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ORIGINAL

BEFORE THE ARIZONA CORPORATION

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AZ CORP COMMISSION
DOCKET CONTROL

MIKE GLEASON, Chairman
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
KRISTIN K. MAYES
GARY PIERCE

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR THE ESTABLISHMENT OF JUST AND REASONABLE RATES AND CHARGES DESIGNED TO REALIZE A REASONABLE RATE OF RETURN ON THE FAIR VALUE OF ITS OPERATIONS THROUGHOUT THE STATE OF ARIZONA.	DOCKET NO. E-01933A-07-0402
IN THE MATTER OF THE FILING BY TUCSON ELECTRIC POWER COMPANY TO AMEND DECISION NO. 62103.	DOCKET NO. E-01933A-05-0650

PROCEDURAL ORDER

BY THE COMMISSION:

A hearing was held the above-captioned matter from July 9, 2008 through July 16, 2008. During the hearing the attached Exhibits which had been offered by Commissioner Mayes and identified as Mayes–1 and Mayes-2, were discussed. It appears, however, that Mayes-1 and Mayes-2 were not formally admitted during the course of the hearing as the result of an oversight.

IT IS THEREFORE ORDERED that exhibits Mayes-1 and Mayes-2 will be admitted in this matter unless any party **files an objection** in the docket by **August 11, 2008**.

IT IS FURTHER ORDERED that the Presiding Officer may rescind, alter, amend, or waive any portion of this Procedural Order either by subsequent Procedural Order or by ruling at hearing.

DATED this 30th day of July, 2008.

Arizona Corporation Commission
DOCKETED
AUG - 4 2008
DOCKETED BY

JANE L. RODDA
ADMINISTRATIVE LAW JUDGE

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By: Jenny E. Gomez
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Secretary to Jane L. Rodda

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EXHIBIT Mayes-1

All of the major electric utilities located in the western region of the United States are reviewed in this Issue; eastern electrics, in Issue 1; and the remaining utilities, in Issue 5.

On an irregular basis, we run a table of regulatory climates for each state and the Federal Energy Regulatory Commission (FERC).

Utility stocks have fallen more than the broad market averages since the start of 2008, but that doesn't mean that investors should rush in to buy these equities.

Ranking The Regulators

No matter whether or not a state has undertaken a partial deregulation of the electric utility industry, the regulatory climate is important. Even in a partially deregulated state, the power-distribution function is still regulated by the state commission. What's more, the executive and legislative branches in some states have gotten involved, or are getting involved, when below-market price caps are expiring and ratepayers are facing large increases in electricity prices. This has already occurred in Maryland and Illinois and is now under discussion in Ohio and Pennsylvania. In states that are still traditionally regulated, many utilities are entering a construction cycle due to the rising demand for power. Obtaining regulatory support will be more critical than ever due to rising construction costs and mandates in many states for costly renewable generation.

Investors should understand that a state's regulatory climate doesn't just reflect the regulatory commission. The governor, attorney general, legislature, and courts play a key role as well. We list each state's regulatory climate below. We exclude Nebraska, Tennessee, and Alaska because there is little or no presence of investor-owned electric utilities there. We exclude Kentucky because the major electric utilities there are owned by a European company that is not covered in *The Value Line Investment Survey*. We exclude Utah because the major power company in the state is a minuscule part of Berkshire Hathaway's operations.

- *Above Average:* Alabama, Colorado, Florida, Hawaii, Idaho, Indiana, Ohio, South Dakota, Wisconsin, FERC.
- *Average:* Arizona, California, Connecticut, Delaware, District of Columbia, Georgia, Iowa, Kansas, Louisiana, Maine, Maryland, Massachusetts, Minnesota, Mississippi, Missouri, Montana, Nevada, New Jersey, New Mexico, New York, North Carolina, North Dakota, Oklahoma, Oregon, Pennsylvania, Rhode Island, South Carolina, Texas, Virginia, Washington, Wyoming.
- *Below Average:* Arkansas, Illinois, Michigan, New Hampshire, Vermont, West Virginia.

INDUSTRY TIMELINESS: 79 (of 98)

We have made a few changes since we last ran this table, in November of 2005. We have raised California to Average because recent rate orders have become more reasonable. For instance, in San Diego Gas and Electric's (a subsidiary of *Sempra Energy*) cost-of-capital case last year, the commission raised the utility's allowed return on equity. We have added Oregon to our list (as Average) now that we are covering *Portland General Electric*. We have lowered the regulatory climate in Illinois from Average to Below Average because Exelon and Ameren, which own almost all of the utilities in the state, had to compensate ratepayers for some of the sharp rise in prices that they were facing after rate caps, which were instituted in the late 1990s when the utility industry was partially deregulated, expired. Also, Exelon's Commonwealth Energy subsidiary has received harsh regulatory treatment of late.

There are two more states to keep an eye on. In New York, the agreement by a Spanish company to acquire Energy East is facing opposition, and it appears less likely that the deal will be completed. Also, the allowed return on equity is lower in New York than in most other states. So we're considering dropping the regulatory climate to Below Average. On the other hand, we might raise Michigan's regulatory climate to Average depending on the outcome of proposed legislation that would affect utilities in the state. Moreover, recent rate orders in Michigan have not been bad.

Investment Advice

The Value Line Utility Average has fallen over 10% since the start of 2008, a few percentage points worse than the decline in the Value Line Composite Average over that time. Even so, many utility stocks are hardly cheap, and are still trading within their 2011-2013 Target Price Range. For arbitrage players, we note that *Puget Energy* is trading 10% below the value of the pending takeover of the company.

Paul E. Debbas, CFA

Composite Statistics: ELECTRIC UTILITY INDUSTRY

2004	2005	2006	2007	2008	2009		11-13
288.9	325.1	346.6	350	370	385	Revenues ($bill)	460
20.2	22.2	25.1	27.5	29.0	31.0	Net Profit ($bill)	38.0
30.4%	29.6%	31.8%	33.5%	35.0%	35.0%	Income Tax Rate	35.0%
3.6%	3.8%	4.5%	6.0%	7.0%	8.0%	AFUDC % to Net Profit	5.0%
56.0%	54.8%	51.5%	51.0%	51.0%	51.0%	Long-Term Debt Ratio	49.5%
42.8%	44.2%	47.4%	48.0%	48.0%	48.0%	Common Equity Ratio	50.0%
428.8	432.3	491.9	465	495	520	Total Capital ($bill)	615
435.2	450.3	516.4	490	525	555	Net Plant ($bill)	635
6.6%	6.9%	6.5%	7.0%	7.0%	7.0%	Return on Total Cap'l	7.0%
10.7%	11.3%	10.9%	11.0%	11.0%	11.5%	Return on Shr. Equity	11.0%
10.9%	11.5%	11.0%	11.5%	11.5%	11.5%	Return on Com Equity	11.0%
4.8%	4.9%	5.3%	5.5%	5.0%	5.5%	Retained to Com Eq	5.0%
57%	58%	52%	80%	59%	59%	All Div'ds to Net Prof	58%
14.8	18.3	15.1				Avg Ann'l P/E Ratio	14.5
.78	.87	.82				Relative P/E Ratio	.95
3.8%	3.6%	3.4%				Avg Ann'l Div'd Yield	3.9%

Bold figures are Value Line estimates

COMPOSITE OPERATING STATISTICS: ELECTRIC UTILITY INDUSTRY

	2004	2005	2006
% Change Retail Sales (kwh)	+.3	+5.4	+1.3
Average Indust. Use (mwh)	1384	1568	1570
Avg. Indust. Revs. per kwh (¢)	5.25	5.73	6.17
Capacity at Peak (mw)	NA	NA	NA
Peak Load, Summer (mw)	NA	NA	NA
Annual Load Factor (%)	NA	NA	NA
% Change Customers (yr.-end)	+1.6	+1.2	+1.7
Fixed Charge Coverage (%)	235	253	267

