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BEFORE THE ARIZONA CORPORATION COMMISSION

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2009 AUG 18 P 12: 34
AZ CORP COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE APPLICATION OF
UNS ELECTRIC, INC. FOR THE
ESTABLISHMENT OF JUST AND
REASONABLE RATES AND CHARGES
DESIGNED TO REALIZE A REASONABLE
RATE OF RETURN ON THE FAIR VALUE
OF THE PROPERTIES OF UNS ELECTRIC,
INC. DEVOTED TO ITS OPERATIONS
THROUGHOUT THE STATE OF ARIZONA
AND REQUEST THE APPROVAL OF
RELATED FINANCING.

DOCKET NO. E-04204A-06-0783

**NOTICE OF FILING STAFF'S
REVIEW OF UNS ELECTRIC, INC.'S
PURCHASED POWER FUEL
ADJUSTMENT CLAUSE FILING**

REDACTED VERSION

Staff of the Arizona Corporation Commission ("Staff") hereby files Staff's Review of UNS Electric Inc.'s Purchased Power Fuel Adjustment Clause (*Redacted Version*) filing in this case.

In addition, un-redacted copies of the report are being provided under seal to: UNS Electric, Inc., Administrative Law Judge Nodes, All Commissioners, and all parties who have signed the Protective Agreement in this case.

RESPECTFULLY SUBMITTED this 18th day of August, 2009.

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The Original and 13 copies of the foregoing were filed this 18th day of August, 2009, with:

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Arizona Corporation Commission
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AUG 18 2009

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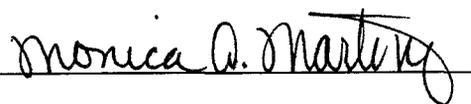
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- REDACTED -

**REVIEW OF UNS ELECTRIC INC.'S
PURCHASED POWER FUEL
ADJUSTMENT CLAUSE**

*[Information which UNSE has designated as "Confidential" has
been redacted in this report.]*

**PREPARED FOR
THE ARIZONA CORPORATION COMMISSION STAFF
BY**

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July 2009

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APPENDICES

Appendix I- Public copies of UNSE's responses to data requests referenced in this report

Appendix II- Confidential copies of UNSE's responses to data requests referenced in this report

EXECUTIVE SUMMARY

UNS Electric, Inc. ("UNSE," "UNS Electric", or "Company") currently recovers its fuel and purchased power costs that it incurs to serve customers through a Purchased Power Fuel Adjustment Clause ("PPFAC"). UNSE's PPFAC was approved by the Commission in Decision No. 70360 (May 27, 2008) in UNSE's last rate case, Docket No. E-04204A-06-0783.

Larkin & Associates, PLLC ("Larkin") was requested by the Arizona Corporation Commission Utility Division Staff ("Staff") to review UNSE's PPFAC filing and the costs that UNSE was charging to ratepayers through the PPFAC. Larkin reviewed UNSE's PPFAC Rate Schedules 1 through 5 ("PPFAC Filing" or PPFAC "Schedules") and workpapers that the Company filed on December 31, 2008 and UNSE's updated PPFAC Schedules filed on April 1, 2009.

This report consists of two chapters, one discussing the PPFAC review, and the second discussing the specific types of costs that UNSE has charged to Arizona ratepayers through its PPFAC related to the Black Mountain Generating Station ("BMGS").

UNSE's proposed PPFAC rate effective June 1, 2009 changed from \$0.002092 [December 31, 2008 filing] to \$(0.010564) [April 1, 2009 filing]. The Forward Component Rate changed from \$ 0.012902 [December 31, 2008 filing] to \$(0.003019) [April 1, 2009 filing].

For the period June 2008 through May 2009, UNSE has included over *** Begin Confidential *** *** End Confidential *** of costs for the BMGS in the PPFAC, including charges from affiliates Tucson Electric Power ("TEP") and UniSource Energy Development Company ("UED") and UNS Gas, Inc. ("UNSG" or UNS Gas"). The BMGS costs are addressed in Chapter 2 of this report.

There are two appendices to this report: Appendix I contains non-confidential and redacted versions of UNSE's responses to data requests referenced in this report. Appendix II contains confidential versions of UNSE's responses to data requests referenced in this report.

Recommendations

We recommend that:

- 1-1. The Staff establish assignments and procedures to review the Company's future annual PPFAC filings for reasonableness and errors and, if feasible, respond to the Company's updated information by April 15 as stated in Decision No. 70360.

