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(520) 884-3680 Office  
jbryne@tep.com



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ARIZONA CORPORATION COMMISSION  
DOCKET CONTROL

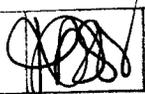
**UniSourceEnergy**  
**SERVICES**

January 9, 2008

Arizona Corporation Commission  
**DOCKETED**

JAN 10 2008

Docket Control  
Arizona Corporation Commission  
1200 W. Washington  
Phoenix, Arizona 85007

DOCKETED BY 

Re: Amendment No. 1 To Amended and Restated Credit Agreement  
Docket No. E-04204A-06-0493 and G-04204A-06-0493, Decision No. 69395

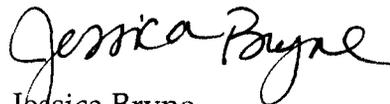
Docket Control:

Pursuant to Decision No. 69395, "any amendments and renegotiations of the revolving credit facility should be supported by a filing with Docket Control explaining the business rationale for the transaction and a demonstration that the rates and terms were consistent with those generally available to comparable entities at that time". Enclosed please find Amendment No. 1 to the Credit Agreement.

The rationale for the amendment was the addition of the third ordering paragraph in the Decision. Had the Decision not included this condition the Companies would only have to provide the Officer's Certificate and Opinion of Counsel to the lenders in order to increase the size of the revolver and for an extension of maturity to go into effect.

If you have any questions, please call me at 520-884-3680.

Sincerely,



Jessica Bryne  
Regulatory Services

Cc: Compliance, ACC  
Shannon Kanlan, ACC

[EXECUTION COPY]

AMENDMENT NO. 1  
TO  
AMENDED AND RESTATED CREDIT AGREEMENT

This AMENDMENT NO. 1, dated as of April 30, 2007 (this "*Amendment*"), is made by and among UNS ELECTRIC, INC., an Arizona corporation ("*UNS Electric*"), UNS GAS, INC., an Arizona corporation ("*UNS Gas*"), and together with UNS Electric being referred to herein, individually, as a "*Borrower*" and, collectively, as the "*Borrowers*"), UNISOURCE ENERGY SERVICES, INC., an Arizona corporation (the "*Guarantor*"), the lenders listed on the signature pages of this Amendment as "*Lenders*" (such lenders, together with their respective permitted assignees from time to time, being referred to herein, collectively, as the "*Lenders*"), and UNION BANK OF CALIFORNIA, N.A., as administrative agent for the Lenders (in such capacity, the "*Administrative Agent*").

**PRELIMINARY STATEMENT:**

The Borrowers, the Guarantor, the Lenders and the Administrative Agent previously entered into that certain Amended and Restated Credit Agreement, dated as of August 11, 2006 (the "*Existing Agreement*", as amended by this Amendment, the "*Amended Agreement*", and as the Amended Agreement may hereafter be amended, supplemented or otherwise modified from time to time, the "*Credit Agreement*"). The Borrowers and the Lenders desire to amend the Existing Agreement in certain particulars in connection with the Order (Decision No. 69395) issued by the ACC on March 22, 2007. Each of the Borrowers, the Guarantor and the Required Lenders has agreed to such amendment, on the terms and conditions set forth herein. The parties therefore agree as follows (capitalized terms used but not defined herein having the meanings assigned such terms in the Existing Agreement):

**SECTION 1. Amendments to Existing Agreement.** The Existing Agreement is, effective as of the date hereof and subject to the satisfaction of the conditions precedent set forth in Section 2 hereof, hereby amended as follows:

(a) **Definitions.** The following new definition is hereby added to Section 1.01 of the Existing Agreement in the appropriate alphabetical order:

"**2007 ACC Order**" means the Order (Decision No. 69395) issued by the ACC on March 22, 2007.

(b) **Governmental Authorizations.** Section 7.01(g) of the Existing Agreement is hereby amended and restated in its entirety to read as follows:

“(g) *Governmental Authorizations, etc.* No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by such Obligor of any Loan Document to which it is a party, except for (i) the ACC Order, which ACC Order has been obtained and is in full force and effect, and (ii) the 2007 ACC Order, which 2007 ACC Order has been obtained and is in full force and effect. After giving effect to each Extension of Credit to or for the account of any Borrower and the application of the proceeds thereof, such Borrower is in compliance with all applicable requirements contained in the 2007 ACC Order (including, without limitation, the requirement that such Borrower’s equity shall not be less than 30% of its total capital after giving effect to such Extension of Credit, if such Extension of Credit is made on or after the date of issuance by UNS Electric of long term debt pursuant to the authority granted in the 2007 ACC Order).”

**SECTION 2. *Conditions of Effectiveness of Amendments.*** The amendments to the Existing Agreement set forth in Section 1 hereof shall become effective as of the date hereof when, and only when, the Administrative Agent shall have received counterparts of this Amendment executed by the Borrowers, the Guarantor and the Required Lenders (in sufficient quantity for each party to have a fully executed original).

**SECTION 3. *Representations and Warranties of the Borrowers.*** Each Borrower represents and warrants as follows:

(a) The execution and delivery by such Borrower of this Amendment, and the performance by such Borrower of this Amendment and the Amended Agreement, are within such Borrower’s organizational powers and have been duly authorized by all necessary corporate and, if required, stockholder action, and do not and will not (i) violate any Requirement of Law, (ii) violate or result in a default under any indenture, agreement or other instrument binding upon such Borrower or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by such Borrower or any of its Subsidiaries, or (iii) result in the creation or imposition of any Lien on any asset of such Borrower or any of its Subsidiaries. This Amendment has been duly executed and delivered by such Borrower.

(b) The execution and delivery by such Borrower of this Amendment, and the performance by such Borrower of this Amendment and the Amended Agreement, do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except as set forth in Section 7.01(g) of the Amended Agreement.

(c) Each of this Amendment and the Amended Agreement constitutes a legal, valid and binding obligation of such Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization,

moratorium or other laws affecting the enforcement of creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(d) No Default or Event of Default with respect to such Borrower or the Guarantor has occurred and is continuing.

***SECTION 4. Reference to and Effect on the Existing Agreement.***

(a) Upon the effectiveness of this Amendment: (i) each reference in the Existing Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Existing Agreement shall mean and be a reference to the Credit Agreement; and (ii) each reference in any other Loan Document to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Existing Agreement shall mean and be a reference to the Credit Agreement.

(b) Except as specifically amended above, the Existing Agreement shall continue to be in full force and effect and is hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Lenders, the Issuing Banks or the Administrative Agent under the Existing Agreement or any other Loan Document, nor constitute a waiver of any provision of the Existing Agreement or any other Loan Document.

***SECTION 5. Costs and Expenses.*** The Borrowers agree to pay on demand all reasonable out-of-pocket expenses of the Administrative Agent in connection with the preparation, negotiation, syndication, execution and delivery of this Amendment and the other instruments and documents to be delivered hereunder, including, without limitation, the reasonable fees, charges and disbursements of counsel to the Administrative Agent with respect thereto and with respect to advising the Administrative Agent as to its rights and responsibilities hereunder and thereunder, and all out-of-pocket expenses incurred by the Administrative Agent, any Issuing Bank or any Lender (including, without limitation, the fees, charges and disbursements of any counsel for the Administrative Agent, any Issuing Bank or any Lender) in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Amendment.

***SECTION 6. Execution in Counterparts.*** This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. In furtherance of the foregoing, it is understood and agreed that signatures hereto submitted by facsimile transmission shall be deemed to be, and shall constitute, original signatures.

