005 Special Recognition Award are:

1. Despite the considerable effort the Company takes in rebuttal to explain the ultimate benefits of its Performance Enhancement Plan ("PEP"), in reality Unisource Energy did not meet its 2005 financial performance goal and therefore the PEP program was not initiated in the test year;
2. RUCO is very reluctant to abandon the Historical Test-Year principle that avoids mismatches in the ratemaking elements. Therefore, RUCO dismisses the Company's proposal to average the 2005 Special Recognition Award and the 2004 PEP program;
3. The Company promotes the PEP program as a valuable management tool to promote additional cost savings and motivate individual employees and encourage groups of employees to work together to impact specific goals. However, over 70 percent of the workforce does not participate in this program; and

4. The Company also touts the PEP program as an employee program that reduces costs, promotes safety, increases customer service and increases the financial soundness of the Company. However, even if these efforts had been successful enough in 2005 to trigger the PEP program, 70 percent of employees sufficiently motivated to impact the actualization of these corporate goals received no compensation from the PEP program or any other arbitrary special award.

If the Company is reasonably confident it can attain its financial performance goal, operational cost containment target and customer service objectives despite the fact that the incentive compensation program incents less than one-third of the workforce, the necessity to embed such expenditures in rates is highly suspect.

Therefore, as shown on Schedule SURR RLM-8, column (E), I reversed the incentive compensation expense to reflect the Company's adjustment. The Company's adjustment was derived from a two-year average calculation of the incentive compensation; thus I decreased test-year operating expenses by $106,567.

Operating Income Adjustment No. 5 – Rate Case Expense

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to rate case expenses?

A. No, for the reasons outlined in my direct testimony, the Company has budgeted $600,000 for rate case expenses. RUCO has a concern over the reasonableness of such a large financial burden to the ratepayers from this requested adjustment.

In comparison, RUCO recommended $251,000 as the appropriate level of rate case expense in UNS's recently filed Gas Division rate case; Docket No. G-04204A-06-0463.

Pending the Commission's approval or rejection of RUCO's recommended rate case expense for the UNS Gas Division, RUCO believes the instant case warrants the equivalent level of rate case expense because of the similarities in Company witnesses, testimonies and schedules.

This adjustment reduces annual rate case expense from the Company's proposed level of $200,000 ($600,000 / 3 years) to RUCO's recommended level of $83,667 ($251,000 / 3 years).

Therefore, as shown on Schedule SURR RLM-8, Column (F), this adjustment decreased test-year expenses by $116,333.

Operating Income Adjustment No. 8 – Postage Expense

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to postage expenses?

A. No. RUCO maintains its strict adherence to the historical test-year principle and disagrees with the Company's proposed proforma adjustment, which averages the postage expenses for the 2.5 years from January 2004 through June 2006. The Company bases its adjustment on the belief the cost per customer bill fluctuates fairly significantly from month to month. However, no documentation was presented to support this premise.

Therefore, as shown on Schedule SURR RLM-8, column (I) and supporting Schedule RLM-9, my adjustment decreases adjusted test-year expenses by $37,956.

Operating Income Adjustment No. 13 – Depreciation Expense

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to test-year depreciation expenses?

A. Yes, RUCO agrees with the Company to accept Staff's adjustment to reflect a portion of the transportation depreciation charged to capital accounts.

Therefore, as shown on Schedule SURR RLM-8, column (N) and supporting Schedule SURR RLM-10 (see line 37 for the removal of the capitalized expense), my adjustment decreases adjusted test-year expenses by $258,675.

Operating Income Adjustment No. 15 – Property Tax Computation

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to test-year property tax expenses?

A. Yes. RUCO will accept the Company's revised assessment ratio of 23.5 percent.

However, the level of RUCO's recommended test-year property tax expenses is directly related to RUCO's recommended value of test-year gross plant in service. RUCO's recommended value of test-year gross plant in service is directly affected by RUCO's adjustment to accumulated depreciation as was discussed previously in Rate Base Adjustment No. 2.

Therefore, as shown on Schedule SURR RLM-8, column (P) and supporting Schedule SURR RLM-11, my adjustment decreases adjusted test-year expenses by $356,711.

Operating Income Adjustment No. 16 – SERP

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to the SERP?

A. No, RUCO's position is unchanged – the ratepayers should not be responsible for paying the cost of supplemental benefits to a small select group of high-ranking officers of the Company.

However, RUCO did allow the full costs of the Officer's Long Term Incentive Program and Stock Based Compensation to be included in test-year expenses.

The ratepayers are already burdened with the cost of adequately compensating this small select group of high-ranking officers for their work and who are provided with a wide array of benefits including a medical plan, dental plan, vision coverage, employee life insurance, supplemental life insurance, dependent life insurance, accidental death and dismemberment, business travel accident insurance, personal accident insurance, short and long term disability, health and dependent care spending accounts, pension, 401(k), incentive pay, vacation pay, holiday pay and sick time. If the Company feels it is necessary to provide additional perks to a select group of employees it should do so at its own expense.

It seems disingenuous in the present climate of spiraling utility costs to request that the ratepayers be burdened with the cost of this elite retirement plan for an exclusive group of employees who are already receiving lucrative salaries and benefits.

Therefore, as shown on Schedule RLM-8, column (Q), this adjustment decreased test-year expenses by $83,506.

<u>Operating Income Adjustment No. 17 –Inappropriate and/or Unnecessary Expenses</u>

Q. Has the Company accepted your adjustment to miscellaneous expenses?

A. No. RUCO maintains certain categories of expenses should not be the financial burden of the ratepayers. For example:

1. Liquor, Coffee, Water, Bagels, Donuts, Submarine sandwiches, etc.
2. Flowers, Sympathy Cards, Gift Certificates, Photographs, etc.
3. Charitable/Community/Service Club Donations, etc.
4. Recognition Events, Sports Events, Club Memberships, etc.
5. Numerous purchases at Circle K, Walgreen, Wal-Mart, Basha's, Fry's, Safeway, etc.

Nevertheless, the Company continues to maintain these items should be appropriately charged to ratepayers.

A sampling of the 336 questionable expenses submitted by RUCO includes invoices for: 1) $746.96 for a barbeque grill; 2) $608.40 for flags; 3) $8,078.22 for refreshments; 4) $1,377.50 to various Chambers of Commerce, and 5) $1,126.25 for chartered bus tours.

The burden of proof is on the Company to substantiate the appropriateness of the journal entries identified. The Company has failed to meet its burden and show why these costs are necessary for service.

Therefore, as shown on Schedule SURR RLM-8, column (R) and supporting Schedule RLM-12, this adjustment decreased test-year expenses by $73,620.

Operating Income Adjustment No. 18 – Maintenance of Overhead Lines

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to the maintenance of overhead line expenses?

A. No. The Company's rebuttal testimony is confusing since the issue of their response to RUCO's data request 2.12 as being incomplete or knowingly inaccurate was not disclosed until now. Moreover, the 2003 maintenance of overhead line expense as filed on the 2003 FERC Form 1 reports a value of $334,755 (identical to the Company's data request response) with no footnote notation to indicate this is a partial-year expense. Without adequate documentation to overturn the data filed on the FERC Form 1, RUCO continues to rely on the evidence at hand to justify its original adjustment.

Therefore, as shown on Schedule SURR RLM-8, column (S) and supporting Schedule RLM-13, this adjustment decreased test-year expenses by $267,678.

<u>Operating Income Adjustment No. 19 – Customer Service Cost Allocations</u>

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to the corporate allocated costs for the customer service call centers?

A. No. The Company takes considerable effort in rebuttal to explain the perceived improvements in customer service attributable to the increase in the costs associated with consolidating the interaction with its customers. However in reality, there is evidence that the customer-base has not experienced quality enhancement with the Company's transition to a consolidated call center. Therefore, RUCO maintains that with no increase in the level of customer satisfaction related to Unisource Energy's decision to integrate similar job functions among its affiliates, the UNS ratepayers should not be burdened with increased expenditures until such time as statistical information proves the costs provide a beneficial impact to UNS ratepayers.

Therefore, as shown on Schedule SURR RLM-8, column (T) and supporting Schedule RLM-14, this adjustment decreased test-year expenses by $66,797.

Operating Income Adjustment No. 20 – Non-Recurring/Atypical Expenses

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its adjustment to non-recurring/atypical expenses?

A. No. This adjustment is based on background information I obtained during the discovery period in UNS's recently filed Gas Division rate case; Docket No. G-04204A-06-0463. Specifically, I had discussions with Company witness Mr. Gary Smith. During a particular conversation I expressly asked for clarification of the entries noted as "M.A.R.C. Training (Union Training)". Mr. Smith indicated this training was a one-time only instructional session to acquaint Company personnel with working in a unionized environment. Based on that conversation with Mr. Smith, I selectively excluded only expenses denoted "M.A.R.C. Training (Union Training)" from data provided. Therefore, I continue to recommend disallowance, as this is not a recurring or typical test-year expense and is not appropriate for inclusion as a rate case operating expense.

Therefore, as shown on Schedule SURR RLM-8, column (U) this adjustment decreased test-year expenses by $14,251.

Operating Income Adjustment No. 22 – CARES Revenues

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its position on CARES revenue?

A. Yes, to reduce outstanding issues in this proceeding and because of the nominal amounts involved, RUCO will agree with the Company and accept its rebuttal adjustment.

Therefore, as shown on Schedule SURR RLM-8, column (W), I revised the CARES revenue to reflect the Company's adjustment and decreased test-year operating revenues by $3,627.

Operating Income Adjustment No. 23 – Membership Dues Expense

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its position on membership dues expenses?

A. Yes, the Company has revised its adjustment. RUCO considers the Company's position to be reasonable and in the spirit of compromise RUCO will agree with the Company and accept its rebuttal adjustment.