Sources: Annual Reports; Estimates, Value Line; Edison Electric Institute

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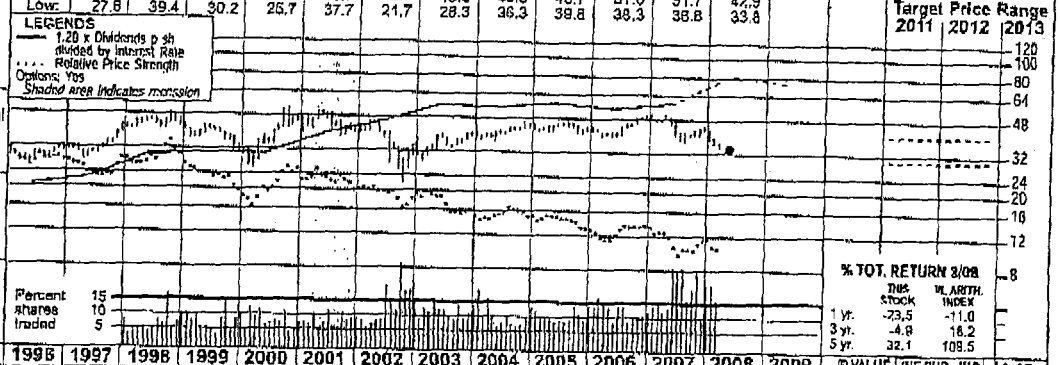
PINNACLE WEST NYSE-PNW

RECENT PRICE 34.02 | P/E RATIO 14.2 (Trailing: 12.3 Median: 14.0) | RELATIVE P/E RATIO 0.86 | DIV'D YLD 6.2% | VALUE LINE

TIMELINESS 3 Raised 10/5/07
SAFETY 1 Raised 5/16/03
TECHNICAL 1 Raised 5/9/08
BETA .80 (1.00 = Market)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
High:	42.8	49.3	43.4	52.7	50.7	48.7	40.5	45.8	48.7	51.0	51.7	42.9
Low:	27.6	39.4	30.2	25.7	37.7	21.7	28.3	36.3	39.8	38.3	36.8	33.8

LEGENDS
— 1.20 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
Options: Yes
Shaded area indicates recession



Target Price Range 2011 | 2012 | 2013

2011-13 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	40	(+20%)	10%
Low	30	(-10%)	4%

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	0	0	0	2	0	0	0
to Sell	0	0	0	0	0	2	0	0	0

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	159	135	151
to Sell	132	135	125
Hld's(000)	86538	87323	82999

Percent shares traded 15 10 5

% TOT. RETURN 3/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	-23.5	-11.0
3 yr.	-4.8	16.2
5 yr.	32.1	109.5

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
19.39	19.66	19.28	19.08	20.77	23.52	25.12	28.57	43.50	58.66	28.90	30.87	31.59	30.16	34.03	35.07	37.25	38.15	Revenues per sh	43.00
4.70	5.25	5.09	5.16	5.90	7.12	7.34	7.73	7.99	8.72	7.01	7.33	6.93	5.76	6.76	6.69	6.55	7.10	"Cash Flow" per sh	8.65
1.73	1.95	1.99	2.22	2.47	2.76	2.85	3.18	3.35	3.68	2.53	2.52	2.58	2.24	3.17	2.96	2.50	2.65	Earnings per sh A	3.05
--	.20	.83	.93	1.03	1.13	1.23	1.33	1.43	1.53	1.63	1.73	1.83	1.93	2.03	2.10	2.12	2.20	Div'd Decl'd per sh B■†	2.58
2.57	2.69	2.92	3.38	2.95	3.63	3.76	4.05	7.76	12.27	9.81	7.60	5.86	6.39	7.38	9.14	10.53	11.80	Cap'l Spending per sh	9.35
17.00	18.87	20.32	21.49	22.51	23.90	25.50	26.00	28.09	29.46	29.44	31.00	32.14	34.57	34.47	35.15	35.55	38.00	Book Value per sh C	37.50
87.16	87.42	87.43	87.52	87.52	84.83	84.83	84.83	84.83	84.83	91.26	91.29	91.79	98.06	99.96	100.49	100.70	100.90	Common Shs Outst'g D	107.00
10.8	11.5	9.6	10.8	11.8	11.8	15.2	11.9	11.3	12.0	14.4	14.0	15.8	19.2	13.7	14.9	Bold figures are		Avg Ann'l P/E Ratio	11.5
.66	.68	.63	.72	.74	.68	.79	.68	.73	.61	.79	.80	.83	1.02	.74	.79	Value Line		Relative P/E Ratio	.75
--	.9%	4.3%	3.9%	3.5%	3.5%	2.8%	3.5%	3.8%	3.5%	4.5%	4.9%	4.5%	4.5%	4.7%	4.8%	estimates		Avg Ann'l Div'd Yield	7.0%

CAPITAL STRUCTURE as of 12/31/07
Total Debt $3531.6 mill. Due in 5 Yrs $1414.0 mill.
LT Debt $3127.1 mill. LT Interest $183.0 mill.
(LT interest earned: 3.3x)

Pension Assets-12/07 $1.32 bill. Oblig. $1.72 bill.

Pfd Stock None

Common Stock 100,525,036 shs.
MARKET CAP: $3.4 billion (Mid Cap)

1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009		11-13
2130.6	2423.4	3690.2	4551.4	2837.3	2817.9	2899.7	2988.0	3401.8	3523.6	3750	3950	Revenues ($mill)	4600
252.6	270.8	283.6	312.2	215.2	230.8	235.2	223.2	317.1	298.8	250	265	Net Profit ($mill)	325
39.5%	38.3%	44.1%	40.6%	39.1%	31.4%	35.4%	36.2%	33.0%	33.6%	34.0%	34.0%	Income Tax Rate	34.0%
7.4%	4.3%	7.6%	15.3%	20.5%	6.2%	6.9%	10.4%	6.8%	14.8%	4.0%	4.0%	AFUDC % to Net Profit	4.0%
47.6%	50.0%	45.1%	51.7%	51.8%	50.6%	46.7%	43.2%	48.4%	47.0%	48.5%	50.0%	Long-Term Debt Ratio	50.0%
50.2%	50.0%	54.9%	48.3%	48.2%	49.4%	53.3%	56.8%	51.6%	53.0%	51.5%	50.0%	Common Equity Ratio	50.0%
4307.6	4411.8	4337.8	5172.4	5567.9	5727.5	5935.2	6033.4	6678.8	6858.7	6980	7230	Total Capital ($mill)	8015
4730.6	4778.5	5133.2	5907.3	6479.4	7460.1	7535.5	7577.1	7881.8	8436.4	9085	9825	Net Plant ($mill)	11345
7.8%	7.9%	8.1%	7.6%	5.4%	5.5%	5.6%	5.0%	6.2%	5.9%	5.5%	5.5%	Return on Total Cap'l	5.5%
11.2%	12.3%	11.9%	12.5%	8.0%	8.1%	8.0%	6.5%	9.2%	8.5%	7.0%	7.5%	Return on Shr. Equity	8.0%
11.2%	12.2%	11.9%	12.5%	8.0%	8.1%	8.0%	6.5%	9.2%	8.5%	7.0%	7.5%	Return on Com Equity E	8.0%
6.4%	7.1%	6.8%	7.3%	2.9%	2.6%	2.3%	1.0%	3.4%	2.5%	1.0%	1.0%	Retained to Com Eq	1.5%
45%	42%	43%	41%	64%	68%	71%	85%	63%	70%	85%	83%	All Div'ds to Net Prof	82%

ELECTRIC OPERATING STATISTICS

	2005	2006	2007
% Change Retail Sales (KWH)	+4.4	+5.6	+4.3
Avg. Indust. Use (MWH)	670	730	565
Avg. Indust. Revt. per KWH (¢)	6.28	6.87	7.30
Capacity at Peak (Mw)	7412	7652	8783
Peak Load, Summer (Mw)	7000	7652	7545
Annual Load Factor (%)	50.0	48.0	51.4
% Change Customers (yr-end)	+4.3	+4.4	+3.3
Fixed Charge Cov. (%)	278	324	291