**SECTION 7. Governing Law.** This Amendment shall be governed by, and construed in accordance with, the laws of the State of the New York.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

UNS ELECTRIC, INC., as a Borrower

By Kevin Larson  
Name: KEVIN LARSON  
Title: Vice President and Treasurer

UNS GAS, INC., as a Borrower

By Kevin Larson  
Name: KEVIN LARSON  
Title: Vice President and Treasurer

UNISOURCE ENERGY SERVICES, INC.,  
as Guarantor

By Kevin Larson  
Name: KEVIN LARSON  
Title: Vice President and Treasurer

UNION BANK OF CALIFORNIA, N.A., as  
Administrative Agent and a Lender

By \_\_\_\_\_  
Name:  
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

UNS ELECTRIC, INC., as a Borrower

By \_\_\_\_\_  
Name:  
Title:

UNS GAS, INC., as a Borrower

By \_\_\_\_\_  
Name:  
Title:

UNISOURCE ENERGY SERVICES, INC.,  
as Guarantor

By \_\_\_\_\_  
Name:  
Title:

UNION BANK OF CALIFORNIA, N.A., as  
Administrative Agent and a Lender

By Jonathan Bigelow  
Name: **Jonathan L. Bigelow**  
Title: **Vice President**

THE BANK OF NEW YORK, as a Lender

By   
Name: JOHN-PAUL MAROTTA  
Title: MANAGING DIRECTOR

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as a Lender

By \_\_\_\_\_  
Name:  
Title:

ABN AMRO BANK N.V., as a Lender

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:

JPMORGAN CHASE BANK, N.A., as a  
Lender

By \_\_\_\_\_  
Name:  
Title:

THE BANK OF NEW YORK, as a Lender

By \_\_\_\_\_  
Name:  
Title:

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as a Lender

By Clyde Gossert JP  
Name: Clyde Gossert  
Title: Vice President

ABN AMRO BANK N.V., as a Lender

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:

JPMORGAN CHASE BANK, N.A., as a  
Lender

By \_\_\_\_\_  
Name:  
Title:

THE BANK OF NEW YORK, as a Lender

By \_\_\_\_\_  
Name:  
Title:

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as a Lender

By \_\_\_\_\_  
Name:  
Title:

ABN AMRO BANK N.V., as a Lender

By   
Name: **Kris Grosshans**  
Title: **Managing Director**

By   
Name:  
Title: **Meghan A. Schultz**  
**Vice President**

JPMORGAN CHASE BANK, N.A., as a  
Lender

By \_\_\_\_\_  
Name:  
Title:

THE BANK OF NEW YORK, as a Lender

By \_\_\_\_\_  
Name:  
Title:

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as a Lender

By \_\_\_\_\_  
Name:  
Title:

ABN AMRO BANK N.V., as a Lender

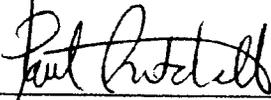
By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:

JPMORGAN CHASE BANK, N.A., as a  
Lender

By Nancy R. Bardig  
Name: Nancy R. Bardig  
Title: Vice President

WACHOVIA BANK, NATIONAL  
ASSOCIATION, as a Lender

By   
Name: Paul Pritchett  
Title: Vice President



UniSource Energy Corporation  
One South Church Avenue, Suite 1820  
Tucson, Arizona 85701

Raymond S. Heyman  
Senior Vice President and  
General Counsel

Office: (520) 884-3635  
Fax: (520) 884-3612

April 12, 2007

Union Bank of California, N.A.,  
as Administrative Agent, Issuing Bank and a Lender  
445 South Figueroa Street, 15<sup>th</sup> Floor  
Los Angeles, California 90071

The Lenders listed on Schedule I hereto

Ladies and Gentlemen:

I am Senior Vice President and General Counsel of UniSource Energy Corporation, an Arizona corporation, and counsel to UniSource Energy Services, Inc., an Arizona corporation ("UES"), UNS Electric, Inc., an Arizona corporation ("UNS Electric"), and UNS Gas, Inc., an Arizona corporation ("UNS Gas", and together with UNS Electric, the "Borrowers" and each a "Borrower" and, together with UES and UNS Electric, the "Obligors" and each an "Obligor"), and have acted as such in connection with the Amended and Restated Credit Agreement, dated as of August 11, 2006, among UNS Electric and UNS Gas, each as a Borrower, UES, as Guarantor, the Lenders party thereto and Union Bank of California, N.A., as Administrative Agent (hereinafter, the "Amended and Restated Credit Agreement"), including without limitation the increase in the aggregate amount of the Commitments provided by the Amended and Restated Credit Agreement and the extension of the maturity date of the credit facilities established by the Amended and Restated Credit Agreement, in each case after giving effect to the satisfaction of the conditions set forth in Section 6.02(b) thereof. Unless otherwise specified herein, capitalized terms used herein have the respective meanings set forth in the Amended and Restated Credit Agreement.

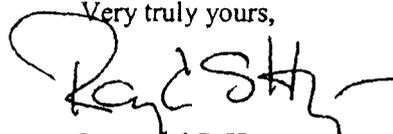
In so acting I have examined such documents and satisfied myself as to such matters as I have deemed necessary as a basis for the opinion set forth below. I have relied as to various questions of fact upon certificates of public officials and officers of the Borrowers delivered under the Amended and Restated Credit Agreement.

Based upon and subject to the foregoing, and subject also to the qualifications hereinafter set forth, I am of the opinion that no consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the execution, delivery or performance by the Obligors of the Amended and Restated Credit Agreement (including, without limitation, the increase in the aggregate amount of the Commitments provided by the Amended and Restated Credit Agreement and the extension of the maturity date of the credit facilities established by the Amended and Restated Credit Agreement,

in each case after giving effect to the satisfaction of the conditions set forth in Section 6.02(b) thereof) or for borrowings by the Borrowers under the Amended and Restated Credit Agreement, except for the Order (Decision No. 69395) of the ACC relating thereto and the ACC Order (which Orders have been obtained and are, to the best of my knowledge, in full force and effect).

This opinion is limited to the laws of the State of Arizona. This letter is not being delivered for the benefit of, nor may it be relied upon by, any person or entity to which it is not specifically addressed or by which reliance is not expressly authorized hereby. Notwithstanding the foregoing, persons who subsequently become Lenders (or participants in accordance with the terms of the Amended and Restated Credit Agreement) or Issuing Banks may rely on this letter as of the time of its delivery on the date hereof as if this letter were addressed to them.

Very truly yours,



Handwritten signature of Raymond S. Heyman in black ink, featuring a large, stylized initial 'R' and a horizontal flourish extending to the right.

Raymond S. Heyman

**SCHEDULE I**

**LENDERS**

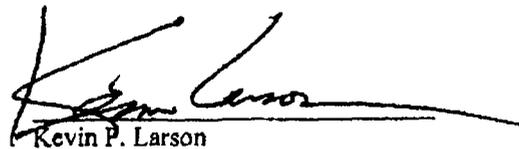
<i>Lender</i>	<i>Address</i>
ABN AMRO Bank N.V.	135 S. LaSalle St. Chicago, IL 60603 Attention: Meghan Schultz Phone: (312) 904-9457 Fax: (312) 904-1994
JPMorgan Chase Bank, N.A.	10 S. Dearborn, Mail code IL1-0010 Chicago, IL 60603 Attention: Maribel Lorenzo Phone: (312) 732-5548 Fax: (312) 385-7096
The Bank of New York	One Wall Street, 19th Floor New York, New York 10286 Attention: John Paul Marotta Telephone: (212) 685-8204 Fax: (212) 635-7923
Union Bank of California, N.A.	445 South Figueroa Street, 15 <sup>th</sup> Floor Los Angeles, California 90071 Attention: Kevin Zitar Telephone: (213) 236-5503 Fax: (213) 236-4096
Wachovia Bank, National Association	301 South College Street, TW-15 NC5562 Charlotte, NC 28288 Attention: Tahlor Ahlstrom Telephone: (704) 715-2991 Fax: (704) 715-0094
Wells Fargo Bank, National Association	150 N. Stone, 2 <sup>nd</sup> Floor Tucson, Arizona 85745 Attention: Clyde Gossert Telephone: (520) 792-5417 Fax: (520) 792-5482

UNISOURCE ENERGY SERVICES, INC.  
UNS ELECTRIC, INC.  
UNS GAS, INC.

Officer's Certificate

The undersigned, Kevin P. Larson, Senior Vice President and Treasurer of UniSource Energy Services, Inc., an Arizona corporation ("UES"), and Vice President and Treasurer of UNS Electric, Inc., an Arizona corporation ("UNS Electric"), and UNS Gas, Inc., an Arizona corporation ("UNS Gas"), hereby certifies pursuant to Section 6.02(b)(i) of the Amended and Restated Credit Agreement, dated as of August 11, 2006 (the "Agreement"), among UNS Electric and UNS Gas, each as a Borrower, UES, as Guarantor, the Lenders party thereto and Union Bank of California, N.A., as Administrative Agent (capitalized terms used herein shall have the meaning ascribed to such terms in the Agreement unless otherwise defined herein), that attached hereto as Exhibit A is a true, correct and complete copy of the order of the Arizona Corporation Commission as in full force and effect on the date hereof, authorizing the increase in the aggregate amount of the Commitments provided by the Agreement and the extension of the maturity date of the credit facilities established by the Agreement.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the 12<sup>th</sup> day of April, 2007.



Kevin P. Larson  
As Senior Vice President and Treasurer of  
UES and as Vice President and  
Treasurer of UNS Electric and UNS Gas

**EXHIBIT A**

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 **COMMISSIONERS**

Arizona Corporation Commission

3 MIKE GLEASON, Chairman  
4 WILLIAM A. MUNDELL  
5 JEFF HATCH-MILLER  
6 KRISTIN K. MAYES  
7 GARY PIERCE

**DOCKETED**

MAR 22 2007

DOCKETED BY

nr

8 IN THE MATTER OF THE APPLICATION OF  
9 UNS ELECTRIC, INC. AND UNS GAS, INC. FOR  
10 A FINANCING ORDER AUTHORIZING  
11 VARIOUS FINANCING TRANSACTIONS.