Therefore, as shown on Schedule SURR RLM-8, column (X), I revised the membership dues expense to reflect the Company's adjustment and decreased test-year operating expenses by $13,759.

Operating Income Adjustment No. 24 – Emergency Bill Assistance Expense

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its position on emergency bill assistance expenses?

A. Yes, the Company has revised its adjustment. RUCO considers the Company's position to be reasonable and in the spirit of compromise RUCO will agree with the Company and accept its rebuttal adjustment.

Therefore, as shown on Schedule SURR RLM-8, column (Y), I revised the emergency bill assistance expense to reflect the Company's adjustment and increased test-year operating expenses by $20,000.

Operating Income Adjustment No. 25 – Payroll Expense

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its position payroll expenses?

A. No. The Company has now reached out past the end of the test year to include an additional 2007 pay raise as a historical test-year expense. The inclusion of a 2007 pay raise compounds the effects of the accepted test-year pay raise and distorts the ratemaking matching principle.

As shown on Schedule SURR RLM-8, column (Z), I accepted the level of payroll tax expense as filed by the Company and therefore there is no surrebuttal adjustment and the effect on the test-year operating expenses is zero.

Operating Income Adjustment No. 27 – Payroll Tax Expense

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its position on payroll tax expenses?

A. No, this is a companion adjustment to the previous adjustment to the payroll expense and since RUCO did not revise that adjustment, RUCO is not revising its adjustment to the payroll tax expense.

As shown on Schedule SURR RLM-8, column (AA), I accept the level of payroll tax expense as filed by the Company and therefore there is no surrebuttal adjustment and the effect on the test-year operating expenses is zero.

Operating Income Adjustment No. 27 – Income Tax Expense

Q. After analyzing the Company's rebuttal testimony, is RUCO revising its method of computing income tax expenses?

A. No. The Company has a conceptual disagreement with the manner by which RUCO computes income tax expenses.

RUCO's methodology for computing income tax expenses will be explained by RUCO witness Ms. Diaz Cortez in her surrebuttal testimony.

Q. Please explain RUCO's adjustment to the income tax expense.

A. This adjustment reflects income tax expenses calculated on RUCO's surrebuttal recommended revenues and expenses.

RATE DESIGN AND PROOF OF RECOMMENDED REVENUE

Q. Have you revised your additional direct testimony Schedule to present proof of your revised surrebuttal recommended revenue?

A. Yes, I have. Proof that RUCO's direct testimony recommended rate designs would produce the revised surrebuttal recommended required revenue as illustrated, is presented on Schedule SURR RLM-16.

TYPICAL BILL ANALYSIS

Q. Have you revised your additional direct testimony Schedule to present a typical bill analysis based on your surrebuttal recommended revenue?

A. Yes, I have. A revised typical bill analysis for metered residential customers with various levels of usage is presented on Schedule SURR RLM-17.

COST OF CAPITAL

Q. Is RUCO revising its adjustments to the Company proposed cost of capital?

A. No. RUCO is not revising the adjustment to the weighted cost of capital. This position is fully explained in the surrebuttal testimony of RUCO witness Mr. Rigsby.

Q. Does this conclude your surrebuttal testimony?

A. Yes, it does.

UNS Electric, Inc.
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Test Year Ended June 30, 2006

SURREBUTTAL
TABLE OF CONTENTS TO RUCO SCHEDULES

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST	(B) COMPANY RCND	(C) COMPANY FAIR VALUE	(D) RUCO ORIGINAL COST	(E) RUCO RCND	(F) RUCO FAIR VALUE
1	Adjusted Rate Base	$ 140,991,324	$ 214,613,357	$ 177,802,340	$ 128,742,285	$ 194,422,808	$ 161,582,547
2	Adjusted Operating Income (Loss)	$ 8,742,011	$ 8,742,011	$ 8,742,011	$ 10,440,368	$ 10,440,368	$ 10,440,368
3	Current Rate Of Return (Line 2 / Line 1)	6.20%	4.07%	4.92%	8.11%	5.37%	6.46%
4	Required Operating Income (Line 5 X Line 1)	$ 13,946,320	$ 13,946,320	$ 13,946,320	$ 11,166,869	$ 11,166,869	$ 11,166,869
5	Required Rate Of Return	9.89%	6.50%	7.84%	8.67%	5.74%	6.91%
6	Operating Income Deficiency (Line 4 - Line 2)	$ 5,204,309	$ 5,204,309	$ 5,204,309	$ 726,501		$ 726,501
7	Gross Revenue Conversion Factor (Schedule RLM-1, Page 3)	1.6346	1.6346	1.6346	1.6370		1.6370
8	Increase In Gross Revenue Requirement (Line 7 X Line 6)	$ 8,507,097	$ 8,507,097	$ 8,507,097	$ 1,189,270		$ 1,189,270
9	Adjusted Test Year Revenue			$ 158,486,890	$ 158,531,911		$ 158,531,911
10	Proposed Annual Revenue Requirement (Line 8 + Line 9)			$ 166,993,987	$ 159,721,181		$ 159,721,181
11	Required Percentage Increase In Revenue (Line 8 / Line 9)			5.37%	0.75%		0.75%
12	Rate Of Return On Common Equity			11.39%	9.30%		9.30%

References:
Columns (A) Thru (C): Company Schedule A-1, C-1 And D-1
Column (D): Schedules RLM-1, Page 2, RLM-2, RLM-7 And RLM-18
Column (E): Schedule RLM-2
Column (F): Average Of Column (D) + Column (E)

UNS Electric, Inc.
Docket No. E-04204A-06-0783
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SURREBUTTAL
FAIR VALUE RATE BASE - OCRB / RCND (50/50 SPLIT)

LINE NO.	DESCRIPTION	(A) COMPANY OCRB	(B) COMPANY RCND	(C) COMPANY FVRB	(D) OCRB/RCND % DIFF.	(E) RUCO OCRB	(F) RUCO RCND	(G) RUCO FVRB
1	Gross Utility Plant In Service	$ 390,513,651	$ 612,326,062	$ 501,419,857	156.80%	$ 379,752,198	$ 595,452,086	$ 487,602,142
2	Accumulated Depreciation	(159,524,693)	(257,585,628)	(208,555,161)	161.47%	(161,819,805)	(261,291,561)	(211,555,683)
3	Net Utility Plant In Service	$ 230,988,958	$ 354,740,434	$ 292,864,696		$ 217,932,393	$ 334,160,525	$ 276,046,459
4	Citizens Acquisition Discount	$ (93,273,341)	$ (150,061,415)	$ (121,667,378)	160.88%	$ (93,273,341)	$ (150,061,415)	$ (121,667,378)
5	Accumulated Amortization	11,224,066	18,123,969	14,674,018	161.47%	11,224,066	18,123,969	14,674,018
6	Net Citizens Acq. Disc.	$ (82,049,275)	$ (131,937,446)	$ (106,993,361)		$ (82,049,275)	$ (131,937,446)	$ (106,993,361)
7	Total Net Utility Plant	$ 148,939,683	$ 222,802,988	$ 185,871,336		$ 135,883,118	$ 202,223,079	$ 169,053,099
	Deductions:							
8	Cust. Advances For Const.	$ (8,692,444)	$ (9,559,141)	$ (9,125,793)	109.97%	$ (8,692,444)	$ (9,559,141)	$ (9,125,793)
9	Customer Deposits	(3,778,419)	(3,778,419)	(3,778,419)	100.00%	(3,778,419)	(3,778,419)	(3,778,419)
10	Acc. Deferred Income Taxes	1,154,833	1,780,258	1,467,546	154.16%	382,701	589,961	486,331
11	Total Deductions	$ (11,316,030)	$ (11,557,302)	$ (11,436,666)		$ (12,088,162)	$ (12,747,599)	$ (12,417,880)
12	Allowance - Working Capital	$ 3,367,671	$ 3,367,671	$ 3,367,671	100.00%	$ 4,947,328	$ 4,947,328	$ 4,947,328
13	Regulatory Assets	$ -	$ -	$ -		$ -	$ -	$ -
14	Regulatory Liability	$ -	$ -	$ -		$ -	$ -	$ -
15	TOTAL TEST YEAR RATE BASE	$ 140,991,324	$ 214,613,357	$ 177,802,341		$ 128,742,285	$ 194,422,808	$ 161,582,547

References:
Columns (A) (B) (C): Company Schedule B-1
Column (D): Column (B) / Column (A)
Column (E): Schedule RLM-3, Column (C)
Column (F): Column (D) X Column (E)
Column (G): Average Of Column (E) + Column (F)

UNS Electric, Inc.
Docket No. E-04204A-06-0783
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SURREBUTTAL
ORIGINAL COST RATE BASE STATEMENT

LINE NO.	DESCRIPTION	(A) COMPANY FILED AS OCRB	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED AS OCRB
1	Gross Utility Plant In Service	$ 390,513,651	$ (10,761,453)	$ 379,752,198
2	Accumulated Depreciation	(159,524,693)	(2,295,112)	(161,819,805)
3	Net Utility Plant In Service	$ 230,988,958	$ (13,056,565)	$ 217,932,393
4	Citizens Acquisition Discount	$ (93,273,341)	$ -	$ (93,273,341)
5	Accumulated Amortization	11,224,066	-	11,224,066
6	Net Citizens Acq. Disc.	$ (82,049,275)	$ -	$ (82,049,275)
7	Total Net Utility Plant	$ 148,939,683	$ (13,056,565)	$ 135,883,118
	Deductions:			
8	Cust. Advances For Const.	$ (8,692,444)	$ -	$ (8,692,444)
9	Customer Deposits	(3,778,419)	-	(3,778,419)
10	Acc. Deferred Income Taxes	1,154,833	(772,132)	382,701
11	Total Deductions	$ (11,316,030)	$ (772,132)	$ (12,088,162)
12	Allowance - Working Capital	$ 3,367,671	$ 1,579,657	$ 4,947,328
13	Regulatory Assets	$ -	$ -	$ -
14	Regulatory Liability	$ -	$ -	$ -
15	TOTAL OCRB	$ 140,991,324	$ (12,249,039)	$ 128,742,285