- 1-2. UNSE should clearly show, document and explain any changes it makes to the presentation of information in future PPFAC filings.
- 1-3. UNSE should correct its PPFAC filings for the errors noted in Chapter 1, item F-5, of this report.
- 2-1. Clarification should be sought regarding whether it was the Commission's intention for UNSE to recover the substantial costs associated with the BMGS through the PPFAC. In Decision No. 70360 the Commission provided the Company with an opportunity to record all of the Company's financial activities associated with BMGS, as if the BMGS were in rate base as of June 1, 2008 and provided that such matters would be addressed in the next rate case:

To provide such encouragement, we will authorize UNSE to implement an accounting order to record all of the Company's financial activities associated with BMGS, as if the BMGS were in rate base as of June 1, 2008. Unless otherwise ordered by the Commission, this accounting order would remain in effect until the effective conclusion of UNSE's next rate case.

- 2-2. The costs resulting from the affiliated transactions between UNSE and affiliates including, but not limited to, UED, TEP and UNSG pertaining to the BMGS should be reviewed in detail in the context of UNSE's recently filed base rate case, Docket No. E-04204A-09-0206, where UNSE has requested rate base inclusion of the BMGS.
- 2-3. Until such a detailed review of charges for the BMGS has been completed in UNSE's current rate case and the results of that review are evaluated by the Commission, all amounts UNSE charged through its PPFAC related to BMGS should be potentially subject to refund.
- 2-4. UNSE's response to data request STF 9.1 indicates that the final cost of the BMGS was \$63 million, which includes \$1 million of depreciation. The final costs for the BMGS and the reasons why such costs have apparently exceeded the estimates that UNSE had provided for in UNSE's last rate case, Docket No. E-04204A-06-0783, should be investigated in detail in UNSE's current rate case, Docket No. 04204A-09-0206, where UNSE is requesting rate base inclusion of such costs. Because this is an affiliated transaction, additional regulatory scrutiny is warranted for the cost overruns.

Chapter 1 - PPFAC Review

A. Background

UNSE's power supply agreement with Pinnacle West expired on May 31, 2008. In its last rate case, Docket No. E-04204A-06-0783, the Company proposed a modified PPFAC to recover its fuel and purchased power costs. The Company proposed a cost recovery mechanism that would have automatically adjusted rates based on a 12-month rolling average cost for fuel and purchased power.

In that UNSE rate case, Staff proposed a PPFAC for UNSE that included a forward-looking component, similar in this respect, to the Power Supply Adjustor ("PSA") mechanism that the Commission had approved for Arizona Public Service Company ("APS"). UNSE generally supported adoption of the PPFAC recommended by Staff. The Company agreed with Staff's proposal and to implement a POA to operate the PPFAC. In Decision No. 70360, the Commission adopted Staff's recommended PPFAC which was similar to APS' PSA modified for UNSE's specific circumstances.

The PPFAC approved by the Commission in Decision No. 70360 allows the company to include forward-looking increases and decreases in its purchased power and fuel costs in the PPFAC with no profit markup to its customers. Under the terms of the POA, the PPFAC consists of a forward component and a true-up component. The forward component is based on forecasted fuel and purchased power costs. The true up component compares actual fuel and purchased power costs with the amounts collected through base rates and the PPFAC in the prior year.

One issue raised by UNSE's charges is whether the charges from non-regulated affiliate UED includes a profit and whether such affiliated profit for UED would be considered reasonable and appropriate for ratemaking purposes for UNSE. We discuss such issues in Chapter 2 of this report.

B. Review Objective

The Staff requested Larkin & Associates, PLLC ("Larkin") to review UNSE's PPFAC Filings. The review consisted of testing the accuracy and reasonableness of the amounts UNSE included in its December 31, 2008 and April 1, 2009 PPFAC filings. This report discusses our analysis of UNSE's PPFAC filings and presents our findings and recommendations.

C. Review Period

Larkin reviewed the PPFAC Schedules that were filed by UNSE on December 31, 2008 and updated Schedules that UNSE filed on April 1, 2009 and supporting workpapers. The PPFAC rate calculation was to be effective for the period beginning June 1, 2009 through May 31, 2010. The true-up component of the PPFAC filing was for the period June 1, 2008 through May 31, 2009.

In its updated PPFAC Filing, *** Begin Confidential ***

*** End Confidential

*** and updated its projected fuel costs.

UNSE's proposed PPFAC rate effective June 1, 2009 changed from \$0.002092 [December 31, 2008 filing] to \$(0.010564) [April 1, 2009 filing]. The Forward Component Rate changed from \$ 0.012902 [December 31, 2008 filing] to \$(0.003019) [April 1, 2009 filing].

D. Review Tasks

Our analysis included reviewing:

- The Plan of Administration ("POA") filed by UNSE on June 26, 2008,
- UNSE's PPFAC calculations in Excel,
- UNSE's Workpapers supporting the 12/31/08 and 4/1/09 filings (electronic and hardcopy),
- UNSE's Monthly PPFAC filings (June 2008 through April 2009),
- Company responses to Staff data requests, and
- Various Commission Orders.