DOCKET NO. E-04204A-06-0493  
DOCKET NO. G-04204A-06-0493

DECISION NO. 69395

**ORDER**

11 Open Meeting  
12 March 13 and 14, 2007  
13 Phoenix, Arizona

**BY THE COMMISSION:**

14 Having considered the entire record herein and being fully advised in the premises, the  
15 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

16 \* \* \* \* \*

17 **FINDINGS OF FACT**

18 1. On July 28, 2006, UNS Electric, Inc. ("UNS Electric") and UNS Gas, Inc. ("UNS  
19 Gas") (collectively "Applicants") filed a joint application with the Commission requesting  
20 authorization for various financing transactions.

21 2. The Applicants seek authorization for UNS Electric to refinance and increase its long-  
22 term debt, for the Applicants to extend and increase the amount of their joint revolving credit facility,  
23 for pre-approved authority to subsequently renew their joint revolving credit facility, and for UNS  
24 Electric to enter into security agreements granting liens on some or all of its properties.

25 3. On October 16, 2006, Applicants filed affidavits of publication attesting that public  
26 notice of the application was made in the *Arizona Daily Star* and *Lake Havasu's Today's News-*  
27 *Herald* on August 28, 2006; in the *Arizona Republic*, the *Kingman Daily Miner*, and the *White*  
28

1 *Mountain Independent* on August 29, 2006; the *Holbrook Tribune-News*, the *Prescott Courier*, and  
2 the *Sedona Red Rock News* on August 30, 2006; the *Nogales International* on September 19, 2006;  
3 the *Winslow Mail* on September 20, 2006; the *Verde Independent* on September 26, 2006; and the  
4 *Williams-Grand Canyon News* on September 29, 2006.

5 4. On December 15, 2006, Commission Utilities Division Staff ("Staff") filed its Staff  
6 Report, recommending conditional approval.

7 5. The Applicants did not file a Response or comments to the Staff Report.

8 6. The Applicants are wholly owned subsidiaries of Unisource Energy Services, Inc.,  
9 and sister companies of Tucson Electric Power Company ("TEP"). UNS Electric serves  
10 approximately 91,000 customers in Mohave and Santa Cruz counties and maintains a service office in  
11 Kingman. UNS Gas serves approximately 142,000 customers in Mohave, Yavapai, Coconino,  
12 Navajo and Santa Cruz Counties and maintains a service office in Flagstaff.

13 Long-term Debt

14 7. UNS Electric seeks to issue \$100 million in long-term debt for the purpose of  
15 refinancing \$60 million of existing interest-only long-term debt ("Senior Notes") that matures in  
16 August 2008; and to provide long-term capital to refinance capital improvements that are first  
17 financed with a revolving credit facility. UNS Electric is seeking authority to refinance the Senior  
18 Notes a year in advance of maturity to give it flexibility and enable it to act quickly in response to  
19 proposals from lenders.

20 8. UNS Electric seeks to issue \$100 million of long-term debt with a maturity date  
21 between five and twenty years. Terms for the loan type and interest rate are yet to be negotiated.

22 Revolving Credit Facility

23 9. Applicants seek to extend the maturity of the existing \$40 million revolving credit  
24 facility, increase the amount of the facility from \$40 million to \$60 million, and to enter into similar  
25 amendments or refinancing to extend the facility during the next three years should favorable  
26 opportunities arise.

27 10. Applicants state that they seek to increase their revolving line of credit facility from  
28 \$40 million to \$60 million to improve access to funds for short-term liquidity and working capital

1 purposes to fund growth. Applicants cite their service areas' four to five percent growth rate and the  
2 need for additional infrastructure as warranting an increase in the amount of the facility. Applicants  
3 assert that conditions in the bank credit markets have improved since they entered into their existing  
4 revolving credit facility and that companies with similar credit profiles are currently receiving more  
5 advantageous rates and reduced commitment fees. Thus, they believe there is an opportunity for  
6 them to obtain reduced pricing and also extend the term of the facility.

7 11. Applicants also state that increased borrowing capacity will facilitate issuing letters of  
8 credit as credit enhancement for energy purchases and for hedging arrangements for UNS Gas.  
9 Applicants state that UNS Gas purchases a portion of its gas supply on a forward basis in order to  
10 hedge against commodity price volatility. In the future, UNS Gas's gas suppliers or financial  
11 counterparties may require credit enhancement in the form of letters of credit. In addition, UNS  
12 Electric's full requirements power purchase contract with Pinnacle West Capital Corporation expires  
13 in 2008 and UNS Electric may be required to provide credit enhancement under future power  
14 purchase agreements.

15 12. According to the application, the applicable borrowing rate as of June 30, 2006, was  
16 the London Interbank Offered Rate ("LIBOR") plus 1.50 percent, and an annual commitment fee of  
17 0.45 percent applied to the unused balance. The facility was amended and restated on August 11,  
18 2006 to provide:

19 The interest rate payable on any borrowings under the facility is LIBOR +  
20 1.00% for Eurodollar borrowings, or at the agent bank's reference rate  
(generally Prime Rate) for any Alternate Base Rate ("ABR") borrowings.  
21 The commitment fee on the unused commitment is 15 basis pts. per  
annum. Previously, these amounts were LIBOR + 1.50 % for Eurodollar  
22 borrowings and 45 basis pts. for the commitment fee.

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

25 The amended agreement extends the maturity date of the facility to August 11, 2011. Under the  
26 revolving credit facility's terms, either UNS Gas or UNS Electric can borrow up to 75 percent of the  
27 total. The obligation of each entity is several and not joint, so neither entity guarantees the  
28 obligations of the other.

1           13. Applicants request authorization to enter into amendments to their existing revolving  
2 credit facility or to refinance by entering into new agreements with an ultimate maturity date in  
3 August 2014. The Applicants assert that such refinancing authority would allow them to take  
4 advantage of opportunities to obtain better terms as they arise in a timely manner.

5 Security Interest

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

11 Financial Analysis

12 UNS Electric

13           15. Staff analyzed the effect of the proposed financing request on UNS Electric utilizing  
14 financial statements for the year ended December 31, 2005, and making certain assumptions about  
15 the proposed new loans. Staff's pro forma analysis calculated the effects of a \$100 million loan at  
16 7.61 percent, repayment of the \$60 million Senior Notes and repayment of the \$5 million outstanding  
17 on the revolving credit facility. Staff analyzed the effects of a five-year amortization, six-year  
18 amortization and five-year non-amortizing loan, and factored in the effect of a \$45 million<sup>1</sup> (interest-  
19 only, with balloon payment) revolving credit facility at 6.6 percent.<sup>2</sup> Staff calculated the effect on  
20 capital structure and debt service ratios.

21           16. Times Interest Earned Ratio ("TIER") represents the number of times earnings cover  
22 interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating  
23 income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but  
24 does not mean that debt obligations cannot be met in the short term.

25           17. Debt Service Coverage Ratio ("DSC") represents the number of times internally  
26 generated cash will cover required principal and interest payments on short-term and long-term debt.

27

28 <sup>1</sup> UNS Electric may draw up to 75 percent, or \$45 million of the \$60 million revolving credit facility.

<sup>2</sup> LIBOR plus 100 basis points, as of September 1, 2006, LIBOR was 5.6 percent.

1 A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations. A  
2 DSC less than 1.0 means that debt service obligations cannot be met by cash generated from  
3 operations and that another source of funds is needed to avoid default.

4 18. Staff's pro forma calculations indicate a TIER of 1.42 and DSC of 0.91, assuming a  
5 five-year amortization period. Staff states that the DSC below 1.0 indicates that December 31, 2005  
6 operating results were not sufficient to meet all obligations under this scenario. Staff further  
7 determined that changing the amortization period to six years on the proposed \$100 million loan  
8 increases the pro forma DSC to 1.04, which indicates that operating results would be sufficient to  
9 meet all obligations. Staff determined also that a non-amortizing loan increases the pro forma DSC  
10 to 1.34. Staff notes that these pro forma TIER and DSC calculations assume there is no repayment of  
11 the outstanding balance on the revolving credit facility or the non-amortizing loan.

12 19. UNS Electric's capital structure at December 31, 2005, consisted of 4.41 percent  
13 short-term debt, 52.36 percent long-term debt and 43.23 percent equity. The pro forma capital  
14 structure resulting from issuance of the proposed \$100 million long-term debt with a six-year  
15 amortization, repayment of the \$60 million existing long-term debt, and drawing of \$45 million on  
16 the revolving credit facility would consist of 3.83 percent short-term debt, 69.76 percent long-term  
17 debt and 26.42 percent equity. Staff believes that the projected highly leveraged capital structure  
18 provides a cautionary signal.