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	4.5%	-4.5%	4.5%
"Cash Flow"	.5%	-4.0%	5.0%
Earnings	1.0%	-2.5%	1.5%
Dividends	7.0%	5.5%	3.5%
Book Value	4.5%	3.5%	1.5%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	585.0	755.9	955.6	691.6	2988.0
2006	670.2	925.0	1076.5	730.1	3401.8
2007	695.1	863.4	1205.9	759.2	3523.6
2008	736.7	910	1280	843.3	3750
2009	790	960	1310	890	3950

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	.26	.88	.86	.24	2.24
2006	.12	1.11	1.84	.10	3.17
2007	.16	.78	1.99	.03	2.96
2008	d.04	.85	1.55	.14	2.50
2009	.05	.80	1.65	.15	2.65

Cal-endar	QUARTERLY DIVIDENDS PAID B■† Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.45	.45	.45	.475	1.83
2005	.475	.475	.475	.50	1.93
2006	.50	.50	.50	.525	2.03
2007	.525	.525	.525	.525	2.10
2008	.525				

BUSINESS: Pinnacle West Capital Corporation (parent of Arizona Public Service) supplies electricity to approx. 1,780,000 people in 11 of 15 Arizona counties. Electric revenue sources: residential, 51%; commercial, industrial, and other, 49%. Power costs: 38% of electric revenues; labor costs: 13% of total revenues. The mining industry is the largest industrial customer. Energy sources: coal, 37%; nuclear, 22%; gas & other, 18%; purchased power, 23%. Has 7,800 employees. Reported '07 depreciation rate: 3.1%. Est'd plant age: 10 years. Chairman & Chief Executive Officer: William J. Post. Pres.: Jack E. Davis. Inc.: Arizona. Address: 400 E. Van Buren St., Suite 700, P.O. Box 52132, Phoenix, AZ 85072-2132. Tel.: 602-379-2500. Internet: www.pinnaclewest.com.

Pinnacle West has filed a general rate case. It seeks an increase of $265.5 million to recover investments of over $1 billion a year needed to maintain and upgrade infrastructure. Some $256.5 million of the request is for nonfuel-related items. The application includes an $86.6 million attrition adjustment to offset earnings erosion between the end of the test year and 2010. Finally, it proposes time-of-use rates to reduce energy consumption during peak periods. The petition is based on an 11.5% allowed return on common equity, up from the current 11.0%. Whatever amount is awarded will be operative on July 1, 2009. Separately, Pinnacle received $30 million in higher transmission tariffs last March 1st.

The company is adding capacity to meet rising demand. It recently completed a 100-mile transmission line surrounding Phoenix that will permit the inflow of 917 megawatts (mw) of power into the constrained area. Too, PNW and partners plan a 122-mile line from the Palo Verde nuclear hub to Yuma, Arizona to insure adequate power in that region. Construction will start in 2010 and should be finished two years later. In addition, PNW has purchased a two-unit 96-mw gas-fired peaking plant that will begin operating shortly to help meet high summer needs.

Earnings comparisons will be tough this year. Unusually favorable weather and one-time income tax benefits boosted 2007 earnings by $0.36 a share. And this year, the SunCor real estate subsidiary's contribution will likely be minimal because of a weak housing market. Despite increased income generated by new plants on line, we estimate current-year earnings will fall 16%, to $2.50 a share. An order on the pending rate case suggests improvement in 2009.

Dividend growth momentum has slowed. From 1994 through 2006, the payout was raised $0.10 a share annually. But 2007's disappointing rate order induced the directors not to authorize an increase at this time. Still, based on our projection of earnings gains to 2011-2013, dividend hikes over the same timeframe will exceed those of the group. PNW remains an above-average utility selection, in our opinion.

Arthur H. Medalie *May 9, 2008*

(A) Diluted egs. Excl. nonrecurring gains (losses): '93, 22¢; '94, 31¢; '95, net 6¢; '99, ($1.20); '02, (77¢); excl. gains (losses) from discontinued ops.: '92, 7¢; '99, ($1.97); '00, 22¢; '05, (36¢); '06, 10¢. Next earnings report due late July. (B) Div'ds historically paid in early Mar., June, Sept., and Dec. ■ Div'd reinvest. plan avail. † Shareholder invest. plan avail. (C) Incl. def. chgs. In '07: $7.36/sh. (D) In mill. (E) Rate base: Fair value. Rate all'd on com. eq. in '05: 10.25%; earned on avg. com. eq., '07: 8.6%. Reg. Clim.: Avg.

Company's Financial Strength	A
Stock's Price Stability	100
Price Growth Persistence	20
Earnings Predictability	60

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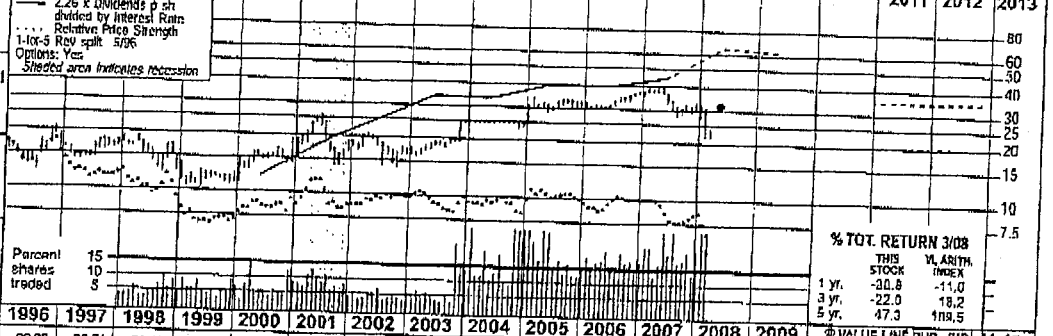
UNISOURCE ENERGY NYSE-UNS

RECENT PRICE 31.80 | P/E RATIO 18.9 (Trailing: 20.5 Median: 17.0) | RELATIVE P/E RATIO 1.14 | DIV'D YLD 3.0% | VALUE LINE

TIMELINESS 4 Raised 8/17/07
SAFETY 3 New 12/31/04
TECHNICAL 3 Lowered 4/25/08
BETA .60 (1.00 = Market)

	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
High:	18.3	18.8	13.9	19.3	26.0	20.8	24.9	21.9	34.8	37.5	40.0	33.5
Low:	13.9	12.3	10.4	11.1	13.8	13.7	16.0	22.8	24.3	29.5	27.6	21.3

LEGENDS
— 2.26 x Dividends p sh divided by Interest Rate
.... Relative Price Strength
1-for-5 Rev split 5/96
Options: Yes
Shaded area indicates recession



Target Price Range 2011 | 2012 | 2013

2011-13 PROJECTIONS

	Price	Gain	Ann'l Total Return
High	35	(+10%)	6%
Low	20	(-35%)	-6%

Insider Decisions

	J	J	A	S	O	N	D	J	F
to Buy	0	0	0	0	0	0	0	0	0
Options	0	0	1	0	0	2	0	0	0
to Sell	0	0	0	0	0	1	0	0	0

Institutional Decisions

	2Q2007	3Q2007	4Q2007
to Buy	73	56	73
to Sell	81	87	59
Hld's(000)	30634	31980	33110