References:
Column (A): - Company Schedule B-2
Column (B): - RUCO Adjustments As Per RLM-4, Columns (B) Thru (G)
Column (C): - Sum Of Columns (A) And (B)

UNS Electric, Inc.
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Test Year Ended June 30, 2006

SURREBUTTAL
SUMMARY OF ORIGINAL COST RATE BASE

LINE NO.	DESCRIPTION	(A) COMPANY FILED AS OCRB	(B) INTENTIONALLY LEFT BLANK	(C) RUCO ADJUSTMENT NO. 2	(D) RUCO ADJUSTMENT NO. 3	(E) RUCO ADJUSTMENT NO. 4	(F) RUCO ADJUSTMENT NO. 5	(G) RUCO ADJUSTMENT NO. 6	(H) RUCO ADJUSTED AS OCRB
1	Gross Utility Plant In Service	$ 390,513,651	$ -	$ -	$ (10,761,453)	$ -	$ -	$ -	$ 379,752,198
2	Accumulated Depreciation	(159,524,693)	-	(2,295,112)	-	-	-	-	(161,819,805)
3	Net Utility Plant In Service	$ 230,988,958	$ -	$ (2,295,112)	$ (10,761,453)	$ -	$ -	$ -	$ 217,932,393
4	Citizens Acquisition Discount	$ (93,273,341)	$ -	$ -	$ -	$ -	$ -	$ -	$ (93,273,341)
5	Accumulated Amortization	11,224,066	-	-	-	-	-	-	11,224,066
6	Net Citizens Acq. Disc.	$ (82,049,275)	$ -	$ -	$ -	$ -	$ -	$ -	$ (82,049,275)
7	Total Net Utility Plant	$ 148,939,683	$ -	$ (2,295,112)	$ (10,761,453)	$ -	$ -	$ -	$ 135,883,118
	Deductions:								
8	Cust. Advances For Const.	$ (8,692,444)	$ -	$ -	$ -	$ -	$ -	$ -	$ (8,692,444)
9	Customer Deposits	(3,778,419)	-	-	-	-	-	-	(3,778,419)
10	Acc. Deferred Income Taxes	1,154,833	-	-	-	(888,390)	116,258	-	382,701
11	Total Deductions	$ (11,316,030)	$ -	$ -	$ -	$ (888,390)	$ 116,258	$ -	$ (12,088,162)
12	Allowance - Working Capital	$ 3,367,671	$ -	$ -	$ -	$ -	$ -	$ 1,579,657	$ 4,947,328
13	Regulatory Assets	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
14	Regulatory Liability	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
15	TOTAL OCRB	$ 140,991,324	$ -	$ (2,295,112)	$ (10,761,453)	$ (888,390)	$ 116,258	$ 1,579,657	$ 128,742,285

References:
Column (A): - Company Schedule B-2
Column (B): - Intentionally Left Blank
Column (C): - Adjustment No. 2 RUCO Adjustment To Test-Year Accumulated Depreciation (See RLM-5, Page 6, Line 46)
Column (D): - Adjustment No. 3 RUCO Adjustment To Remove CWIP From Test-Year Rate Base (See Testimony, MDC)
Column (E): - Adjustment No. 4 RUCO Adjustment To Remove ADIT Related To CIAC From Test-Year Rate Base (See Testimony, MDC)
Column (F): - Adjustment No. 5 RUCO Adjustment To Adjusted ADIT Related To A & G Capitalization From Test-Year Rate Base (See Testimony, MDC)
Column (G): - Adjustment No. 6 Allowance For Working Capital (See MDC-2)
Column (H): - Sum Of Columns (A) Through (G)

UNS Electric, Inc.
Docket No. E-04204A-06-0783
Test Year Ended June 30, 2006

SURREBUTTAL
OPERATING INCOME STATEMENT

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJTMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO AS RECOMMENDED
	Operating Revenues:					
1	Electric Retail Revenues	$ 156,651,860	$ (3,627)	$ 156,648,233	$ 1,189,270	$ 157,837,503
2	Sales for Resale	246,016	-	246,016	-	246,016
3	Other Operating Revenue	1,589,014	48,648	1,637,662	-	1,637,662
4	TOTAL OPERATING REVENUES	$ 158,486,890	$ 45,021	$ 158,531,911	$ 1,189,270	$ 159,721,181
	Operating Expenses:					
5	Purchased Power	$ 106,224,185	$ (121)	$ 106,224,064	$ -	$ 106,224,064
6	Total O & M Expense	26,423,248	(1,718,198)	24,705,050	-	24,705,050
7	Depreciation and Amortization	11,812,574	(710,647)	11,101,927	-	11,101,927
8	Taxes Other than Income Taxes	3,447,533	(607,123)	2,840,410	-	2,840,410
9	Income Taxes	1,837,339	1,382,753	3,220,092	462,769	3,682,861
10	TOTAL OPERATING EXPENSES	$ 149,744,879	$ (1,653,336)	$ 148,091,543	$ 462,769	$ 148,554,312
11	OPERATING INCOME (LOSS)	$ 8,742,011	$ 1,698,357	$ 10,440,368	$ 726,501	$ 11,166,869
				$ 13,660,461		

References:

Column (A): Company Schedule C-1
Column (B): Testimony, RLM And Schedule RLM-8, Pages 1 Thru 6
Column (C): Column (A) + Column (B)
Column (D): Testimony, RLM And Schedule RLM-1
Column (E): Column (C) + Column (D)

UNS Electric, Inc.
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SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENT
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	FERC ACC'T	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ. NO. 1 SERVICE FEES & LATE FEES TESTIMONY-MDC	(C) ADJ. NO. 2 PENSION & BENEFITS TESTIMONY-RLM	(D) ADJ. NO. 3 WORKER'S COMP. TESTIMONY-RLM	(E) ADJ. NO. 4 INCENTIVE COMP. TESTIMONY-RLM	(F) ADJ. NO. 5 RATE CASE EXPENSE TESTIMONY-RLM	(G) ADJ. NO. 6 BAD DEBT EXPENSE TESTIMONY-MDC	(H) ADJ. NO. 7 FLEET FUEL EXPENSE TESTIMONY-MDC	(I) ADJ. NO. 8 POSTAGE EXPENSE SCH. RLM-9	(J) ADJ. NO. 9 YEAR-END ACCURALS TESTIMONY-MDC
		Operating Revenue										
1	440, 442, 444	**Electric Retail Revenue**	$ 156,651,860	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	447	**Sales for Resale**	$ 246,016	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		Other Operating Revenue										
3	451	Miscellaneous Service Revenues	$ 1,099,279	$ 48,648	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
4	454	Rent from Electric Property	339,735	-	-	-	-	-	-	-	-	-
5	456	Other Electric Revenues	150,000	-	-	-	-	-	-	-	-	-
6		**Total Other Operating Revenue**	$ 1,589,014	$ 48,648	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
7		**Total Operating Revenue**	$ 158,486,890	$ 48,648	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		Operating Expenses										
		Purchased Power										
8	555	Demand	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
9	555	Energy	106,021,950	-	-	-	-	-	-	-	-	-
10	556	System Control and Load Dispatching	-	-	-	-	-	-	-	-	-	-
11	557	Other Expenses	202,235	-	-	-	-	-	-	(121)	-	-
12		**Total Purchased Power**	$ 106,224,185	$ -	$ -	$ -	$ -	$ -	$ -	$ (121)	$ -	$ -
		Other Power Production										
13	546	Operation Supervision & Engineering	$ 2,264	$ -	$ -	$ -	$ -	$ -	$ -	$ (363)	$ -	$ -
14	547	Fuel	266,198	-	-	-	-	-	-	-	-	-
15	548	Generation Expenses	26,267	-	-	-	-	-	-	(57)	-	-
16	549	Miscellaneous Other Power Generation	52,461	-	-	-	-	-	-	(9)	-	-
17	551	Maintenance Supervision & Engineering	54,625	-	-	-	-	-	-	(446)	-	-
18	553	Maintenance of Generating and Electric Plant	256,461	-	-	-	-	-	-	(636)	-	-
19	554	Maintenance of Misc. Other Power Generation Plt	80,460	-	-	-	-	-	-	(443)	-	-
		Transmission Expense										
20	560	Operation Supervision & Engineering	-	-	-	-	-	-	-	-	-	-
21	561	Load Dispatching	68,776	-	-	-	-	-	-	-	-	-
22	561.2	Load Dispatch - Monitor & Operation Transmission System	9,394	-	-	-	-	-	-	-	-	-
23	562	Station Expenses	75,228	-	-	-	-	-	-	(154)	-	-
24	563	Overhead Line Expenses	3,324	-	-	-	-	-	-	(23)	-	-
25	565	Transmission of Electricity by Others	7,009,878	-	-	-	-	-	-	-	-	-
26	566	Miscellaneous Transmission Expenses	19,495	-	-	-	-	-	-	(99)	-	-
27	567	Rents	11,857	-	-	-	-	-	-	-	-	-
28	568	Maintenance Supervision & Engineering	24	-	-	-	-	-	-	-	-	-
29	569	Maintenance of Structures	-	-	-	-	-	-	-	-	-	-
30	570	Maintenance of Station Equipment	20,513	-	-	-	-	-	-	(363)	-	-
31	571	Maintenance of Overhead Lines	7,364	-	-	-	-	-	-	(19)	-	-
32	573	Maintenance of Miscellaneous Transmission Plant	-	-	-	-	-	-	-	-	-	-
		Distribution Expense										
33	580	Operation Supervision & Engineering	364,166	-	-	-	-	-	-	(399)	-	-
34	581	Load Dispatching	437,055	-	-	-	(799)	-	-	(2,570)	-	-
35	582	Station Expenses	72,715	-	-	-	-	-	-	(196)	-	-
36	583	Overhead Line Expenses	811,053	-	-	-	-	-	-	(1,574)	-	-
37	584	Underground Line Expenses	511,510	-	-	-	-	-	-	(3,069)	-	-
38	585	Street Lighting & Signal System Expenses	1,628	-	-	-	-	-	-	(8)	-	-
39	586	Meter Expenses	743,347	-	-	-	-	-	-	(4,662)	-	-
40	587	Customer Installations Expense	15,998	-	-	-	-	-	-	(61)	-	-
41	588	Miscellaneous Distribution Expenses	351,137	-	(108)	-	(9,376)	-	-	(2,056)	-	-
42	589	Rents	99,440	-	-	-	-	-	-	-	-	-
43	590	Maintenance Supervision & Engineering	54,430	-	-	-	-	-	-	(447)	-	-
44	591	Maintenance of Structures	-	-	-	-	-	-	-	-	-	-
45	592	Maintenance of Station Equipment	472,734	-	-	-	-	-	-	(2,554)	-	-
46	593	Maintenance of Overhead Lines	1,006,308	-	-	-	(9,879)	-	-	(4,448)	-	-
47	594	Maintenance of Underground Lines	142,605	-	-	-	-	-	-	(664)	-	-
48	595	Maintenance of Line Transformers	103,968	-	-	-	-	-	-	(387)	-	-
49	596	Maintenance of Street Lighting & Signal Systems	56,424	-	-	-	-	-	-	(384)	-	-
50	597	Maintenance of Meters	123	-	-	-	-	-	-	-	-	-
51	598	Maintenance of Miscellaneous Distribution Plant	7,233	-	-	-	-	-	-	(8)	-	-
		Customer Account Expense										
52	901	Supervision	172,327	-	(26)	-	(14,699)	-	-	(1,160)	-	-
53	902	Meter Reading Expenses	730,556	-	-	-	-	-	-	(616)	-	-
54	903	Customer Records & Collection Expenses	3,834,499	-	(209)	-	(1,600)	-	-	(6,313)	(37,956)	-
55	904	Uncollectible Accounts	579,538	-	-	-	-	-	(203,038)	-	-	-
56	905	Miscellaneous Customer Accounts Expenses	29,171	-	-	-	-	-	-	(94)	-	-
57	907	Supervision	-	-	-	-	-	-	-	-	-	-
58	908	Customer Assistance Expenses	34,001	-	-	-	-	-	-	(367)	-	-
59	909	Informational and Instructional Advertising Expenses	62,059	-	-	-	(5,850)	-	-	(350)	-	-