19 UNS Gas

20 20. Staff's analysis of the effect of the proposed borrowing on UNS Gas utilizes  
21 December 31, 2005 financial results and assumes a \$45 million draw down of the revolving credit  
22 facility at 6.6 percent.

23 21. Staff's pro forma analysis for UNS Gas indicates a TIER of 1.73 and DSC of 2.42,  
24 which Staff states shows that operating results are sufficient to meet all obligations. Staff notes the  
25 pro forma TIER and DSC calculations reflect interest payments with no repayment of any debt.

26 22. UNS Gas's capital structure as of December 31, 2005, consisted of 55.56 percent  
27 long-term debt and 44.38 percent equity. The pro forma capital structure, assuming a draw of \$45  
28 million on the revolving credit facility, would consist of 64.5 percent long-term debt and 35.5 percent

1 equity. Staff considers this projected capital structure to be acceptable.

2 Engineering Staff Review

3 23. Engineering Staff concludes that based on review of load growth, outage statistics and  
4 2006-2010 work Plans, the activities contemplated by UNS Electric and UNS Gas in this application  
5 are appropriate and their cost estimates are reasonable. Staff makes no "used and useful"  
6 determination in this proceeding. The rate-making treatment for any plant improvements resulting  
7 from the proposed financing is deferred to a future rate proceeding.

8 Staff conclusions and recommendations

9 24. Staff concludes that the financing transactions as proposed by the Applicants are  
10 reasonable, are within their corporate powers, are compatible with the public interest, would not  
11 impair their ability to provide services and would be consistent with sound financial practices if  
12 subsequent to any debt issuance, common equity represents at least 30 percent of total capital<sup>3</sup> for the  
13 borrowing entity.

14 25. Staff recommends the requested financing be subject to the following conditions:

- 15 a. That the UNS Electric \$100 million long-term debt should be financed for a term not  
16 more than 20 years and if it is an amortizing loan, for a term of not less than 6 years.
- 17 b. That the maximum allowable draw for either UNS Electric or UNS Gas under the joint  
18 \$60 million revolving credit facility should be \$45 million.
- 19 c. That subsequent to any additional debt incurred by UNS Electric or UNS Gas,  
20 common equity represents at least 30 percent of total capital for the borrowing entity.
- 21 d. That any authorization to amend or refinance the revolving credit facility should  
22 terminate on August 11, 2011.
- 23 e. That any amendment or refinancing of the revolving credit facility should not include  
24 a maturity after August 11, 2011.
- 25 f. That any amendments and renegotiations of the revolving credit facility should be  
26 supported by a filing with Docket Control explaining the business rationale for the  
27

28 <sup>3</sup> Measured as consisting of common equity, preferred stock, long-term debt and short-term debt.

1 transaction and a demonstration that the rates and terms were consistent with those  
2 generally available to comparable entities at the time.

3 26. Staff further recommends: (1) authorizing the Applicants to engage in any transactions  
4 and to execute or cause to be executed any documents to effectuate the requested authorizations; and  
5 (2) that the Applicants file with Docket Control within 60 days of any financing transaction  
6 authorized herein a copy of all notes and other documents memorializing the transaction.

7 27. Staff's recommendations are reasonable, except that we believe it is reasonable to  
8 allow either UNS Electric or UNS Gas to draw at any one time the full amount of the joint \$60  
9 million revolving credit facility. Although Applicants have requested authority to refinance the  
10 revolving credit facility with a maturity extended to August 2014, we believe that Staff's  
11 recommendation to limit the maturity date of that facility to August 2011 gives the Applicants  
12 sufficient flexibility. Applicants can file another application for a facility with a maturity beyond  
13 2011.

14 28. We find further that any future amendments or refinancing under the authority granted  
15 herein, should be conditioned on Applicants obtaining rates and terms that result in net savings to the  
16 Applicants inclusive of all transaction costs.

17 CONCLUSIONS OF LAW

18 1. UNS Electric and UNS Gas are public service corporations within the meaning of  
19 Article XV of the Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

20 2. The Commission has jurisdiction over UNS Electric and UNS Gas and of the subject  
21 matter of the application.

22 3. Notice of the application was given in accordance with the law.

23 4. As conditioned herein, the financing approved is for lawful purposes within  
24 Applicants' corporate powers, is compatible with the public interest, with sound financial practices,  
25 and with the proper performance by Applicants of service as public service corporations, and will not  
26 impair Applicants' ability to perform the service.

27 5. The financing approved herein is for the purposes stated in the application, is  
28 reasonably necessary for those purposes, and such purposes may, wholly or in part, be reasonably

1 chargeable to operating expenses or to income.

2 **ORDER**

3 IT IS THEREFORE ORDERED that UNS Electric, Inc. is hereby authorized to borrow up to  
4 \$100 million of long term debt for a term not to exceed twenty years, for the purposes set forth in the  
5 application and set forth herein.

6 IT IS FURTHER ORDERED that UNS Electric, Inc. and UNS Gas, Inc. are hereby  
7 authorized to increase the amount of their joint Revolving Credit Facility to \$60 million and to extend  
8 the maturity date of such Revolving Credit Facility up to August 11, 2011.

9 IT IS FURTHER ORDERED that, upon and after the issuance by UNS Electric, Inc. of the  
10 long term debt pursuant to the authority granted in the first ordering paragraph hereof, neither UNS  
11 Electric, Inc. or UNS Gas, Inc. shall issue debt under the authority granted herein if such issuance  
12 would cause such entity's equity to be less than 30 percent of its total capital at the time of the  
13 issuance or draw.

14 IT IS FURTHER ORDERED that UNS Electric, Inc. is authorized to grant liens on some or  
15 all of its properties to secure its obligations under the new long-term debt and revolving credit  
16 facility.

17 IT IS FURTHER ORDERED that UNS Electric, Inc. and UNS Gas, Inc. are hereby  
18 authorized to amend or refinance the revolving credit facility, however, such authority shall be  
19 conditioned upon UNS Electric, Inc. and UNS Gas, Inc. obtaining rates and terms resulting in net  
20 savings to UNS Electric, Inc. and UNS Gas, Inc. inclusive of all transaction costs, and such refinance  
21 or amendment shall not extend the maturity of the facility beyond August 11, 2011.

22 IT IS FURTHER ORDERED that any amendments and renegotiations of the revolving credit  
23 facility should be supported by a filing with Docket Control explaining the business rationale for the  
24 transaction and a demonstration that the rates and terms were consistent with those generally  
25 available to comparable entities at the time.

26 IT IS FURTHER ORDERED that UNS Electric, Inc. and UNS Gas, Inc. are hereby  
27 authorized to engage in any transactions and to execute or cause to be executed any documents or  
28 modifications to existing documents to effectuate the authorization granted herein, including notes

1 and bonds evidencing or securing the indebtedness authorized herein.

2 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon  
3 UNS Electric, Inc.'s and UNS Gas, Inc.'s use of the proceeds for the purposes stated in the  
4 application and approved herein.

5 IT IS FURTHER ORDERED that any refinancing transaction pursuant to this authority shall  
6 be subject to review in the first UNS Electric, Inc. and/or UNS Gas, Inc. rate case after the  
7 completion of the transaction.

8 IT IS FURTHER ORDERED that UNS Electric, Inc. and UNS Gas, Inc. shall file with  
9 Docket Control, as a compliance item in this docket, copies of all executed financing documents  
10 within 60 days after the date of execution.

11 ...

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IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

<i>Lawrence H. Blum</i>	<i>William Miller</i>	
CHAIRMAN	COMMISSIONER	
<i>Stephen Hatch-Neel</i>	<i>John M. ...</i>	<i>Paul ...</i>
COMMISSIONER	COMMISSIONER	COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 22<sup>nd</sup> day of March, 2007.