Percent shares traded 15 10 5

% TOT. RETURN 3/08

	THIS STOCK	VL ARITH. INDEX
1 yr.	-30.8	-11.0
3 yr.	-22.0	18.2
5 yr.	47.3	109.5

1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	© VALUE LINE PUB., INC.	11-13
19.56	20.61	21.51	20.87	22.29	22.71	23.83	24.85	31.12	43.12	25.50	28.71	34.13	35.26	37.42	39.12	41.20	43.35	Revenues per sh	49.60
d.30	2.08	3.44	4.58	6.82	5.29	3.48	3.96	4.23	5.41	4.80	5.20	5.29	5.21	5.68	5.64	6.15	6.70	"Cash Flow" per sh	8.25
d12.40	d.25	.65	1.70	3.76	2.80	.68	1.08	1.27	1.79	.97	1.30	1.31	1.30	1.85	1.55	1.65	1.75	Earnings per sh A	1.90
--	--	--	--	--	--	--	--	.32	.40	.50	.60	.64	.76	.84	.90	.96	1.02	Div'd Decl'd per sh B ■ †	1.20
1.08	1.50	1.95	1.84	2.07	2.22	2.52	2.87	3.19	3.63	3.38	4.06	4.49	5.83	6.77	6.95	8.50	6.90	Cap'l Spending per sh	5.90
d1.19	d1.98	d1.31	.39	4.15	5.75	7.65	10.02	11.20	12.88	13.05	15.97	16.95	17.68	18.59	19.54	20.40	21.20	Book Value per sh C	23.65
32.09	32.14	32.14	32.13	32.13	32.14	32.26	32.35	33.22	33.50	33.58	33.79	34.26	34.87	35.19	35.32	35.70	36.20	Common Shs Outst'g D	37.70
--	--	26.7	9.8	4.3	8.1	23.3	10.8	11.8	10.8	18.2	14.6	18.7	23.9	17.7	22.0	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.5
--	--	1.75	.64	.27	.35	1.21	.62	.77	.55	.99	.83	.99	1.27	.96	1.16			Relative P/E Ratio	.95
--	--	--	--	--	--	--	--	2.1%	2.1%	2.8%	3.2%	2.6%	2.5%	2.6%	2.8%			Avg Ann'l Div'd Yield	4.9%
						788.7	803.8	1033.7	1444.7	856.2	969.9	1169.0	1229.5	1316.9	1381.4	1470	1570	Revenues ($mill)	1870
						21.9	35.5	28.3	60.9	33.3	45.2	45.9	46.1	69.2	58.4	59.0	63.0	Net Profit ($mill)	72.0
						45.6%	46.8%	32.9%	43.8%	33.7%	19.7%	42.5%	41.4%	38.8%	40.1%	40.0%	40.0%	Income Tax Rate	40.0%
						--	--	--	--	--	2.2%	--	--	2.9%	3.4%	3.0%	3.0%	AFUDC % to Net Profit	3.0%
						89.4%	86.1%	84.2%	79.6%	81.5%	79.2%	77.1%	75.3%	72.9%	68.6%	67.5%	66.0%	Long-Term Debt Ratio	61.0%
						10.6%	13.9%	15.8%	20.4%	18.5%	20.8%	22.9%	24.7%	27.1%	31.2%	32.5%	34.0%	Common Equity Ratio	39.0%
						2320.6	2340.5	2362.4	2081.3	2368.8	2589.0	2540.3	2494.9	2414.1	2214.9	2230	2245	Total Capital ($mill)	2290
						1915.6	1728.9	1706.3	1677.7	1668.4	2069.2	2081.1	2171.5	2259.6	2407.3	2555	2625	Net Plant ($mill)	2765
						2.5%	2.9%	2.5%	4.4%	2.8%	4.9%	5.1%	5.1%	5.9%	5.7%	5.5%	6.0%	Return on Total Cap'l	6.0%
						8.9%	11.0%	7.1%	14.3%	7.6%	8.4%	7.9%	7.5%	10.6%	8.5%	8.0%	8.5%	Return on Shr. Equity	8.0%
						8.9%	11.0%	7.1%	14.3%	7.6%	8.4%	7.9%	7.5%	10.6%	8.5%	8.0%	8.5%	Return on Com Equity E	8.0%
						8.9%	11.0%	4.3%	11.2%	3.8%	4.8%	4.1%	3.2%	6.1%	3.9%	3.5%	3.5%	Retained to Com Eq	3.0%
						--	--	39%	22%	51%	45%	48%	57%	43%	54%	58%	58%	All Div'ds to Net Prof	63%

CAPITAL STRUCTURE as of 12/31/07
Total Debt $1797.7 mill. Due in 5 Yrs $1025.3 mill.
LT Debt $1524.8 mill. LT Interest $137.5 mill.
Incl. $591.1 mill. capitalized leases.

(LT interest earned: 1.7x)

Pension Assets-12/07 $193 mill. Oblig. $209 mill.
Pfd Stock None

Common Stock 35,315,000 shs.
MARKET CAP: $1.1 billion (Mid Cap)

ELECTRIC OPERATING STATISTICS

	2005	2006	2007
% Change Retail Sales (KWH)	+3.9	+3.7	+4.7
Avg. Indust. Use (MWH)	3421	3431	3652
Avg. Indust. Revs. per KWH (¢)	6.60	6.80	6.60
Capacity at Peak (Mw)	2667	2695	3084
Peak Load, Summer (Mw)	2792	2913	2984
Annual Load Factor (%)	63.9	64.0	64.1
% Change Customers (yr-end)	+2.6	+1.8	+1.2
Fixed Charge Cov. (%)	131	157	153

ANNUAL RATES of change (per sh)	Past 10 Yrs.	Past 5 Yrs.	Est'd '05-'07 to '11-'13
Revenues	5.5%	2.5%	5.0%
"Cash Flow"	--	2.5%	7.0%
Earnings	-5.5%	3.0%	3.0%
Dividends	--	15.5%	6.5%
Book Value	17.5%	8.5%	4.0%

Cal-endar	QUARTERLY REVENUES ($ mill.) Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	280.9	300.6	349.3	318.7	1229.5
2006	305.0	318.4	375.6	317.9	1316.9
2007	317.8	329.8	398.2	335.6	1381.4
2008	345	360	415	350	1470
2009	365	380	445	380	1570

Cal-endar	EARNINGS PER SHARE A Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2005	d.11	.27	.49	.65	1.30
2006	.52	.28	.73	.32	1.85
2007	.14	.32	.66	.43	1.55
2008	.20	.35	.70	.40	1.65
2009	.22	.37	.75	.41	1.75

Cal-endar	QUARTERLY DIVIDENDS PAID B ■ † Mar.31	Jun.30	Sep.30	Dec.31	Full Year
2004	.16	.16	.16	.16	.64
2005	.19	.19	.19	.19	.76
2006	.21	.21	.21	.21	.84
2007	.225	.225	.225	.225	.90
2008	.24				

BUSINESS: UniSource Energy Corp., parent of Tucson Electric Power Company, supplies electricity in Tucson, Arizona and the surrounding area (serv. area: 1,155 sq. miles). Nonutility subsidiaries engage in plant construction, fuel supply, and related businesses. Revenue sources: residential, 45%; commercial, 26%; industrial, 21%; other, 8%. Copper mining is largest industry served. Fuels: coal, 92%; gas, 8%. Fuel: 49% of electric revenues; labor costs: 9%. '07 depreciation rate: 3.4%. Estimated plant age: 10 years. Has 1,306 employees. Chairman, President, and Chief Executive Officer: James S. Pignatelli. Inc.: AZ. Address: One South Church Ave. Suite 1820, Tucson, AZ 85701. Tel.: 520-884-3650. Internet: www.unisourceenergy.com.

UniSource expects a decision by year-end on its request for higher electric rates. In 1999, the company's Tucson Electric Power subsidiary's rates were frozen through 2008. To offset the earnings deficiency during that period resulting from higher unrecovered costs, UNS asked regulators for an increase of $172 million. It proposed that one of three alternatives be used in setting new rates. In each instance, transmission and distribution tariffs would be based on historic cost-based calculations. But generation rates would be figured differently. Power charges would either be based on wholesale market prices, less profitable cost of service plus an additional fee, or a combination of the two. The first two options would lead to increases of about 22%. The third would generate slightly lesser rates. A commission decision on the filing is expected by yearend.

The company is investing in new transmission lines. The Arizona commission staff has stated that the state has insufficient transmission to accommodate new plants. Acting on this information, UNS and partners are stringing a 500-kilovolt line to provide additional access to energy resources in the Palo Verde market. Completion is targeted for midyear. Two more projects are under development. One is a 62-mile line from Tucson to Nogales, Arizona to improve reliability in that region. The other is expansion of a link with the Phoenix area to enhance the flow of power throughout the state. Construction of this line will take two years.

Earnings should improve in 2008. Pluses include higher gas rates of $5 million and the absence of last year's plant outages that increased fuel and purchased power costs and limited sales opportunities. Though interest expense will be higher due to new transmission, we estimate 2008 earnings will rise 6%, to $1.65 a share. An order on the pending rate case points to a further gain next year. The stock is untimely.