UNS Electric, Inc.
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SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENT
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	FERC ACC'T	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ. NO. 1 SERVICE FEES & LATE FEES TESTIMONY-MDC	(C) ADJ. NO. 2 PENSION & BENEFITS TESTIMONY-RLM	(D) ADJ. NO. 3 WORKER'S COMP. TESTIMONY-RLM	(E) ADJ. NO. 4 INCENTIVE COMP. TESTIMONY-RLM	(F) ADJ. NO. 5 RATE CASE EXPENSE TESTIMONY-RLM	(G) ADJ. NO. 6 BAD DEBT EXPENSE TESTIMONY-MDC	(H) ADJ. NO. 7 FLEET FUEL EXPENSE TESTIMONY-MDC	(I) ADJ. NO. 8 POSTAGE EXPENSE SCH. RLM-9	(J) ADJ. NO. 9 YEAR-END ACCURALS TESTIMONY-MDC
60	910	Miscellaneous Customer Service & Informational Expenses	9,778	-	-	-	-	-	-	(9)	-	-
		Administrative and General Expense										
61	920	Administrative & General Salaries	770,768	-	-	-	(56,045)	-	-	-	-	-
62	921	Office Supplies & Expenses	535,854	-	(10,129)	-	-	-	-	(5,291)	-	-
63	922	Administrative Expenses Transferred - Credit	(158,087)	-	-	-	-	-	-	-	-	-
64	923	Outside Services Employed	3,317,593	-	-	-	-	-	-	-	-	-
65	924	Property Insurance	65,598	-	-	-	-	-	-	-	-	-
66	925	Injuries and Damages	512,417	-	-	(79,978)	-	-	-	(8)	-	-
67	926	Employee Pension & Benefits	1,172,133	-	-	-	-	-	-	-	-	(6,256)
68	928	Regulatory Commission Expenses	200,000	-	-	-	-	(116,333)	-	-	-	-
69	929	Duplicate Charges - Credit	-	-	-	-	-	-	-	-	-	-
70	930.1	General Advertising Expenses	82,478	-	(1,139)	-	-	-	-	-	-	-
71	930.2	Miscellaneous General Expenses	1,148,557	-	-	-	-	-	-	(1,654)	-	-
72	931	Rents	74,558	-	-	-	-	-	-	-	-	-
73	935	Maintenance of General Plant	35,987	-	-	-	-	-	-	-	-	-
74		**Total Operation and Maintenance Expense**	$ 26,423,249	$ -	$ (11,612)	$ (79,978)	$ (98,247)	$ (116,333)	$ (203,038)	$ (42,404)	$ (37,958)	$ (6,256)
		Depreciation & Amortization - All										
75	403/404/406	Intangible Plant	$ 998,011	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
76	403/404/406	Other Production Plant	182,444	-	-	-	-	-	-	-	-	-
77	403/404/406	Transmission Plant	1,203,457	-	-	-	-	-	-	-	-	-
78	403/404/406	Distribution Plant	9,059,006	-	-	-	-	-	-	-	-	-
79	403/404/406	General Plant	369,656	-	-	-	-	-	-	-	-	-
80		**Total Depreciation & Amortization - All**	$ 11,812,574	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		Taxes Other Than Income Taxes										
81	408	Property Tax - Other Production	$ 192,787	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
82	408	Property Tax - Transmission	327,975	-	-	-	-	-	-	-	-	-
83	408	Property Tax - Distribution	2,284,584	-	-	-	-	-	-	-	-	-
84	408	Property Tax - General	291,025	-	-	-	-	-	-	-	-	-
85	408	Payroll Taxes - FUTA, SUTA, FICA & Medicare	348,088	-	-	-	(8,320)	-	-	-	-	-
86	408	Medical and Dental	2,773	-	-	-	-	-	-	-	-	-
87	408	Other	301	-	-	-	-	-	-	-	-	-
88		**Total Taxes Other Than Income Taxes**	$ 3,447,533	$ -	$ -	$ -	$ (8,320)	$ -	$ -	$ -	$ -	$ -
		Income Taxes										
89	409	Current Income Tax - State & Federal	$ 1,342,818	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
90	410	Deferred IT - Federal & State (debit)	10,602,572	-	-	-	-	-	-	-	-	-
91	411	Deferred IT - Federal & State (credit)	(10,108,051)	-	-	-	-	-	-	-	-	-
92		**Total Income Taxes**	$ 1,837,339	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
93		**Total Operating Expense**	$ 149,744,879	$ -	$ (11,612)	$ (79,978)	$ (106,567)	$ (116,333)	$ (203,038)	$ (42,525)	$ (37,956)	$ (6,256)
94		**OPERATING INCOME**	$ 8,742,011									

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Schedule SURR RLM-8
Pages 3 & 4 of 6

SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENT
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	FERC ACCT	DESCRIPTION	(K) ADJ. NO. 10 A & G EXPENSE CAPITALIZED TESTIMONY-MDC	(L) ADJ. NO. 11 DEP/PROP TX FOR CWIP TESTIMONY-MDC	(M) ADJ. NO. 12 CORP. COSTS ALLOCATIONS TESTIMONY-MDC	(N) ADJ. NO. 13 DEP/AMORT ANNUALIZ'N SURR RLM-10	(O) ADJ. NO. 14 VALENCIA TURBINE FUEL TESTIMONY-MDC	(P) ADJ. NO. 15 PROPERTY TAX SURR RLM-11	(Q) ADJ. NO. 16 SERP TESTIMONY-RLM	(R) ADJ. NO. 17 INAPPROPRIATE EXPENSES SCH. RLM-12	(S) ADJ. NO. 18 O/H LINES MAINTENANCE SCH. RLM-13	(T) ADJ. NO. 19 CUST. SERVICE COST ALLOC. SCH. RLM-14
		Operating Revenue										
1	440, 442, 444	**Electric Retail Revenue**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
2	447	**Sales for Resale**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		Other Operating Revenue										
3	451	Miscellaneous Service Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
4	454	Rent from Electric Property	-	-	-	-	-	-	-	-	-	-
5	456	Other Electric Revenues	-	-	-	-	-	-	-	-	-	-
6		**Total Other Operating Revenue**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
7		**Total Operating Revenue**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		Operating Expenses										
		Purchased Power										
8	555	Demand	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
9	555	Energy	-	-	-	-	-	-	-	-	-	-
10	556	System Control and Load Dispatching	-	-	-	-	-	-	-	-	-	-
11	557	Other Expenses	-	-	-	-	-	-	-	-	-	-
12		**Total Purchased Power**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
		Other Power Production										
13	546	Operation Supervision & Engineering	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
14	547	Fuel	-	-	-	-	(266,198)	-	-	-	-	-
15	548	Generation Expenses	-	-	-	-	-	-	-	-	-	-
16	549	Miscellaneous Other Power Generation	-	-	-	-	-	-	-	-	-	-
17	551	Maintenance Supervision & Engineering	-	-	-	-	-	-	-	-	-	-
18	553	Maintenance of Generating and Electric Plant	-	-	-	-	-	-	-	-	-	-
19	554	Maintenance of Misc. Other Power Generation Plt	-	-	-	-	-	-	-	-	-	-
		Transmission Expense										
20	560	Operation Supervision & Engineering	-	-	-	-	-	-	-	-	-	-
21	561	Load Dispatching	-	-	-	-	-	-	-	-	-	-
22	561.2	Load Dispatch - Monitor & Operation Transmission System	-	-	-	-	-	-	-	-	-	-
23	562	Station Expenses	-	-	-	-	-	-	-	-	-	-
24	563	Overhead Line Expenses	-	-	-	-	-	-	-	-	-	-
25	565	Transmission of Electricity by Others	-	-	-	-	-	-	-	-	-	-
26	566	Miscellaneous Transmission Expenses	-	-	-	-	-	-	-	-	-	-
27	567	Rents	-	-	-	-	-	-	-	-	-	-
28	568	Maintenance Supervision & Engineering	-	-	-	-	-	-	-	-	-	-
29	569	Maintenance of Structures	-	-	-	-	-	-	-	-	-	-
30	570	Maintenance of Station Equipment	-	-	-	-	-	-	-	-	-	-
31	571	Maintenance of Overhead Lines	-	-	-	-	-	-	-	-	-	-
32	573	Maintenance of Miscellaneous Transmission Plant	-	-	-	-	-	-	-	-	-	-
		Distribution Expense										
33	580	Operation Supervision & Engineering	-	-	-	-	-	-	-	-	-	-
34	581	Load Dispatching	-	-	-	-	-	-	-	-	-	-
35	582	Station Expenses	-	-	-	-	-	-	-	-	-	-
36	583	Overhead Line Expenses	-	-	-	-	-	-	-	-	-	-
37	584	Underground Line Expenses	-	-	-	-	-	-	-	-	-	-
38	585	Street Lighting & Signal System Expenses	-	-	-	-	-	-	-	-	-	-
39	586	Meter Expenses	-	-	-	-	-	-	-	-	-	-
40	587	Customer Installations Expense	-	-	-	-	-	-	-	-	-	-
41	588	Miscellaneous Distribution Expenses	-	-	-	-	-	-	-	-	-	-
42	589	Rents	(54)	-	-	-	-	-	-	-	-	-
43	590	Maintenance Supervision & Engineering	-	-	-	-	-	-	-	-	-	-
44	591	Maintenance of Structures	-	-	-	-	-	-	-	-	-	-
45	592	Maintenance of Station Equipment	-	-	-	-	-	-	-	-	-	-
46	593	Maintenance of Overhead Lines	-	-	-	-	-	-	-	-	(267,676)	-
47	594	Maintenance of Underground Lines	-	-	-	-	-	-	-	-	-	-
48	595	Maintenance of Line Transformers	-	-	-	-	-	-	-	-	-	-
49	596	Maintenance of Street Lighting & Signal Systems	-	-	-	-	-	-	-	-	-	-
50	597	Maintenance of Meters	-	-	-	-	-	-	-	-	-	-
51	598	Maintenance of Miscellaneous Distribution Plant	-	-	-	-	-	-	-	-	-	-
		Customer Account Expense										
52	901	Supervision	-	-	-	-	-	-	-	-	-	-
53	902	Meter Reading Expenses	-	-	-	-	-	-	-	-	-	-
54	903	Customer Records & Collection Expenses	-	-	-	-	-	-	-	-	-	(45,230)
55	904	Uncollectible Accounts	-	-	-	-	-	-	-	-	-	-
56	905	Miscellaneous Customer Accounts Expenses	-	-	-	-	-	-	-	-	-	-
57	907	Supervision	-	-	-	-	-	-	-	-	-	-
58	908	Customer Assistance Expenses	-	-	-	-	-	-	-	-	-	-
59	909	Informational and Instructional Advertising Expenses	-	-	-	-	-	-	-	-	-	-

UNS Electric, Inc.
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Test Year Ended June 30, 2006

SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENT
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	FERC ACC'T	DESCRIPTION	(K) ADJ. NO. 10 A & G EXPENSE CAPITALIZED TESTIMONY-MDC	(L) ADJ. NO. 11 DEP/PROP TX FOR CWIP TESTIMONY-MDC	(M) ADJ. NO. 12 CORP. COSTS ALLOCATIONS TESTIMONY-MDC	(N) ADJ. NO. 13 DEP/AMORT ANNUALIZ'N SURR RLM-10	(O) ADJ. NO. 14 VALENCIA TURBINE FUEL TESTIMONY-MDC	(P) ADJ. NO. 15 PROPERTY TAX SURR RLM-11	(Q) ADJ. NO. 16 SERP TESTIMONY-RLM	(R) ADJ. NO. 17 INAPPROPRIATE EXPENSES SCH. RLM-12	(S) ADJ. NO. 18 O/H LINES MAINTENANCE SCH. RLM-13	(T) ADJ. NO. 19 CUST. SERVICE COST ALLOC. SCH. RLM-14
60	910	Miscellaneous Customer Service & Informational Expenses	-	-	-	-	-	-	-	-	-	-
		Administrative and General Expense										
61	920	Administrative & General Salaries	-	-	-	-	-	-	-	-	-	(2,345)
62	921	Office Supplies & Expenses	(128)	-	-	-	-	-	-	(21,320)	-	(1,029)
63	922	Administrative Expenses Transferred - Credit	-	-	-	-	-	-	-	-	-	(12)
64	923	Outside Services Employed	(301,005)	-	-	-	-	-	-	(20,311)	-	(236)
65	924	Property Insurance	-	-	-	-	-	-	-	-	-	(123)
66	925	Injuries and Damages	-	-	-	-	-	-	-	-	-	(27)
67	926	Employee Pension & Benefits	-	-	-	-	-	-	(83,506)	-	-	(13,242)
68	928	Regulatory Commission Expenses	-	-	-	-	-	-	-	-	-	
69	929	Duplicate Charges - Credit	-	-	-	-	-	-	-	-	-	-
70	930.1	General Advertising Expenses	-	-	-	-	-	-	-	(3,539)	-	-
71	930.2	Miscellaneous General Expenses	-	-	(10,010)	-	-	-	-	(28,451)	-	-
72	931	Rents	-	-	-	-	-	-	-	-	-	-
73	935	Maintenance of General Plant	-	-	-	-	-	-	-	-	-	-
74		**Total Operation and Maintenance Expense**	$ (301,187)	$ -	$ (10,010)	$ -	$ (266,198)	$ -	$ (83,506)	$ (73,620)	$ (267,678)	$ (62,245)
		Depreciation & Amortization - All										
75	403/404/406	Intangible Plant	$ -	$ (11,823)	$ -	$ (7,822)	$ -	$ -	$ -	$ -	$ -	$ -
76	403/404/406	Other Production Plant	-	(8,839)	-	(9,640)	-	-	-	-	-	-
77	403/404/406	Transmission Plant	-	(48,805)	-	5,995	-	-	-	-	-	-
78	403/404/406	Distribution Plant	-	(363,618)	-	40,227	-	-	-	-	-	-
79	403/404/406	General Plant	-	(16,731)	-	(287,436)	-	-	-	-	-	(2,156)
80		**Total Depreciation & Amortization - All**	$ -	$ (449,816)	$ -	$ (258,675)	$ -	$ -	$ -	$ -	$ -	$ (2,156)
		Taxes Other Than Income Taxes										
81	408	Property Tax - Other Production	$ -	$ (8,134)	$ -	$ -	$ -	$ (22,968)	$ -	$ -	$ -	$ -
82	408	Property Tax - Transmission	-	(31,707)	-	-	-	(38,045)	-	-	-	-
83	408	Property Tax - Distribution	-	(181,846)	-	-	-	(261,992)	-	-	-	-
84	408	Property Tax - General	-	(18,009)	-	-	-	(33,707)	-	-	-	-
85	408	Payroll Taxes - FUTA, SUTA, FICA & Medicare	-	-	-	-	-	-	-	-	-	-
86	408	Medical and Dental	-	-	-	-	-	-	-	-	-	-
87	408	Other	-	-	-	-	-	-	-	-	-	(2,397)
88		**Total Taxes Other Than Income Taxes**	$ -	$ (239,696)	$ -	$ -	$ -	$ (356,711)	$ -	$ -	$ -	$ (2,397)
		Income Taxes										
89	409	Current Income Tax - State & Federal	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
90	410	Deferred IT - Federal & State (debit)	-	-	-	-	-	-	-	-	-	-
91	411	Deferred IT - Federal & State (credit)	-	-	-	-	-	-	-	-	-	-
92		**Total Income Taxes**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
93		**Total Operating Expense**	$ (301,187)	$ (689,512)	$ (10,010)	$ (258,675)	$ (266,198)	$ (356,711)	$ (83,506)	$ (73,620)	$ (267,678)	$ (66,797)
94		**OPERATING INCOME**										