*Brian C. McNeil*  
 \_\_\_\_\_  
 BRIAN C. McNEIL  
 EXECUTIVE DIRECTOR

DISSENT \_\_\_\_\_

DISSENT \_\_\_\_\_

JR:mj

1 SERVICE LIST FOR: UNS ELECTRIC, INC. AND UNS GAS, INC. COMPANY  
2 DOCKET NOS. : E-04204A-06-0493 and G-04204A-06-0493  
3  
4 Michael W. Patten  
5 ROSHKA DEWULF & PATTEN, PLC  
6 One Arizona Center  
7 400 East Van Buren Street, Suite 800  
8 Phoenix, Arizona 85004  
9  
10 Michelle Livengood  
11 Tucson Electric Power Company  
12 One south Church Avenue  
13 P.O. Box 711  
14 Tucson, Arizona 85702  
15  
16 Christopher Kempley, Chief Counsel  
17 Legal Division  
18 ARIZONA CORPORATION COMMISSION  
19 1200 West Washington Street  
20 Phoenix, Arizona 85007  
21  
22 Ernest Johnson, Director  
23 Utilities Division  
24 ARIZONA CORPORATION COMMISSION  
25 1200 West Washington Street  
26 Phoenix, Arizona 85007  
27  
28

[EXECUTION COPY]

**AMENDMENT NO. 1  
TO  
AMENDED AND RESTATED CREDIT AGREEMENT**

This AMENDMENT NO. 1, dated as of April 30, 2007 (this "*Amendment*"), is made by and among UNS ELECTRIC, INC., an Arizona corporation ("*UNS Electric*"), UNS GAS, INC., an Arizona corporation ("*UNS Gas*"), and together with UNS Electric being referred to herein, individually, as a "*Borrower*" and, collectively, as the "*Borrowers*"), UNISOURCE ENERGY SERVICES, INC., an Arizona corporation (the "*Guarantor*"), the lenders listed on the signature pages of this Amendment as "Lenders" (such lenders, together with their respective permitted assignees from time to time, being referred to herein, collectively, as the "*Lenders*"), and UNION BANK OF CALIFORNIA, N.A., as administrative agent for the Lenders (in such capacity, the "*Administrative Agent*").

**PRELIMINARY STATEMENT:**

The Borrowers, the Guarantor, the Lenders and the Administrative Agent previously entered into that certain Amended and Restated Credit Agreement, dated as of August 11, 2006 (the "*Existing Agreement*", as amended by this Amendment, the "*Amended Agreement*", and as the Amended Agreement may hereafter be amended, supplemented or otherwise modified from time to time, the "*Credit Agreement*"). The Borrowers and the Lenders desire to amend the Existing Agreement in certain particulars in connection with the Order (Decision No. 69395) issued by the ACC on March 22, 2007. Each of the Borrowers, the Guarantor and the Required Lenders has agreed to such amendment, on the terms and conditions set forth herein. The parties therefore agree as follows (capitalized terms used but not defined herein having the meanings assigned such terms in the Existing Agreement):

**SECTION 1. Amendments to Existing Agreement.** The Existing Agreement is, effective as of the date hereof and subject to the satisfaction of the conditions precedent set forth in Section 2 hereof, hereby amended as follows:

(a) **Definitions.** The following new definition is hereby added to Section 1.01 of the Existing Agreement in the appropriate alphabetical order:

"**2007 ACC Order**" means the Order (Decision No. 69395) issued by the ACC on March 22, 2007.

(b) **Governmental Authorizations.** Section 7.01(g) of the Existing Agreement is hereby amended and restated in its entirety to read as follows:

“(g) *Governmental Authorizations, etc.* No consent, approval or authorization of, or registration, filing or declaration with, any Governmental Authority is required in connection with the execution, delivery or performance by such Obligor of any Loan Document to which it is a party, except for (i) the ACC Order, which ACC Order has been obtained and is in full force and effect, and (ii) the 2007 ACC Order, which 2007 ACC Order has been obtained and is in full force and effect. After giving effect to each Extension of Credit to or for the account of any Borrower and the application of the proceeds thereof, such Borrower is in compliance with all applicable requirements contained in the 2007 ACC Order (including, without limitation, the requirement that such Borrower’s equity shall not be less than 30% of its total capital after giving effect to such Extension of Credit, if such Extension of Credit is made on or after the date of issuance by UNS Electric of long term debt pursuant to the authority granted in the 2007 ACC Order).”

**SECTION 2. Conditions of Effectiveness of Amendments.** The amendments to the Existing Agreement set forth in Section 1 hereof shall become effective as of the date hereof when, and only when, the Administrative Agent shall have received counterparts of this Amendment executed by the Borrowers, the Guarantor and the Required Lenders (in sufficient quantity for each party to have a fully executed original).

**SECTION 3. Representations and Warranties of the Borrowers.** Each Borrower represents and warrants as follows:

(a) The execution and delivery by such Borrower of this Amendment, and the performance by such Borrower of this Amendment and the Amended Agreement, are within such Borrower’s organizational powers and have been duly authorized by all necessary corporate and, if required, stockholder action, and do not and will not (i) violate any Requirement of Law, (ii) violate or result in a default under any indenture, agreement or other instrument binding upon such Borrower or any of its Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by such Borrower or any of its Subsidiaries, or (iii) result in the creation or imposition of any Lien on any asset of such Borrower or any of its Subsidiaries. This Amendment has been duly executed and delivered by such Borrower.

(b) The execution and delivery by such Borrower of this Amendment, and the performance by such Borrower of this Amendment and the Amended Agreement, do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except as set forth in Section 7.01(g) of the Amended Agreement.

(c) Each of this Amendment and the Amended Agreement constitutes a legal, valid and binding obligation of such Borrower, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization,

moratorium or other laws affecting the enforcement of creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

(d) No Default or Event of Default with respect to such Borrower or the Guarantor has occurred and is continuing.

***SECTION 4. Reference to and Effect on the Existing Agreement.***

(a) Upon the effectiveness of this Amendment: (i) each reference in the Existing Agreement to "this Agreement", "hereunder", "hereof" or words of like import referring to the Existing Agreement shall mean and be a reference to the Credit Agreement; and (ii) each reference in any other Loan Document to "the Credit Agreement", "thereunder", "thereof" or words of like import referring to the Existing Agreement shall mean and be a reference to the Credit Agreement.

(b) Except as specifically amended above, the Existing Agreement shall continue to be in full force and effect and is hereby in all respects ratified and confirmed.

(c) The execution, delivery and effectiveness of this Amendment shall not, except as expressly provided herein, operate as a waiver of any right, power or remedy of the Lenders, the Issuing Banks or the Administrative Agent under the Existing Agreement or any other Loan Document, nor constitute a waiver of any provision of the Existing Agreement or any other Loan Document.

***SECTION 5. Costs and Expenses.*** The Borrowers agree to pay on demand all reasonable out-of-pocket expenses of the Administrative Agent in connection with the preparation, negotiation, syndication, execution and delivery of this Amendment and the other instruments and documents to be delivered hereunder, including, without limitation, the reasonable fees, charges and disbursements of counsel to the Administrative Agent with respect thereto and with respect to advising the Administrative Agent as to its rights and responsibilities hereunder and thereunder, and all out-of-pocket expenses incurred by the Administrative Agent, any Issuing Bank or any Lender (including, without limitation, the fees, charges and disbursements of any counsel for the Administrative Agent, any Issuing Bank or any Lender) in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Amendment.

***SECTION 6. Execution in Counterparts.*** This Amendment may be executed in any number of counterparts and by different parties hereto in separate counterparts, each of which when so executed and delivered shall be deemed to be an original and all of which taken together shall constitute but one and the same instrument. In furtherance of the foregoing, it is understood and agreed that signatures hereto submitted by facsimile transmission shall be deemed to be, and shall constitute, original signatures.

**SECTION 7. *Governing Law.*** This Amendment shall be governed by, and construed in accordance with, the laws of the State of the New York.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

UNS ELECTRIC, INC., as a Borrower

By Kevin Larson  
Name: KEVIN LARSON  
Title: Vice President and Treasurer

UNS GAS, INC., as a Borrower

By Kevin Larson  
Name: KEVIN LARSON  
Title: Vice President and Treasurer

UNISOURCE ENERGY SERVICES, INC.,  
as Guarantor

By Kevin Larson  
Name: KEVIN LARSON  
Title: Vice President and Treasurer

UNION BANK OF CALIFORNIA, N.A., as  
Administrative Agent and a Lender

By \_\_\_\_\_  
Name:  
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be executed by their respective officers thereunto duly authorized, as of the date first above written.