These shares might interest income-oriented investors. Dividend growth prospects to 2011-2013 are well above the utility norm. But UniSource's weak finances might deter those of a conservative bent.

Arthur H. Medalie *May 9, 2008*

(A) EPS diluted. Next earnings report due late May. Excl. nonrecur. gains (losses): '92, 18¢; '93, ($0.11); '98, 19¢; '99, $1.35; '00, 48¢; '03, $2.00. (B) Div'ds historically paid in early Mar., June, Sept., and Dec. ■ Div'd reinvest. plan avail. † Shareholder invest. plan avail. (C) Incl. intang. In '07: $3.47/sh. (D) In millions. (E) Rate base: fair value. Rate allowed on com. eq. in '94: 11.0%; earned on avg. com. eq., '07: 8.7%. Regulatory Climate: Avg.

Company's Financial Strength	C++
Stock's Price Stability	85
Price Growth Persistence	90
Earnings Predictability	40

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Moody's release on UNS Electric/UNS Gas

Tue Jul 8, 2008 8:30pm BST

(The following statement was released by the ratings agency)

July 8 - Moody's Investors Service assigned a Baa3 rating to the shared senior unsecured $60 million multi-year credit facility of UNS Electric, Inc. (UNS Electric) and UNS Gas, Inc (UNS Gas). The facility is guaranteed by UNS Electric's and UNS Gas' intermediate parent holding company, UniSource Energy Services (UES). UES is a subsidiary of UniSource Energy, Inc (UniSource: Ba1 senior secured (security limited to stock of certain subsidiaries)), a holding company that has as its primary utility subsidiary Tucson Electric Power Company (TEP: Baa3 senior unsecured). The ratings of UniSource and TEP remain unchanged. The outlook for UniSource and its subsidiaries is stable.

The Baa3 rating assigned to the UNS Electric/UNS Gas credit facility reflects the relatively stable and predictable nature of the regulated cash flows produced by these electric and gas utilities as well as the historically strong financial profile of the combined entities which provide the basis for the UES guarantee. For the past several years, cash flow credit metrics at both UNS Electric and UES have been at or above the upper end of the ranges demonstrated by electric utilities rated Baa. For example, the ratios of cash from operations excluding changes in working capital (CFO Pre -- WC) to Debt, calculated in accordance with Moody's standard analytical adjustments, have been consistently above 20%. The Baa3 rating recognizes that cash flow metrics are expected to decline somewhat over the next few years, reflecting the impact of the termination of UNS Electric's full requirements power supply agreement with Pinnacle West Marketing and Trading, as well the continuing capital expenditure programs at both UNS Electric and UNS Gas; however, Moody's anticipates that metrics will generally remain toward the mid-to-upper end of the ranges demonstrated by electric utilities rated Baa.

The Baa3 rating considers the regulatory environment in Arizona, which Moody's has historically considered to be below average for regulatory environments in the United States in terms of supportiveness to credit quality. However, the Baa3 rating also contemplates recent decisions by the Arizona Corporation Commission (ACC) that appear intended to provide more timely recovery of certain costs. For example, in its May 2008 decision, the ACC awarded UNS Electric a forward looking Purchased Power and Fuel Adjustment Clause (PPFAC), with an annual true-up mechanism. Although the initial PPFAC is expected to be capped below the level required to immediately recover UNS Electric's costs for fuel and purchased power, the true-up component is uncapped and is intended to recover excess costs over the following twelve month period. At UNS Gas, rates are adjusted monthly to reflect differences in the average actual cost of gas versus that assumed in rates. In addition, in UNS Electric's recent rate case, the ACC approved the concept of line extension fees, designed to make "growth pay for itself" which should result in an almost immediate recovery of a portion of the capital costs associated with hooking up new customers.

The $60 million UNS Electric/UNS Gas revolving credit facility matures in August 2011. Either borrower may borrow up to a maximum of $45 million as long as the combined amount borrowed does not exceed $60 million. As of March 31, 2008, UNS Electric had $30 million drawn under the facility while UNS Gas had no short-term borrowing outstanding. The facility includes two financial covenants applicable to each borrower: for UNS Electric a maximum debt to capital ratio of 65%, and a minimum interest coverage ratio of 2.25 times, for UNS Gas a maximum debt to capital ratio of 67%, and a minimum interest coverage of 2.25 times. Moody's anticipates the borrowers will remain comfortably within these limits; however, the facility does require a material adverse change (MAC) representation at each new borrowing. In our opinion, the requirement for a MAC representation significantly increases the risk that the credit facility may not be available when liquidity needs are greatest.

The stable outlook for UES reflects the relatively stable cash flows anticipated to be generated by its regulated subsidiaries and Moody's assumption that increases in the cost of fuel and

purchased power will, in fact, be recovered on a relatively timely basis. To the extent that deferral balances grow to be materially larger than anticipated, or if the time to recovery is significantly extended, the rating or outlook could be revised downward. Given the anticipated decline in credit metrics, the potential for large deferral balances, and the limited liquidity provided by the joint credit facility due to the MAC clause, an upward revision in the rating or outlook is not likely over the near-to-medium term.

Headquartered in Tucson, Arizona, UniSource is a holding company that provides electricity and natural gas to customers across Arizona through its primary subsidiaries: TEP, a vertically integrated electric utility and UES, whose principal subsidiaries are UNS Electric and UNS Gas. (New York Ratings Team)