UNS Electric, Inc.
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SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENT
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	FERC ACCT	DESCRIPTION	(U) ADJ. NO. 20 ATYPICAL EXPENSES TESTIMONY-RLM	(V) ADJ. NO. 21 OUTSIDE SERVICES - DSM TESTIMONY-MDC	(W) ADJ. NO. 22 CARES REVENUE TESTIMONY-RLM	(X) ADJ. NO. 23 MEMEBERSHIP DUES TESTIMONY-RLM	(Y) ADJ. NO. 24 EMERGENCY BILL ASISTANCE TESTIMONY-RLM	(Z) ADJ. NO. 24 PAYROLL EXPENSE TESTIMONY-RLM	(AA) ADJ. NO. 24 PAYROLL TAX EXPENSE TESTIMONY-RLM	(AB) INTENTIONALLY LEFT BLANK	(AC) ADJ. NO. 27 INCOME TAX SURR RLM-15	(AD) RUCO AS ADJUSTED
		Operating Revenue										
1	440, 442, 444	**Electric Retail Revenue**	$ -	$ -	$ (3,627)	$ -	$ -	$ -	$ -	$ -	$ -	$ 156,648,233
2	447	**Sales for Resale**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 246,016
		Other Operating Revenue										
3	451	Miscellaneous Service Revenues	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,147,927
4	454	Rent from Electric Property	-	-	-	-	-	-	-	-	-	339,736
5	456	Other Electric Revenues	-	-	-	-	-	-	-	-	-	150,000
6		**Total Other Operating Revenue**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,637,662
7		**Total Operating Revenue**	$ -	$ -	$ (3,627)	$ -	$ -	$ -	$ -	$ -	$ -	$ 158,531,911
		Operating Expenses										
		Purchased Power										
8	555	Demand	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
9	555	Energy	-	-	-	-	-	-	-	-	-	106,021,950
10	556	System Control and Load Dispatching	-	-	-	-	-	-	-	-	-	-
11	557	Other Expenses	-	-	-	-	-	-	-	-	-	202,114
12		**Total Purchased Power**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 106,224,064
		Other Power Production										
13	546	Operation Supervision & Engineering	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,901
14	547	Fuel	-	-	-	-	-	-	-	-	-	-
15	548	Generation Expenses	-	-	-	-	-	-	-	-	-	26,229
16	549	Miscellaneous Other Power Generation	-	-	-	-	-	-	-	-	-	52,472
17	551	Maintenance Supervision & Engineering	-	-	-	-	-	-	-	-	-	54,177
18	553	Maintenance of Generating and Electric Plant	-	-	-	-	-	-	-	-	-	254,626
19	554	Maintenance of Misc. Other Power Generation Pll	-	-	-	-	-	-	-	-	-	80,017
		Transmission Expense										-
20	560	Operation Supervision & Engineering	-	-	-	-	-	-	-	-	-	-
21	561	Load Dispatching	-	-	-	-	-	-	-	-	-	66,776
22	561.2	Load Dispatch - Monitor & Operation Transmission System	-	-	-	-	-	-	-	-	-	9,394
23	562	Station Expenses	-	-	-	-	-	-	-	-	-	75,074
24	563	Overhead Line Expenses	-	-	-	-	-	-	-	-	-	3,301
25	565	Transmission of Electricity by Others	-	-	-	-	-	-	-	-	-	7,009,878
26	566	Miscellaneous Transmission Expenses	-	-	-	-	-	-	-	-	-	19,396
27	567	Rents	-	-	-	-	-	-	-	-	-	11,857
28	568	Maintenance Supervision & Engineering	-	-	-	-	-	-	-	-	-	24
29	569	Maintenance of Structures	-	-	-	-	-	-	-	-	-	-
30	570	Maintenance of Station Equipment	-	-	-	-	-	-	-	-	-	20,150
31	571	Maintenance of Overhead Lines	-	-	-	-	-	-	-	-	-	7,335
32	573	Maintenance of Miscellaneous Transmission Plant	-	-	-	-	-	-	-	-	-	-
		Distribution Expense										
33	580	Operation Supervision & Engineering	-	-	-	-	-	-	-	-	-	363,787
34	581	Load Dispatching	-	-	-	-	-	-	-	-	-	433,686
35	582	Station Expenses	-	-	-	-	-	-	-	-	-	72,520
36	583	Overhead Line Expenses	-	-	-	-	-	-	-	-	-	809,479
37	584	Underground Line Expenses	-	-	-	-	-	-	-	-	-	506,421
38	585	Street Lighting & Signal System Expenses	-	-	-	-	-	-	-	-	-	1,620
39	586	Meter Expenses	-	-	-	-	-	-	-	-	-	738,685
40	587	Customer Installations Expense	-	-	-	-	-	-	-	-	-	15,917
41	588	Miscellaneous Distribution Expenses	-	-	-	-	-	-	-	-	-	339,596
42	589	Rents	-	-	-	-	-	-	-	-	-	99,386
43	590	Maintenance Supervision & Engineering	-	-	-	-	-	-	-	-	-	53,983
44	591	Maintenance of Structures	-	-	-	-	-	-	-	-	-	-
45	592	Maintenance of Station Equipment	-	-	-	-	-	-	-	-	-	470,180
46	593	Maintenance of Overhead Lines	-	-	-	-	-	-	-	-	-	724,303
47	594	Maintenance of Underground Lines	-	-	-	-	-	-	-	-	-	141,741
48	595	Maintenance of Line Transformers	-	-	-	-	-	-	-	-	-	103,581
49	596	Maintenance of Street Lighting & Signal Systems	-	-	-	-	-	-	-	-	-	56,040
50	597	Maintenance of Meters	-	-	-	-	-	-	-	-	-	123
51	598	Maintenance of Miscellaneous Distribution Plant	-	-	-	-	-	-	-	-	-	7,225
		Customer Account Expense										
52	901	Supervision	-	-	-	-	-	-	-	-	-	156,441
53	902	Meter Reading Expenses	-	-	-	-	-	-	-	-	-	729,938
54	903	Customer Records & Collection Expenses	-	-	-	-	-	-	-	-	-	3,743,191
55	904	Uncollectible Accounts	-	-	-	-	-	-	-	-	-	376,500
56	905	Miscellaneous Customer Accounts Expenses	-	-	-	-	-	-	-	-	-	29,077
57	907	Supervision	-	-	-	-	-	-	-	-	-	-
58	908	Customer Assistance Expenses	-	(49,920)	-	-	20,000	-	-	-	-	3,714
59	909	Informational and Instructional Advertising Expenses	-	-	-	-	-	-	-	-	-	55,869

UNS Electric, Inc.
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Schedule SURR RLM-8
Pages 5 & 6 of 6

SURREBUTTAL
SUMMARY OF OPERATING INCOME ADJUSTMENT
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	FERC ACC'T	DESCRIPTION	(U) ADJ. NO. 20 ATYPICAL EXPENSES TESTIMONY-RLM	(V) ADJ. NO. 21 OUTSIDE SERVICES - DSM TESTIMONY-MDC	(W) ADJ. NO. 22 CARES REVENUE TESTIMONY-RLM	(X) ADJ. NO 23 MEMEBERSHIP DUES TESTIMONY-RLM	(Y) ADJ. NO. 24 EMERGENCY BILL ASISTANCE TESTIMONY-RLM	(Z) ADJ. NO. 24 PAYROLL EXPENSE TESTIMONY-RLM	(AA) ADJ. NO. 24 PAYROLL TAX EXPENSE TESTIMONY-RLM	(AB) INTENTIONALLY LEFT BLANK	(AC) ADJ. NO. 27 INCOME TAX SURR RLM-15	(AD) RUCO AS ADJUSTED
60	910	Miscellaneous Customer Service & Informational Expenses	-	-	-	-	-	-	-	-	-	9,769
		Administrative and General Expense										
61	920	Administrative & General Salaries	-	-	-	-	-	-	-	-	-	712,377
62	921	Office Supplies & Expenses	(1,382)	-	-	-	-	-	-	-	-	496,574
63	922	Administrative Expenses Transferred - Credit	-	-	-	-	-	-	-	-	-	(158,099)
64	923	Outside Services Employed	(12,869)	-	-	-	-	-	-	-	-	2,983,173
65	924	Property Insurance	-	-	-	-	-	-	-	-	-	65,475
66	925	Injuries and Damages	-	-	-	-	-	-	-	-	-	432,404
67	926	Employee Pension & Benefits	-	-	-	-	-	-	-	-	-	1,069,129
68	928	Regulatory Commission Expenses	-	-	-	-	-	-	-	-	-	83,667
69	929	Duplicate Charges - Credit	-	-	-	-	-	-	-	-	-	-
70	930.1	General Advertising Expenses	-	-	-	-	-	-	-	-	-	77,800
71	930.2	Miscellaneous General Expenses	-	-	-	(13,759)	-	-	-	-	-	1,094,684
72	931	Rents	-	-	-	-	-	-	-	-	-	74,558
73	935	Maintenance of General Plant	-	-	-	-	-	-	-	-	-	35,937
74		**Total Operation and Maintenance Expense**	$ (14,251)	$ (49,920)	$ -	$ (13,759)	$ 20,000	$ -	$ -	$ -	$ -	$ 24,705,050
		Depreciation & Amortization - All										
75	403/404/406	Intangible Plant	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 978,366
76	403/404/406	Other Production Plant	-	-	-	-	-	-	-	-	-	163,965
77	403/404/406	Transmission Plant	-	-	-	-	-	-	-	-	-	1,160,647
78	403/404/406	Distribution Plant	-	-	-	-	-	-	-	-	-	8,735,615
79	403/404/406	General Plant	-	-	-	-	-	-	-	-	-	63,335
80		**Total Depreciation & Amortization - All**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 11,101,927
		Taxes Other Than Income Taxes										
81	408	Property Tax - Other Production	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 161,685
82	408	Property Tax - Transmission	-	-	-	-	-	-	-	-	-	258,223
83	408	Property Tax - Distribution	-	-	-	-	-	-	-	-	-	1,840,746
84	408	Property Tax - General	-	-	-	-	-	-	-	-	-	239,309
85	408	Payroll Taxes - FUTA, SUTA, FICA & Medicare	-	-	-	-	-	-	-	-	-	339,768
86	408	Medical and Dental	-	-	-	-	-	-	-	-	-	2,773
87	408	Other	-	-	-	-	-	-	-	-	-	(2,096)
88		**Total Taxes Other Than Income Taxes**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,840,410
		Income Taxes										
89	409	Current Income Tax - State & Federal	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,382,753	$ 2,725,571
90	410	Deferred IT - Federal & State (debit)	-	-	-	-	-	-	-	-	-	10,602,572
91	411	Deferred IT - Federal & State (credit)	-	-	-	-	-	-	-	-	-	(10,108,051)
92		**Total Income Taxes**	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,382,753	$ 3,220,092
93		**Total Operating Expense**	$ (14,251)	$ (49,920)	$ -	$ (13,759)	$ 20,000	$ -	$ -	$ -	$ 1,382,753	$ 148,091,543
94		**OPERATING INCOME**										$ 10,440,368