UNS ELECTRIC, INC., as a Borrower

By \_\_\_\_\_  
Name:  
Title:

UNS GAS, INC., as a Borrower

By \_\_\_\_\_  
Name:  
Title:

UNISOURCE ENERGY SERVICES, INC.,  
as Guarantor

By \_\_\_\_\_  
Name:  
Title:

UNION BANK OF CALIFORNIA, N.A., as  
Administrative Agent and a Lender

By Jonathan Bigelow  
Name: **Jonathan L. Bigelow**  
Title: **Vice President**

THE BANK OF NEW YORK, as a Lender

By   
Name: JOHN-PAUL MAROTTA  
Title: MANAGING DIRECTOR

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as a Lender

By \_\_\_\_\_  
Name:  
Title:

ABN AMRO BANK N.V., as a Lender

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:

JPMORGAN CHASE BANK, N.A., as a  
Lender

By \_\_\_\_\_  
Name:  
Title:

THE BANK OF NEW YORK, as a Lender

By \_\_\_\_\_  
Name:  
Title:

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as a Lender

By Clyde Gossert JP  
Name: Clyde Gossert  
Title: Vice President

ABN AMRO BANK N.V., as a Lender

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:

JPMORGAN CHASE BANK, N.A., as a  
Lender

By \_\_\_\_\_  
Name:  
Title:

THE BANK OF NEW YORK, as a Lender

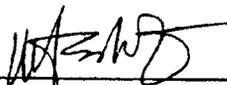
By \_\_\_\_\_  
Name:  
Title:

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as a Lender

By \_\_\_\_\_  
Name:  
Title:

ABN AMRO BANK N.V., as a Lender

By   
Name: **Kris Grosshans**  
Title: **Managing Director**

By   
Name:  
Title: **Meghan A. Schultz**  
**Vice President**

JPMORGAN CHASE BANK, N.A., as a  
Lender

By \_\_\_\_\_  
Name:  
Title:

THE BANK OF NEW YORK, as a Lender

By \_\_\_\_\_  
Name:  
Title:

WELLS FARGO BANK, NATIONAL  
ASSOCIATION, as a Lender

By \_\_\_\_\_  
Name:  
Title:

ABN AMRO BANK N.V., as a Lender

By \_\_\_\_\_  
Name:  
Title:

By \_\_\_\_\_  
Name:  
Title:

JPMORGAN CHASE BANK, N.A., as a  
Lender

By Nancy P. Barwig  
Name: Nancy P. Barwig  
Title: Vice President

WACHOVIA BANK, NATIONAL  
ASSOCIATION, as a Lender

By   
Name: Paul Pritchett  
Title: Vice President



UniSource Energy Corporation  
One South Church Avenue, Suite 1820  
Tucson, Arizona 85701

Raymond S. Heyman  
Senior Vice President and  
General Counsel

Office: (520) 884-3635  
Fax: (520) 884-3612

April 12, 2007

Union Bank of California, N.A.,  
as Administrative Agent, Issuing Bank and a Lender  
445 South Figueroa Street, 15<sup>th</sup> Floor  
Los Angeles, California 90071

The Lenders listed on Schedule I hereto

Ladies and Gentlemen:

I am Senior Vice President and General Counsel of UniSource Energy Corporation, an Arizona corporation, and counsel to UniSource Energy Services, Inc., an Arizona corporation ("UES"), UNS Electric, Inc., an Arizona corporation ("UNS Electric"), and UNS Gas, Inc., an Arizona corporation ("UNS Gas", and together with UNS Electric, the "Borrowers" and each a "Borrower" and, together with UES and UNS Electric, the "Obligors" and each an "Obligor"), and have acted as such in connection with the Amended and Restated Credit Agreement, dated as of August 11, 2006, among UNS Electric and UNS Gas, each as a Borrower, UES, as Guarantor, the Lenders party thereto and Union Bank of California, N.A., as Administrative Agent (hereinafter, the "Amended and Restated Credit Agreement"), including without limitation the increase in the aggregate amount of the Commitments provided by the Amended and Restated Credit Agreement and the extension of the maturity date of the credit facilities established by the Amended and Restated Credit Agreement, in each case after giving effect to the satisfaction of the conditions set forth in Section 6.02(b) thereof. Unless otherwise specified herein, capitalized terms used herein have the respective meanings set forth in the Amended and Restated Credit Agreement.

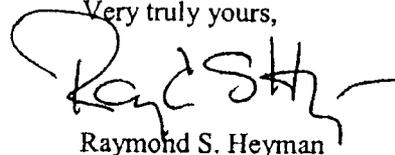
In so acting I have examined such documents and satisfied myself as to such matters as I have deemed necessary as a basis for the opinion set forth below. I have relied as to various questions of fact upon certificates of public officials and officers of the Borrowers delivered under the Amended and Restated Credit Agreement.

Based upon and subject to the foregoing, and subject also to the qualifications hereinafter set forth, I am of the opinion that no consent or authorization of, filing with or other act by or in respect of, any Governmental Authority or any other Person is required in connection with the execution, delivery or performance by the Obligors of the Amended and Restated Credit Agreement (including, without limitation, the increase in the aggregate amount of the Commitments provided by the Amended and Restated Credit Agreement and the extension of the maturity date of the credit facilities established by the Amended and Restated Credit Agreement,

in each case after giving effect to the satisfaction of the conditions set forth in Section 6.02(b) thereof) or for borrowings by the Borrowers under the Amended and Restated Credit Agreement, except for the Order (Decision No. 69395) of the ACC relating thereto and the ACC Order (which Orders have been obtained and are, to the best of my knowledge, in full force and effect).

This opinion is limited to the laws of the State of Arizona. This letter is not being delivered for the benefit of, nor may it be relied upon by, any person or entity to which it is not specifically addressed or by which reliance is not expressly authorized hereby. Notwithstanding the foregoing, persons who subsequently become Lenders (or participants in accordance with the terms of the Amended and Restated Credit Agreement) or Issuing Banks may rely on this letter as of the time of its delivery on the date hereof as if this letter were addressed to them.

Very truly yours,

A handwritten signature in black ink, appearing to read "Ray S. Heyman", with a long horizontal flourish extending to the right.

Raymond S. Heyman

**SCHEDULE I**

**LENDERS**

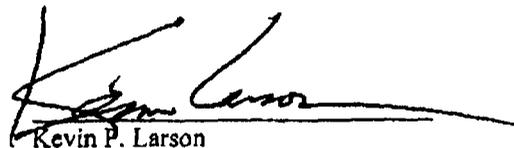
<i>Lender</i>	<i>Address</i>
ABN AMRO Bank N.V.	135 S. LaSalle St. Chicago, IL 60603 Attention: Meghan Schultz Phone: (312) 904-9457 Fax: (312) 904-1994
JPMorgan Chase Bank, N.A.	10 S. Dearborn, Mail code IL1-0010 Chicago, IL 60603 Attention: Maribel Lorenzo Phone: (312) 732-5548 Fax: (312) 385-7096
The Bank of New York	One Wall Street, 19th Floor New York, New York 10286 Attention: John Paul Marotta Telephone: (212) 685-8204 Fax: (212) 635-7923
Union Bank of California, N.A.	445 South Figueroa Street, 15 <sup>th</sup> Floor Los Angeles, California 90071 Attention: Kevin Zitar Telephone: (213) 236-5503 Fax: (213) 236-4096
Wachovia Bank, National Association	301 South College Street, TW-15 NC5562 Charlotte, NC 28288 Attention: Tahlor Ahlstrom Telephone: (704) 715-2991 Fax: (704) 715-0094
Wells Fargo Bank, National Association	150 N. Stone, 2 <sup>nd</sup> Floor Tucson, Arizona 85745 Attention: Clyde Gossert Telephone: (520) 792-5417 Fax: (520) 792-5482

UNISOURCE ENERGY SERVICES, INC.  
UNS ELECTRIC, INC.  
UNS GAS, INC.

Officer's Certificate

The undersigned, Kevin P. Larson, Senior Vice President and Treasurer of UniSource Energy Services, Inc., an Arizona corporation ("UES"), and Vice President and Treasurer of UNS Electric, Inc., an Arizona corporation ("UNS Electric"), and UNS Gas, Inc., an Arizona corporation ("UNS Gas"), hereby certifies pursuant to Section 6.02(b)(i) of the Amended and Restated Credit Agreement, dated as of August 11, 2006 (the "Agreement"), among UNS Electric and UNS Gas, each as a Borrower, UES, as Guarantor, the Lenders party thereto and Union Bank of California, N.A., as Administrative Agent (capitalized terms used herein shall have the meaning ascribed to such terms in the Agreement unless otherwise defined herein), that attached hereto as Exhibit A is a true, correct and complete copy of the order of the Arizona Corporation Commission as in full force and effect on the date hereof, authorizing the increase in the aggregate amount of the Commitments provided by the Agreement and the extension of the maturity date of the credit facilities established by the Agreement.

IN WITNESS WHEREOF, the undersigned has executed this Certificate as of the 12<sup>th</sup> day of April, 2007.



Kevin P. Larson

As Senior Vice President and Treasurer of  
UES and as Vice President and  
Treasurer of UNS Electric and UNS Gas

**EXHIBIT A**

1 BEFORE THE ARIZONA CORPORATION COMMISSION

2 COMMISSIONERS

Arizona Corporation Commission

3 MIKE GLEASON, Chairman  
4 WILLIAM A. MUNDELL  
5 JEFF HATCH-MILLER  
6 KRISTIN K. MAYES  
7 GARY PIERCE

DOCKETED

MAR 22 2007

DOCKETED BY

nr

8 IN THE MATTER OF THE APPLICATION OF  
9 UNS ELECTRIC, INC. AND UNS GAS, INC. FOR  
10 A FINANCING ORDER AUTHORIZING  
11 VARIOUS FINANCING TRANSACTIONS.