ENER

get more

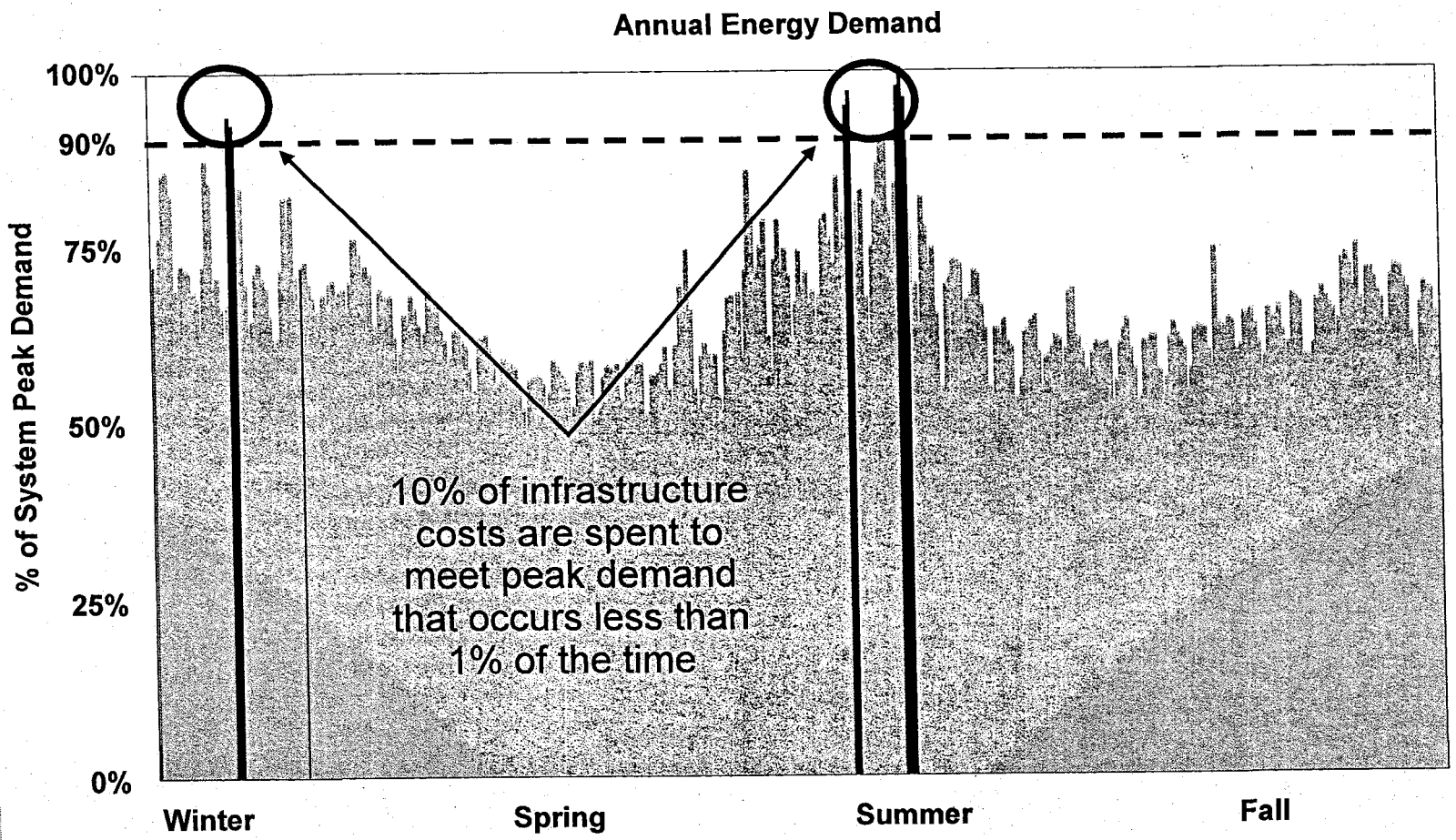
EnerNOC: Demand Response Solutions

Arizona Corporation Commission – November 8, 2007

EXHIBIT
Mayes - 2

Why Is Demand Response Important Now?

Demand response is a cost-effective and reliable way to meet peak the electrical demand, which occurs for very few hours per year. The typical alternative is to build generation and transmission capacity that will be used for only ~50 - 100 hours per year.



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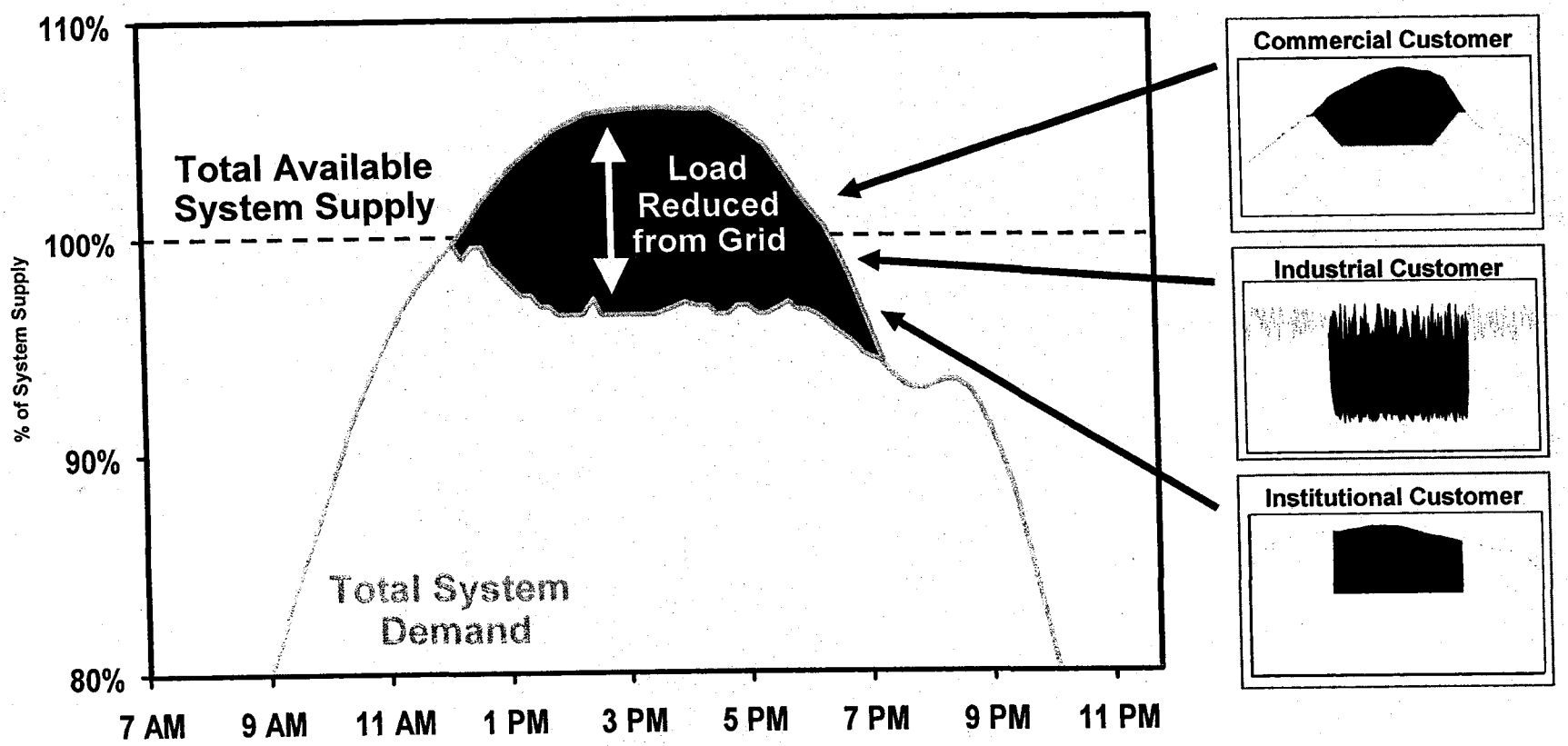
Aggregated C&I demand response

Illustrative Demand Response Scenario



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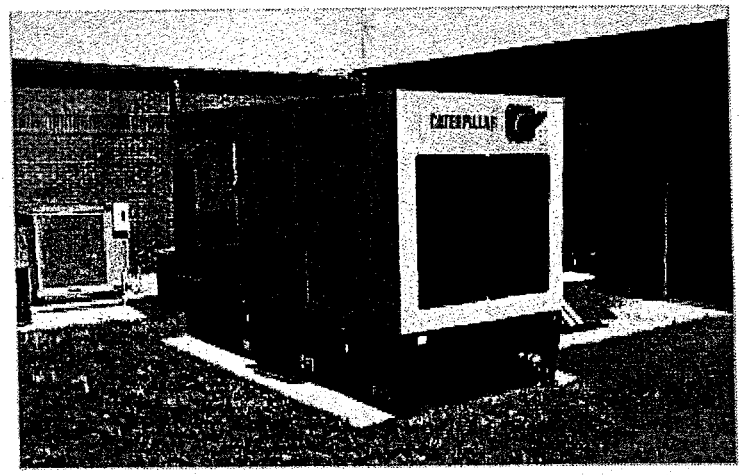
Load reduction strategies for C&I customers

Curtailment and Load Management
Temperature set-points, air handlers, lighting, signage, pumps, process loads, refrigeration, motors, elevators, production scheduling



Self Generation
Emergency/backup generators, peaking and continuous-duty distributed generation, UPS systems

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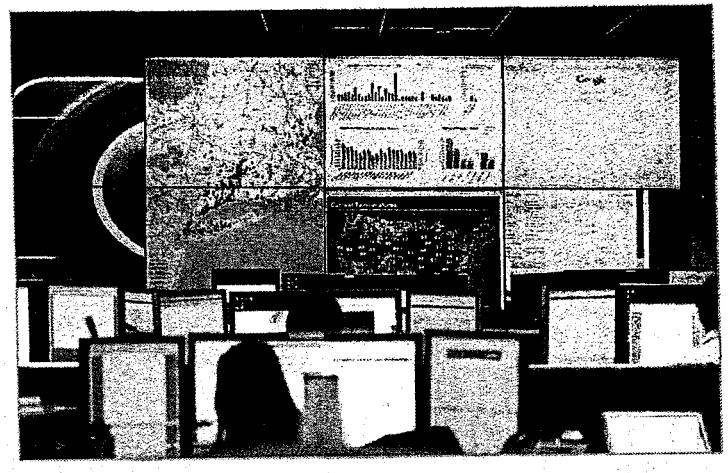
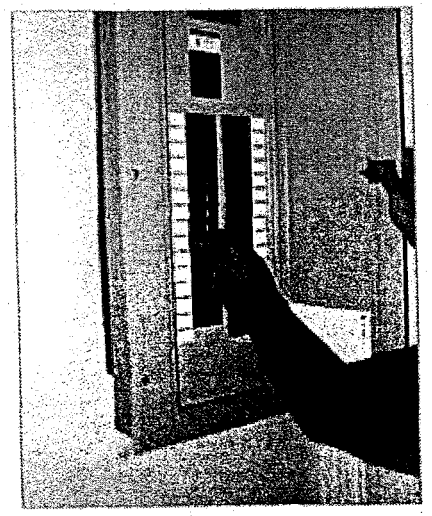
DR curtailment approaches



Automatic – Relays, automatic transfer switches, and building management systems can be controlled remotely to reduce demand or turn on back-up generators



Manual – Facility personnel receive a phone call, instant message, email, and/or page and respond to an event, shutting down devices, adjusting thermostat set points, and turning on generation

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About EnerNOC

Founded in 2001, EnerNOC is the premier demand response provider focused on the commercial, institutional, and industrial market.