UNS Electric, Inc.
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SURREBUTTAL
OPERATING INCOME ADJUSTMENT NO. 13
TEST-YEAR DEPRECIATION EXPENSE ON GROSS PLANT IN SERVICE

LINE NO.	ACCT. NO.	DESCRIPTION	(A) RUCO TOTAL PLANT AS ADJUSTED	(B) COMPANY PROP'D DEP. RATE	(C) RUCO DEPREC'N EXPENSE	(D) CO. COMPUTED NET OF CWIP DEP. EXP.	(E) DIFFERENCE
		Intangible:					
1	302	Franchises & Consents	$ 11,908	4.00%	$ 476		
2	303	Miscellaneous Intangible	10,522,654	6.59%	693,592		
3		Total Intangible Plant	$ 10,534,562		$ 694,069	$ 701,891	$ (7,822)
		Other Production					
	340	Land & Rights	$ 765,874	0.00%	$ -		
7	341	Structures & Improvements	1,141,496	2.07%	23,629		
8	342	Fuel Holders, Producers & Acc.	1,163,837	2.51%	29,212		
9	343	Prime Movers	15,413,970	2.53%	389,973		
10	344	Generators	4,850,577	2.33%	113,018		
11	345	Accessory Electric Equipment	3,106,440	2.35%	73,001		
12	346	Misc. Power Plant Equipment	910,585	2.64%	24,039		
13		Total Other Production	$ 27,352,778		$ 652,874	$ 662,514	$ (9,640)
14		Transmission :					
	350	Land & Rights	$ 957,990	0.55%	$ 5,239		
15	352	Structures & Improvements	191,668	3.13%	5,999		
	353	Station Equipment	17,749,373	3.15%	559,105		
16	354	Towers & Fixtures	521,825	5.03%	26,248		
17	355	Poles & Fixtures	12,270,355	4.48%	549,712		
18	356	Overhead Conductors & Devices	11,237,573	2.66%	298,919		
19	359	Roads & Trails	183,860	2.02%	3,714		
20		Total Transmission Plant	$ 43,112,645		$ 1,448,937	$ 1,442,942	$ 5,995
21		Distribution:			-		
22	360	Land & Rights	$ 1,117,885	0.15%	$ 1,654		
23	361	Structures & Improvements	4,079,498	2.96%	120,753		
24	362	Station Equipment	32,948,470	4.09%	1,347,592		
25	364	Poles, Towers & Fixtures	76,284,703	4.14%	3,158,187		
26	365	Overhead Conductors & Devices	49,720,736	4.13%	2,053,466		
27	366	Underground Conduit	12,601,063	3.79%	477,580		
28	367	UG Conductors & Devices	27,259,007	4.40%	1,199,396		
29	368	Line Transformers	47,499,187	4.63%	2,199,212		
30	369	Services	10,695,563	3.76%	402,553		
	370	Meters	9,796,742	3.11%	304,679		
31	373	Street Lights & Signal Systems	3,811,071	4.04%	153,967		
		Total Distribution Plant	$ 275,813,925		$ 11,419,040	$ 11,378,813	$ 40,227
32		General:					
33	389	Land & Rights	$ 57,580	0.00%	$ -		
34	390	Structures & Improvements	1,852,506	2.65%	49,091		
35	391	Office Furniture & Equipment	3,220,489	9.11%	293,529		
36	392	Transportation Equipment	10,340,406	12.96%	1,340,262		
37		Capitalized Portion Of Transportation Depreciation As Per UNS Rebuttal)			(91,446)		
38	393	Stores Equipment	122,871	3.03%	3,723		
39	394	Tools, Shop And Garage Equip.	2,442,774	3.45%	84,276		
40	395	Laboratory Equipment	1,307,729	2.50%	32,693		
41	396	Power Operated Equipment	1,209,326	6.92%	83,685		
42	397	Communication Equipment	2,262,795	4.35%	98,432		
43	398	Miscellaneous Equipment	121,811	5.56%	6,773		
44		Total General Plant	$ 22,938,287		$ 1,901,018	$ 2,188,453	$ (287,435)
45		SUB TOTALS			$ 16,115,938	$ 16,374,613	$ (258,675)
46		Annualized Amortization - Acquisition Discount			(3,781,656)	(3,781,656)	
47		Vehicle Depreciation Charged To CWIP			(897,691)	(897,691)	
48		Adjustment Difference - Booked Value To Company Computation			117,308	117,308	
49		TOTALS	$ 379,752,198		$ 11,553,899	$ 11,812,574	$ (258,675)
50		Company Test-Year Depreciation As Filed			$ 11,812,574		
51		Surrebuttal Difference			(258,675)		
52		RUCO Surrebuttal Adjustment (See RLM-8, Pages 3 & 4, Column (N))			$ (258,675)		

UNS Electric, Inc.
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SURREBUTTAL
OPERATING INCOME ADJUSTMENT NO. 15
PROPERTY TAX COMPUTATION

LINE NO.	DESCRIPTION	(A)	(B)
	Calculation Of The Company's Full Cash Value:		
1	Net Plant In Service (RLM-4, Column (H), Line 7)		$ 135,883,118
2	Licensed Transportation (Company Workpapers)	$ (3,834,788)	
3	Land Cost And Rights (Company Workpapers)	(1,816,844)	
4	Environmental Property (Company Workpapers)	(5,563,286)	
5	Non-Taxable WAPA Portion Of N Havasu Sub	(4,674,822)	
6	CWIP In Rate Base	(10,802,316)	
7	Net Book Value Of Generation	(17,285,854)	
8	Full Cash Value Of Generation	7,943,440	
9	Land FCV Per ADOR (Company Workpapers)	1,551,539	
10	Material And Supplies (Company Workpapers)	5,650,559	
11	COMPANY'S FULL CASH VALUE (Sum Of Lines 1 Thru 10)		$ 107,050,746
	Calculation Of The Company's Tax Liability:		
8	Assessment Ratio (Per House Bill 2779)	23.5%	
9	Assessed Value (Line 7 X Line 8)	$ 25,156,925	
10	Average Tax Rate (Company Workpapers)	9.69%	
13	PROPERTY TAX Excluding Environmental Property (Line 9 X Line 10)		$ 2,436,649
14	Environmental Property (Line 4)	$ 5,563,286	
15	Statutory FCV Adjustment (Company Workpapers)	50%	
16	Environmental Property FVC (Line14 X Line 15)	$ 2,781,643	
17	Asessment Ratio Line 8)	23.5%	
18	Taxable Value (Line 16 X Line 17)	$ 653,686	
19	Average Tax Rate (Company Workpapers)	9.69%	
20	PROPERTY TAX On Environmental Property (Line 18 X Line 19)		$ 63,315
21	PROPERTY TAX On Leased Property (Company Workpapers)		
22	COMPANY PROPERTY TAX LIABILITY (Sum Of Lines 13, 20 & 21)		$ 2,499,964
23	Total Test Year Adjusted Property Tax Expense Per Company's Filing	$ 3,096,371	
24	Property Tax Associated With CWIP	(239,696)	
25	Rounding	(8)	
26	Net Test Year Adjusted Property Tax Expense Per Company's Filing	$ 2,856,667	
27	Decrease In Property Tax Expense (Line 22 - Line 26)	$ (356,703)	

LINE NO.	Distribution Of Property Tax Adjustment	COMPANY WORKPAPERS	ALLOCATION FACTOR	RUCO ALLOCATION
28	Generation	$ 184,653	6.44%	$ (22,968)
29	Transmission	305,868	10.67%	(38,045)
30	Distribution	2,106,338	73.45%	(261,992)
31	General/Intangible	270,993	9.45%	(33,707)
32	Totals	$ 2,867,852	100.00%	$ (356,711)

LINE NO.	DESCRIPTION	(B)
33	RUCO ADJUSTMENT TO PROPERTY TAX EXPENSE (Line 24) (See RLM-8, Pages 3 & 4, Column (P))	$ (356,711)

UNS Electric, Inc.
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SURREBUTTAL
OPERATING INCOME ADJUSTMENT NO. 27
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
	FEDERAL INCOME TAXES:		
1	Operating Income Before Taxes	Schedule RLM-7, Column (C), Line 11 + Line 9	$ 13,660,461
	LESS:		
2	Arizona State Tax	Line 11	(581,302)
3	Interest Expense	Note (A) Line 22	(5,318,010)
4	Federal Taxable Income	Sum Of Lines 1, 2 & 3	$ 7,761,148
5	Federal Tax Rate	Schedule RLM-1, Page 2, Column (A), Line 9	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	$ 2,638,790
	STATE INCOME TAXES:		
7	Operating Income Before Taxes	Line 1	$ 13,660,461
	LESS:		
8	Interest Expense	Note (A) Line 22	(5,318,010)
9	State Taxable Income	Line 7 + Line 8	$ 8,342,450
10	State Tax Rate	Tax Rate	6.9680%
11	State Income Tax Expense	Line 9 X Line 10	$ 581,302
	TOTAL INCOME TAX EXPENSE:		
12	Federal Income Tax Expense	Line 6	$ 2,638,790
13	State Income Tax Expense	Line 11	581,302
14	Total Income Tax Expense Per RUCO	Sum Of Lines 12 & 13	$ 3,220,092
15	Total Income Tax Expense Per Company Filing (Schedule C-1)		1,837,339
16	Difference	Line 14 - Line 15	$ 1,382,753
17	RUCO ADJUSTMENT TO INCOME TAX EXPENSE (See RLM 8, Pages 5 & 6, Column (AC))	Line 16	$ 1,382,753