DOCKET NO. E-04204A-06-0493  
DOCKET NO. G-04204A-06-0493

DECISION NO. 69395

ORDER

11 Open Meeting  
12 March 13 and 14, 2007  
13 Phoenix, Arizona

14 **BY THE COMMISSION:**

15 Having considered the entire record herein and being fully advised in the premises, the  
16 Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

17 \* \* \* \* \*

18 **FINDINGS OF FACT**

19 1. On July 28, 2006, UNS Electric, Inc. ("UNS Electric") and UNS Gas, Inc. ("UNS  
20 Gas") (collectively "Applicants") filed a joint application with the Commission requesting  
21 authorization for various financing transactions.

22 2. The Applicants seek authorization for UNS Electric to refinance and increase its long-  
23 term debt, for the Applicants to extend and increase the amount of their joint revolving credit facility,  
24 for pre-approved authority to subsequently renew their joint revolving credit facility, and for UNS  
25 Electric to enter into security agreements granting liens on some or all of its properties.

26 3. On October 16, 2006, Applicants filed affidavits of publication attesting that public  
27 notice of the application was made in the *Arizona Daily Star* and *Lake Havasu's Today's News-*  
28 *Herald* on August 28, 2006; in the *Arizona Republic*, the *Kingman Daily Miner*, and the *White*

1 *Mountain Independent* on August 29, 2006; the *Holbrook Tribune-News*, the *Prescott Courier*, and  
2 the *Sedona Red Rock News* on August 30, 2006; the *Nogales International* on September 19, 2006;  
3 the *Winslow Mail* on September 20, 2006; the *Verde Independent* on September 26, 2006; and the  
4 *Williams-Grand Canyon News* on September 29, 2006.

5 4. On December 15, 2006, Commission Utilities Division Staff ("Staff") filed its Staff  
6 Report, recommending conditional approval.

7 5. The Applicants did not file a Response or comments to the Staff Report.

8 6. The Applicants are wholly owned subsidiaries of Unisource Energy Services, Inc.,  
9 and sister companies of Tucson Electric Power Company ("TEP"). UNS Electric serves  
10 approximately 91,000 customers in Mohave and Santa Cruz counties and maintains a service office in  
11 Kingman. UNS Gas serves approximately 142,000 customers in Mohave, Yavapai, Coconino,  
12 Navajo and Santa Cruz Counties and maintains a service office in Flagstaff.

13 Long-term Debt

14 7. UNS Electric seeks to issue \$100 million in long-term debt for the purpose of  
15 refinancing \$60 million of existing interest-only long-term debt ("Senior Notes") that matures in  
16 August 2008; and to provide long-term capital to refinance capital improvements that are first  
17 financed with a revolving credit facility. UNS Electric is seeking authority to refinance the Senior  
18 Notes a year in advance of maturity to give it flexibility and enable it to act quickly in response to  
19 proposals from lenders.

20 8. UNS Electric seeks to issue \$100 million of long-term debt with a maturity date  
21 between five and twenty years. Terms for the loan type and interest rate are yet to be negotiated.

22 Revolving Credit Facility

23 9. Applicants seek to extend the maturity of the existing \$40 million revolving credit  
24 facility, increase the amount of the facility from \$40 million to \$60 million, and to enter into similar  
25 amendments or refinancing to extend the facility during the next three years should favorable  
26 opportunities arise.

27 10. Applicants state that they seek to increase their revolving line of credit facility from  
28 \$40 million to \$60 million to improve access to funds for short-term liquidity and working capital

1 purposes to fund growth. Applicants cite their service areas' four to five percent growth rate and the  
2 need for additional infrastructure as warranting an increase in the amount of the facility. Applicants  
3 assert that conditions in the bank credit markets have improved since they entered into their existing  
4 revolving credit facility and that companies with similar credit profiles are currently receiving more  
5 advantageous rates and reduced commitment fees. Thus, they believe there is an opportunity for  
6 them to obtain reduced pricing and also extend the term of the facility.

7 11. Applicants also state that increased borrowing capacity will facilitate issuing letters of  
8 credit as credit enhancement for energy purchases and for hedging arrangements for UNS Gas.  
9 Applicants state that UNS Gas purchases a portion of its gas supply on a forward basis in order to  
10 hedge against commodity price volatility. In the future, UNS Gas's gas suppliers or financial  
11 counterparties may require credit enhancement in the form of letters of credit. In addition, UNS  
12 Electric's full requirements power purchase contract with Pinnacle West Capital Corporation expires  
13 in 2008 and UNS Electric may be required to provide credit enhancement under future power  
14 purchase agreements.

15 12. According to the application, the applicable borrowing rate as of June 30, 2006, was  
16 the London Interbank Offered Rate ("LIBOR") plus 1.50 percent, and an annual commitment fee of  
17 0.45 percent applied to the unused balance. The facility was amended and restated on August 11,  
18 2006 to provide:

19 The interest rate payable on any borrowings under the facility is LIBOR +  
20 1.00% for Eurodollar borrowings, or at the agent bank's reference rate  
21 (generally Prime Rate) for any Alternate Base Rate ("ABR") borrowings.  
22 The commitment fee on the unused commitment is 15 basis pts. per  
23 annum. Previously, these amounts were LIBOR + 1.50 % for Eurodollar  
24 borrowings and 45 basis pts. for the commitment fee.

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

29 The amended agreement extends the maturity date of the facility to August 11, 2011. Under the  
30 revolving credit facility's terms, either UNS Gas or UNS Electric can borrow up to 75 percent of the  
31 total. The obligation of each entity is several and not joint, so neither entity guarantees the  
32 obligations of the other.

1           13. Applicants request authorization to enter into amendments to their existing revolving  
2 credit facility or to refinance by entering into new agreements with an ultimate maturity date in  
3 August 2014. The Applicants assert that such refinancing authority would allow them to take  
4 advantage of opportunities to obtain better terms as they arise in a timely manner.

5 Security Interest

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

11 Financial Analysis

12 UNS Electric

13           15. Staff analyzed the effect of the proposed financing request on UNS Electric utilizing  
14 financial statements for the year ended December 31, 2005, and making certain assumptions about  
15 the proposed new loans. Staff's pro forma analysis calculated the effects of a \$100 million loan at  
16 7.61 percent, repayment of the \$60 million Senior Notes and repayment of the \$5 million outstanding  
17 on the revolving credit facility. Staff analyzed the effects of a five-year amortization, six-year  
18 amortization and five-year non-amortizing loan, and factored in the effect of a \$45 million<sup>1</sup> (interest-  
19 only, with balloon payment) revolving credit facility at 6.6 percent.<sup>2</sup> Staff calculated the effect on  
20 capital structure and debt service ratios.

21           16. Times Interest Earned Ratio ("TIER") represents the number of times earnings cover  
22 interest expense on short-term and long-term debt. A TIER greater than 1.0 means that operating  
23 income is greater than interest expense. A TIER less than 1.0 is not sustainable in the long term but  
24 does not mean that debt obligations cannot be met in the short term.

25           17. Debt Service Coverage Ratio ("DSC") represents the number of times internally  
26 generated cash will cover required principal and interest payments on short-term and long-term debt.

27  
28 <sup>1</sup> UNS Electric may draw up to 75 percent, or \$45 million of the \$60 million revolving credit facility.  
<sup>2</sup> LIBOR plus 100 basis points, as of September 1, 2006, LIBOR was 5.6 percent.

1 A DSC greater than 1.0 indicates that operating cash flow is sufficient to cover debt obligations. A  
2 DSC less than 1.0 means that debt service obligations cannot be met by cash generated from  
3 operations and that another source of funds is needed to avoid default.

4 18. Staff's pro forma calculations indicate a TIER of 1.42 and DSC of 0.91, assuming a  
5 five-year amortization period. Staff states that the DSC below 1.0 indicates that December 31, 2005  
6 operating results were not sufficient to meet all obligations under this scenario. Staff further  
7 determined that changing the amortization period to six years on the proposed \$100 million loan  
8 increases the pro forma DSC to 1.04, which indicates that operating results would be sufficient to  
9 meet all obligations. Staff determined also that a non-amortizing loan increases the pro forma DSC  
10 to 1.34. Staff notes that these pro forma TIER and DSC calculations assume there is no repayment of  
11 the outstanding balance on the revolving credit facility or the non-amortizing loan.

12 19. UNS Electric's capital structure at December 31, 2005, consisted of 4.41 percent  
13 short-term debt, 52.36 percent long-term debt and 43.23 percent equity. The pro forma capital  
14 structure resulting from issuance of the proposed \$100 million long-term debt with a six-year  
15 amortization, repayment of the \$60 million existing long-term debt, and drawing of \$45 million on  
16 the revolving credit facility would consist of 3.83 percent short-term debt, 69.76 percent long-term  
17 debt and 26.42 percent equity. Staff believes that the projected highly leveraged capital structure  
18 provides a cautionary signal.