- **Resource reliability** – Unparalleled track record, with **900+ MW** of demand response capacity under contract; hundreds of DR events deployed to date – we guarantee performance to our utility customers
- **Turnkey solution** – Full service, "end-to-end" offering – auditing, education, engineering, permitting, financing, metering, enrollment, installation, data and payment reconciliation, maintenance – we remove complexity and increase end-user participation
- **Advanced technology** – 24/7/365 metering and web-based monitoring and control through open architecture technology that provides near real-time visibility into performance and availability of DR assets
- **Industry-leading customer service** – Deep experience in energy management – skilled sales and operations team that thoroughly understands the needs of commercial and industrial customers
- **Financially stable** – Strong balance sheet, publicly traded company on NASDAQ (ENOC)

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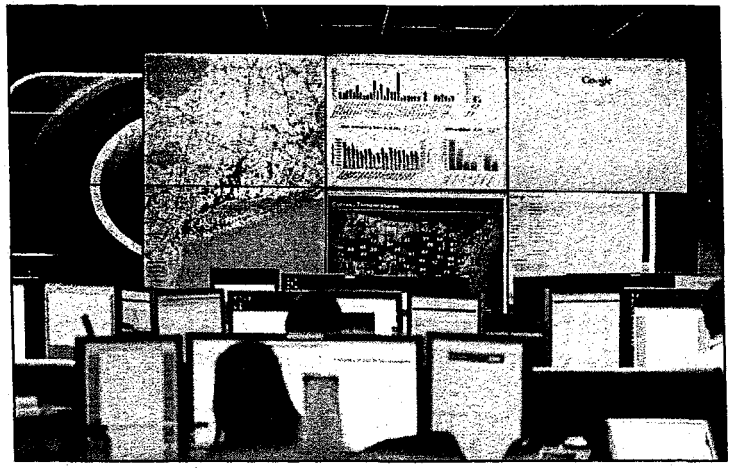
Event initiation and management: the Energy Network Operations Center



- 24/7/365 operation – connecting **supply** (utilities and grid operators) with **demand** (commercial, institutional, and industrial end-users)
- Utility initiates DR event by sending a notification signal to the NOC, which the NOC immediately relays to all participating customers
- EnerNOC monitors each site's performance in real-time to assure demand reduction
- Utility control room can monitor customer meter data and load curtailment status via direct link to NOC
- When the DR event concludes, the NOC receives a second signal from Utility, notifies participating customers, and automatically restores normal operations at customers' sites

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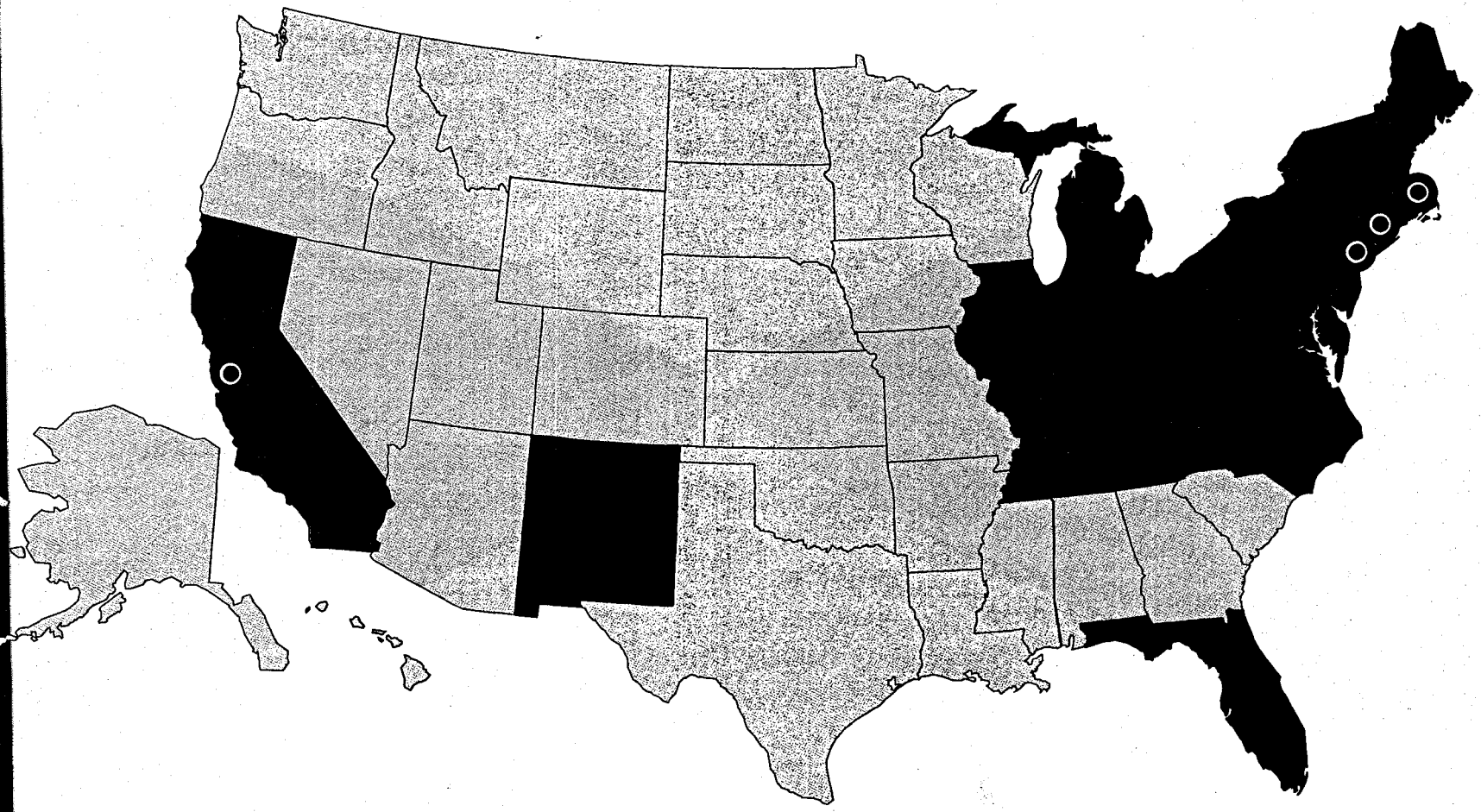
EnerNOC and demand response

EnerNOC provides services in every open DR market and is continuously developing new markets by leveraging our success and track record from existing markets.