NOTE (A):

LINE NO.	Interest Synchronization:	
18	Adjusted Rate Base (Schedule RLM-3, Column (C), Line 16)	$ 128,742,285
19	Weighted Cost Of Debt (Schedule RLM-16, Column (F), Line 1 + Line 2)	4.13%
20	Interest Expense (Line 20 X Line 21)	$ 5,318,010

UNS Electric, Inc.
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SURREBUTTAL
RATE DESIGN AND PROOF OF RUCO RECOMMENDED REQUIRED REVENUE

		(A)	(B)	(C)	(D)	(E)
			RUCO ADJ'D	RUCO ADJ'D	RUCO PROPOSED	
LINE NO.	DESCRIPTION	RATE SCH.	BILL DETERM'TS	RATES AND CHARGES	REVENUE CALCULATION	REVENUE BY CUST. CLASS
	Residential Service	R-01				
1	Customer Charge per Month		929,088	$ 6.87	$ 6,387,428	
2	Energy Charge, First 400 kWhs		320,682,178	$ 0.01084	3,477,264	
3	Energy Charge, All Additional kWhs		481,023,266	$ 0.01944	9,349,739	
4	Base Power Supply Charge, All kWhs		801,705,444	$ 0.07718	61,874,023	
5	SUB-TOTAL RESIDENTIAL SERVICE					$ 81,088,454
	Small General Service	GS-10				
6	Customer Charge per Month		89,914	$ 10.31	$ 927,231	
7	Energy Charge, First 400 kWhs		36,412,013	$ 0.02386	868,960	
8	Energy Charge, All Additional kWhs		54,618,021	$ 0.03246	1,772,904	
9	Base Power Supply Charge, All kWhs		91,030,034	$ 0.07495	6,822,428	
10	SUB-TOTAL SMALL GENERAL SERVICE					$ 10,391,522
	Large General Service	LGS				
11	Customer Charge per Month		24,301	$ 9.54	$ 231,807	
12	Demand Charge, Per kW		1,426,880	$ 9.02336	12,875,258	
13	Energy Charge, Per kWh		491,246,281	$ 0.00644	3,164,944	
14	Base Power Supply Charge, All kWhs		491,246,281	$ 0.06636	32,600,086	
15	Total Large General Service				$ 48,872,094	
	Large General Service - TOU	LGS				
16	Customer Charge per Month		120	$ 13.75	$ 1,650	
17	Demand Charge, Per kW		11,084	$ 9.02336	100,015	
18	Energy Charge, Per kWh		2,903,715	$ 0.00644	18,708	
19	Base Power Supply Charge, All kWhs		2,903,715	$ 0.06636	192,696	
20	Total Large General Service - TOU				$ 313,069	
21	SUB-TOTAL LARGE GENERAL SERVICE					$ 49,185,163
	Large Power Service - < 69KV	LPS				
22	Customer Charge per Month		75	$ 313.67	$ 23,525	
23	Demand Charge, Per kW		81,047	$ 18.50219	1,499,547	
25	Base Power Supply Charge, All kWhs		41,382,039	$ 0.05270	2,180,999	
26	Total Large General Service - < 69KV				$ 3,704,071	
	Large Power Service - > 69KV	LPS				
27	Customer Charge per Month		69	$ 343.74721	$ 23,719	
28	Demand Charge, Per kW		288,524	$ 10.76788	3,106,792	
30	Base Power Supply Charge, All kWhs		157,244,717	$ 0.05270	8,287,426	
31	Total Large General Service - > 69KV				$ 11,417,936	
32	SUB-TOTAL LARGE POWER SERVICE					$ 15,122,008
	Interruptible Power Service	IPS				
33	Customer Charge per Month		235	$ 9.53899	$ 2,242	
34	Demand Charge, Per kW		63,585	$ 3.00779	191,250	
35	Energy Charge, Per kWh		17,598,914	$ 0.01570	276,284	
37	Base Power Supply Charge, All kWhs		17,598,914	$ 0.05491	966,374	
38	Total Interruptible Service					
39	SUB-TOTAL INTERUPTIBLE SERVICE					$ 1,436,150
	Lighting Dusk To Dawn Service - O/H Service	LTG				
40	Existing Wood Pole		39,277	$ -	$ -	
41	New 30' Wood Pole (Class 6)		8,220	$ 3.86716	31,788	
42	New 30' Metal Or Fiberglass		2,385	$ 7.75150	18,487	
	Lighting Dusk To Dawn Service - U/G Service					
43	Existing Wood Pole		686	$ 1.93358	1,326	
44	New 30' Wood Pole (Class 6)		347	$ 5.80933	2,016	
45	New 30' Metal Or Fiberglass		7,646	$ 9.68508	74,052	
46	Per Watt		7,866,778	$ 0.06231	490,163	
48	SUB-TOTAL LIGHTING DUSK TO DAWN SERVICE					$ 617,833
49	TOTAL REVENUE PER RUCO BILL DETERMINENTS					$ 157,841,130
50	CARES Revenue					(3,627)
51	Sales For Resale					246,016
52	Other Operating Revenue					1,637,662
53	TOTAL PROPOSED REVENUE					$ 159,721,181
54	Proposed Annual Revenue Requirement					$ 159,721,181
55	Difference					$ 0

UNS Electric, Inc.
Docket No. E-04204A-06-0783
Test Year Ended June 30, 2006

SURREBUTTAL
TYPICAL RESIDENTIAL BILL ANALYSIS

LINE NO.	DESCRIPTION	(A) PRESENT REVENUE	(B)	(C) COMPANY PROPOSED	(D)	(E) RUCO PROPOSED	(F)
	REVENUE ALLOCATION						
1	RESIDENTIAL	$ 81,247,060	51.48%	$ 84,232,815	51.02%	$ 81,088,454	51.37%
2	OTHER	$ 76,580,097	48.52%	$ 80,878,384	48.98%	$ 76,752,676	48.63%
3	TOTAL	$ 157,827,157	100.00%	$ 165,111,199	100.00%	$ 157,841,130	100.00%
	ALLOCATION RATIOS						
4	FIX REVENUE	7,403,038	4.69%	8,989,479	5.44%	$ 7,725,271	4.89%
5	VARIABLE REVENUE	150,424,119	95.31%	156,121,720	94.56%	$ 150,115,859	95.11%
6	TOTAL	157,827,157	100.00%	$ 165,111,199	100.00%	$ 157,841,130	100.00%

LINE NO.	**RESIDENTIAL RATE DESIGN**	PRESENT RATES	COMPANY PROPOSED	RUCO PROPOSED
	Residential Service - Mohave County			
7	Customer Charge per Month	$ 6.50	$ 8.00	$ 6.87
8	Energy Charge, First 400 kWhs	$ 0.07490	$ 0.0126178	$ 0.01084
9	Energy Charge, All Additional kWhs	$ 0.07490	$ 0.0226180	$ 0.01944
10	PPFAC Charge	$ 0.018250		
11	Residential Service Base Power Supply Charge, All kWhs		$ 0.0771780	$ 0.0771780
	Residential Service - Santa Cruz County			
12	Customer Charge per Month	$ 6.50	$ 8.00	$ 6.87
13	Energy Charge, First 400 kWhs	$ 0.07930	$ 0.0126178	$ 0.0108433
14	Energy Charge, All Additional kWhs	$ 0.07930	$ 0.0226180	$ 0.0194372
15	PPFAC Charge	$ 0.018250		
16	Residential Service Base Power Supply Charge, All kWhs		$ 0.0771780	$ 0.0771780

LINE NO.	**RESIDENTIAL BILL COMPARISONS** MONTHLY ELECTRIC BILLS AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	% OF AVERAGE MONTH USAGE OF 861 kWh	ACTUAL MONTH USAGE	PRESENT MONTHLY COST	RUCO PROP'D MONTHLY COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
	Residential Service - Mohave County						
17	Percentage Of Average Monthly Consumption	25.00%	215	$ 26.55	$ 25.83	$ (0.73)	-2.75%
18	Percentage Of Average Monthly Consumption	50.00%	431	$ 46.61	$ 45.04	$ (1.57)	-3.37%
19	Percentage Of Average Monthly Consumption	100.00%	861	$ 86.72	$ 86.64	$ (0.08)	-0.09%
20	Percentage Of Average Monthly Consumption	150.00%	1,292	$ 126.83	$ 128.24	$ 1.41	1.11%
21	Percentage Of Average Monthly Consumption	200.00%	1,722	$ 166.94	$ 169.84	$ 2.91	1.74%
	Residential Service - Santa Cruz County						
22	Percentage Of Average Monthly Consumption	25.00%	215	$ 27.50	$ 25.83	$ (1.68)	-6.10%
23	Percentage Of Average Monthly Consumption	50.00%	431	$ 48.50	$ 45.04	$ (3.47)	-7.14%
24	Percentage Of Average Monthly Consumption	100.00%	861	$ 90.51	$ 86.64	$ (3.87)	-4.27%
25	Percentage Of Average Monthly Consumption	150.00%	1,292	$ 132.51	$ 128.24	$ (4.27)	-3.22%
26	Percentage Of Average Monthly Consumption	200.00%	1,722	$ 174.51	$ 169.84	$ (4.67)	-2.68%