19 UNS Gas

20 20. Staff's analysis of the effect of the proposed borrowing on UNS Gas utilizes  
21 December 31, 2005 financial results and assumes a \$45 million draw down of the revolving credit  
22 facility at 6.6 percent.

23 21. Staff's pro forma analysis for UNS Gas indicates a TIER of 1.73 and DSC of 2.42,  
24 which Staff states shows that operating results are sufficient to meet all obligations. Staff notes the  
25 pro forma TIER and DSC calculations reflect interest payments with no repayment of any debt.

26 22. UNS Gas's capital structure as of December 31, 2005, consisted of 55.56 percent  
27 long-term debt and 44.38 percent equity. The pro forma capital structure, assuming a draw of \$45  
28 million on the revolving credit facility, would consist of 64.5 percent long-term debt and 35.5 percent

1 equity. Staff considers this projected capital structure to be acceptable.

2 Engineering Staff Review

3 23. Engineering Staff concludes that based on review of load growth, outage statistics and  
4 2006-2010 work Plans, the activities contemplated by UNS Electric and UNS Gas in this application  
5 are appropriate and their cost estimates are reasonable. Staff makes no "used and useful"  
6 determination in this proceeding. The rate-making treatment for any plant improvements resulting  
7 from the proposed financing is deferred to a future rate proceeding.

8 Staff conclusions and recommendations

9 24. Staff concludes that the financing transactions as proposed by the Applicants are  
10 reasonable, are within their corporate powers, are compatible with the public interest, would not  
11 impair their ability to provide services and would be consistent with sound financial practices if  
12 subsequent to any debt issuance, common equity represents at least 30 percent of total capital<sup>3</sup> for the  
13 borrowing entity.

14 25. Staff recommends the requested financing be subject to the following conditions:

- 15 a. That the UNS Electric \$100 million long-term debt should be financed for a term not  
16 more than 20 years and if it is an amortizing loan, for a term of not less than 6 years.
- 17 b. That the maximum allowable draw for either UNS Electric or UNS Gas under the joint  
18 \$60 million revolving credit facility should be \$45 million.
- 19 c. That subsequent to any additional debt incurred by UNS Electric or UNS Gas,  
20 common equity represents at least 30 percent of total capital for the borrowing entity.
- 21 d. That any authorization to amend or refinance the revolving credit facility should  
22 terminate on August 11, 2011.
- 23 e. That any amendment or refinancing of the revolving credit facility should not include  
24 a maturity after August 11, 2011.
- 25 f. That any amendments and renegotiations of the revolving credit facility should be  
26 supported by a filing with Docket Control explaining the business rationale for the  
27

28 <sup>3</sup> Measured as consisting of common equity, preferred stock, long-term debt and short-term debt.

1 transaction and a demonstration that the rates and terms were consistent with those  
2 generally available to comparable entities at the time.

3 26. Staff further recommends: (1) authorizing the Applicants to engage in any transactions  
4 and to execute or cause to be executed any documents to effectuate the requested authorizations; and  
5 (2) that the Applicants file with Docket Control within 60 days of any financing transaction  
6 authorized herein a copy of all notes and other documents memorializing the transaction.

7 27. Staff's recommendations are reasonable, except that we believe it is reasonable to  
8 allow either UNS Electric or UNS Gas to draw at any one time the full amount of the joint \$60  
9 million revolving credit facility. Although Applicants have requested authority to refinance the  
10 revolving credit facility with a maturity extended to August 2014, we believe that Staff's  
11 recommendation to limit the maturity date of that facility to August 2011 gives the Applicants  
12 sufficient flexibility. Applicants can file another application for a facility with a maturity beyond  
13 2011.

14 28. We find further that any future amendments or refinancing under the authority granted  
15 herein, should be conditioned on Applicants obtaining rates and terms that result in net savings to the  
16 Applicants inclusive of all transaction costs.

17 CONCLUSIONS OF LAW

18 1. UNS Electric and UNS Gas are public service corporations within the meaning of  
19 Article XV of the Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

20 2. The Commission has jurisdiction over UNS Electric and UNS Gas and of the subject  
21 matter of the application.

22 3. Notice of the application was given in accordance with the law.

23 4. As conditioned herein, the financing approved is for lawful purposes within  
24 Applicants' corporate powers, is compatible with the public interest, with sound financial practices,  
25 and with the proper performance by Applicants of service as public service corporations, and will not  
26 impair Applicants' ability to perform the service.

27 5. The financing approved herein is for the purposes stated in the application, is  
28 reasonably necessary for those purposes, and such purposes may, wholly or in part, be reasonably

1 chargeable to operating expenses or to income.

2 **ORDER**

3 IT IS THEREFORE ORDERED that UNS Electric, Inc. is hereby authorized to borrow up to  
4 \$100 million of long term debt for a term not to exceed twenty years, for the purposes set forth in the  
5 application and set forth herein.

6 IT IS FURTHER ORDERED that UNS Electric, Inc. and UNS Gas, Inc. are hereby  
7 authorized to increase the amount of their joint Revolving Credit Facility to \$60 million and to extend  
8 the maturity date of such Revolving Credit Facility up to August 11, 2011.

9 IT IS FURTHER ORDERED that, upon and after the issuance by UNS Electric, Inc. of the  
10 long term debt pursuant to the authority granted in the first ordering paragraph hereof, neither UNS  
11 Electric, Inc. or UNS Gas, Inc. shall issue debt under the authority granted herein if such issuance  
12 would cause such entity's equity to be less than 30 percent of its total capital at the time of the  
13 issuance or draw.

14 IT IS FURTHER ORDERED that UNS Electric, Inc. is authorized to grant liens on some or  
15 all of its properties to secure its obligations under the new long-term debt and revolving credit  
16 facility.

17 IT IS FURTHER ORDERED that UNS Electric, Inc. and UNS Gas, Inc. are hereby  
18 authorized to amend or refinance the revolving credit facility, however, such authority shall be  
19 conditioned upon UNS Electric, Inc. and UNS Gas, Inc. obtaining rates and terms resulting in net  
20 savings to UNS Electric, Inc. and UNS Gas, Inc. inclusive of all transaction costs, and such refinance  
21 or amendment shall not extend the maturity of the facility beyond August 11, 2011.

22 IT IS FURTHER ORDERED that any amendments and renegotiations of the revolving credit  
23 facility should be supported by a filing with Docket Control explaining the business rationale for the  
24 transaction and a demonstration that the rates and terms were consistent with those generally  
25 available to comparable entities at the time.

26 IT IS FURTHER ORDERED that UNS Electric, Inc. and UNS Gas, Inc. are hereby  
27 authorized to engage in any transactions and to execute or cause to be executed any documents or  
28 modifications to existing documents to effectuate the authorization granted herein, including notes

1 and bonds evidencing or securing the indebtedness authorized herein.

2 IT IS FURTHER ORDERED that such finance authority shall be expressly contingent upon  
3 UNS Electric, Inc.'s and UNS Gas, Inc.'s use of the proceeds for the purposes stated in the  
4 application and approved herein.

5 IT IS FURTHER ORDERED that any refinancing transaction pursuant to this authority shall  
6 be subject to review in the first UNS Electric, Inc. and/or UNS Gas, Inc. rate case after the  
7 completion of the transaction.

8 IT IS FURTHER ORDERED that UNS Electric, Inc. and UNS Gas, Inc. shall file with  
9 Docket Control, as a compliance item in this docket, copies of all executed financing documents  
10 within 60 days after the date of execution.

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1 IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not  
2 constitute or imply approval or disapproval by the Commission of any particular expenditure of the  
3 proceeds derived thereby for purposes of establishing just and reasonable rates.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

6

7 *Lawrence H. Blase* *William Miller*  
 8 CHAIRMAN COMMISSIONER

9 *Stephen Hatch-Neel* *[Signature]* *Gary Quinn*  
 10 COMMISSIONER COMMISSIONER COMMISSIONER

11  
12  
13 IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive  
14 Director of the Arizona Corporation Commission, have  
15 hereunto set my hand and caused the official seal of the  
16 Commission to be affixed at the Capitol, in the City of Phoenix,  
17 this 22<sup>nd</sup> day of March, 2007.

18 *[Signature]*  
19 BRIAN C. McNEIL  
20 EXECUTIVE DIRECTOR

21 DISSENT \_\_\_\_\_

22 DISSENT \_\_\_\_\_

23 JR:mlj

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1 SERVICE LIST FOR: UNS ELECTRIC, INC. AND UNS GAS, INC. COMPANY  
2 DOCKET NOS. : E-04204A-06-0493 and G-04204A-06-0493

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