EnerNOC demand response and energy management services

Emerging demand response

EnerNOC Office

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EnerNOC demand response contracts with utilities

- **Southern California Edison**
  - 160 MW, 5 year contract*
- **Connecticut Light & Power Company**
  - 110 MW, 3 year contract
- **Pacific Gas & Electric Company**
  - 40 MW, 5 year contract
- **Public Service Company of New Mexico**
  - 30 MW, 10 year contract
- **San Diego Gas & Electric Company**
  - 25 MW, 10 year contract
- **Tampa Electric Company**
  - 25 MW, 4 year contract
- **Tennessee Valley Authority**
  - Pilot program (summer 2007)

**** contract extension pending regulatory approval***

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EnerNOC's "resource providers"

EnerNOC has strong relationships with many end-use customers, which has facilitated our rapid deployment of demand response in new geographic areas

Commercial Office and High Tech	RCN, GE, SBC, The Hartford, Cablevision, Pitney Bowes, Konica Mino, Level(3), NaviSite, ESPN, AT&T, DTCC, Adobe
Education	UCSD, Olin College, Adelphi University, Babson, Tufts University, Fairfield University, CSU The California State University, UCONN, Hofstra University, University of Hartford, Trinity College, San José State University
Food Sales and Storage	Pathmark, Hannaford, ShopRite, Albertsons, Stop&Shop, Raley's, Shaw's, Price Chopper, Big Y, Whole Foods Market
Government	Stamford, Connecticut, Lowell, Center of Opportunity, Town of Riverhead, Long Beach State of New York, Trumbull, Seal of the City of Norwalk, Seal of the City of Danbury
Healthcare	Stamford Health System, Southampton Hospital, Hartford Hospital, The Hospital of Central Connecticut at New Britain General and Bradley Memorial, Southcoast Health System, Partners HealthCare, Greenwich Hospital Yale New Haven Health, Cooley Dickinson Hospital Member of Dartmouth-Hitchcock Alliance, Hall-Brooke Behavioral Health Services, Danbury Hospital A Difference That Matters, Gaylord The Best Place to Begin Again, Apple Healthcare Incorporated
Manufacturing/ Industrial	Estée Lauder, B-H Aircraft Co., Inc., Spartech, Pfizer, Cargill, Verso, Cascades, North American Höganäs, Boehringer Ingelheim, Vermont Castings
Lodging and Resorts	Westin Hotels & Resorts, Marriott Hotels & Resorts, Sheraton Hotels & Resorts, Hampton Inn & Suites, Intercontinental Hotels Group, Hilton

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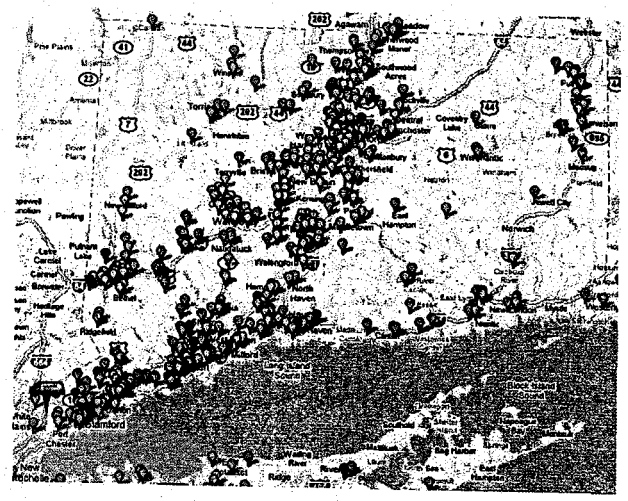
Case study: Connecticut

– 7½ % of peak load is enrolled in demand response programs

- Peak load in Connecticut: **7500 MW**
- Between 2000 and 2006, Connecticut's demand for electricity increased by nearly 30% – due to difficulties in siting new power plants, the legislature set goals to reduce peak demand by 10% by 2010
- EnerNOC currently manages more than 300 separate commercial, institutional, and industrial sites – full turnkey program
- Mix of load curtailment and backup generation



Connecticut Light & Power
The Northeast Utilities System

Key Program Parameters	
Capacity	Up to 110 MW
Contract Duration	3 year term starting summer 2006
Program Window	7 AM to 6 PM non-holiday weekdays, year-round
Maximum Run Time	Dispatchable during system emergencies
Notification	30 Minutes
Payments	Monthly capacity payments ($/MW-mo) plus energy payments for events ($/MWh)

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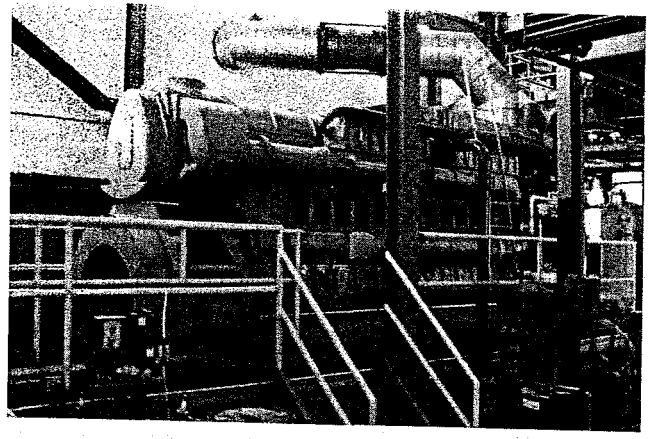
EnerNOC's demand response programs: the "functional equivalent" of a peaking power plant

Like a peaking plant . . .

- Output can be measured and verified in near real-time
- Capacity can be dispatched by utility control room and brought on-line in 1 hour, 30 or 10 minutes
- Assets can perform for several hours, if needed
- <u>One supply contract</u> – can include penalties for non-performance



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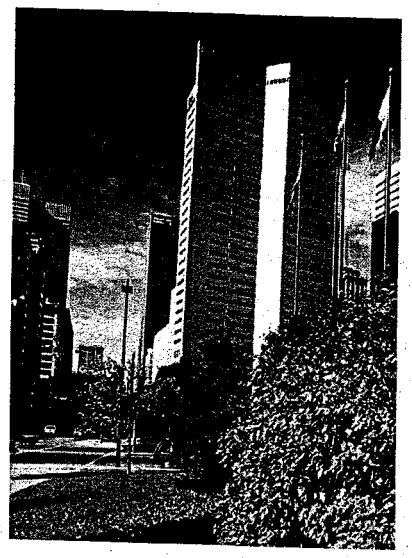
Advantages of EnerNOC's demand response programs vs. traditional peaking power resources

- DR capacity can be "built" very quickly (6 – 12 months); *100+ MW in 60 days for ISO-NE in 2005*
- Capacity can be *precisely targeted* at areas of highest system need (for example, to defer distribution system upgrades)
- Almost always less costly than building a new peaking plant – and doesn't require added T&D infrastructure
- Load curtailment resources are *emissions-free*
- No "NIMBY" siting issues
- Reliable (no "forced outage" risk)
- Long-term contracts are not required – can be expanded incrementally and locationally if needed
- Performance tends to *increase* (as well as rated capacity) in conjunction with system peaks
- Reduces costs for customers; *improves customer satisfaction*



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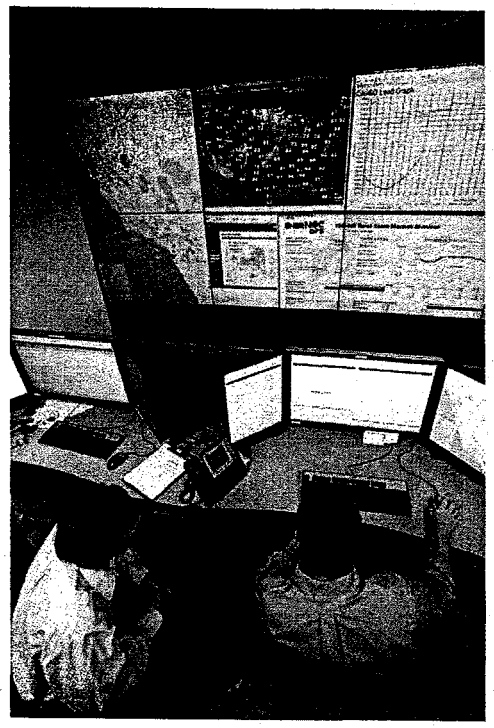
A few caveats . . .

- Annual availability has limits – typical program design targets most critical 50 to 100 hours per year
- Depending on portfolio mix, performance may be limited during shoulder months and off-peak hours
- Output can vary within a range of "rated output" – typically +/-15%, due to variability of loads controlled and baseline calculation methodology
- Total capacity is limited to approximately 10% of overall system peak



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Questions?

get more from energy

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