We also tested the mathematical accuracy of various calculations in UNSE's PPFAC filings and supporting documentation and participated in discussions with Staff and UNSE representatives concerning PPFAC issues, including BMGS-related costs.

E. Discussion

Verification of UNSE's PPFAC Rate Schedules 1 through 5 (December 31, 2008 and April 1, 2009 filings)

Larkin tested the mathematical accuracy of the information presented on Schedules 1 through 5, and found no computational errors. Larkin also traced the amounts on Schedules 1 through 5 where they were linked to other schedules and determined the information appeared to be flowing through properly.

Verification of UNSE's PPFAC Workpapers

Larkin tested the information presented in UNSE's PPFAC workpapers found in the Excel file titled "Copy of Jan09 Forecast Update (Final Workpapers) Confidential V.xls," as well as other electronic and hardcopy workpapers and the

monthly PPFAC Schedules filed by the Company for reasonableness. Larkin issued data requests to UNSE to obtain additional information regarding the amounts presented in the schedules and workpapers.

There are two appendices to this report: Appendix I contains non-confidential and redacted versions of UNSE's responses to data requests referenced in this report. Appendix II contains confidential versions of UNSE's responses to data requests referenced in this report.

F. Findings and Conclusions

1. Larkin found that UNSE included substantial costs and affiliated charges in the PPFAC related to the BMGS. This issue is discussed in more detail in the following chapter.
2. As stated above, in its December 31, 2008 PPFAC filing, UNSE *** Begin Confidential ***

*** End

Confidential *** Larkin verified that these amounts were removed in UNSE's April 1, 2009 PPFAC filing.

3. UNSE also modified the presentation of Schedule 2, Line 3 in its April 1, 2009 filing compared to its December 31, 2008 filing. The Company was asked in data request STF 6.6, why there was no amount shown on Schedule 2, Line 3 for "PPFAC adjustments to fuel and purchased power cost" in the column titled "Proposed 6/1/2009". The Company responded that:

Line 3 is specifically reserved for accounting adjustments that may be applicable from one PPFAC year to the next. For 2009 there are no accounting adjustments.

In the initial 2008 filing, this line was used to show the actual mark-to-market value of the forward gas purchases at the time of filing (the value was removed from the projected fuel and purchased power costs and shown separately). In order to eliminate confusion and following several discussions with Staff, it was determined that the actual market-to-market hedges for the PPFAC year should be shown in projected fuel and purchased power costs as they represent anticipated costs associated with fuel purchases and not an accounting adjustment.

Data request STF 10.4 asked the Company to identify the dates of the discussions and the names of the Staff personnel who participated in these discussions. The Company responded that during the TEP rate case settlement negotiations, several changes were made to the TEP PPFAC that applied to both TEP's and UNSE's PPFAC Schedules. UNSE stated that these changes were

discussed with Barbara Keene of the AZCC Staff and Ralph Smith, Staff's consultant and a witness for the rate case proceeding. Larkin and Staff could locate no records of such discussions as they pertained specifically to UNSE's PPFAC. Because this change in presentation potentially improves the clarity of the PPFAC filings, we do not object to it. In the future, any changes to the PPFAC presentation that are made or sought by UNSE should be clearly documented and explained in UNSE's future PPFAC filings.

4. Schedule 3, Line 6 and Schedule 5, Line 5, show forecasted Retail Billed Sales (kWh). In UNSE's April 1, 2009 PPFAC filing, the Company updated Retail Billed Sales on Schedule 3 but did not update or flow these amounts for the months March through May 2009 onto Schedule 5. Data request STF 8.1 asked the Company to explain the discrepancy. The Company's response stated that:

The forecasted amounts on Schedule 5 should be the same as the forecasted amount on Schedule 3, as shown on the Load Input Tab in Column H. This data gets updated when new loads are forecasted; however, the months May through June did not get updated and the data shown is from the previous filing.

Since the change in forecasted data would result in a change of 29/10,000 of a penny per kwh it was deemed insignificant and no correction was filed.

5. Schedule 3, line 3 of the PPFAC filing shows retail native load energy sales in MWh. During our review of this Schedule, Larkin computed different amounts than those shown by UNSE on line 3 for the months July through October 2008. Data request STF 7.4 requested the Company to reconcile the retail native load energy sales amount on Schedule 3 with the amounts computed by Larkin. UNSE's response to that data request states:

During the process of reconciling these loss numbers, a calculation error was discovered on Schedule 6, Public Information, on the monthly filings.

The loss percentage used on the June filing used the loss value shown on the Support 1 tab, as discussed in response to STF 4.3, therefore, the above recalculation shows a zero difference.

However, it was requested that we show the loss percentage value on the Public Information sheet starting in July. This calculation inadvertently used the wrong denominator in the calculation - instead of using line 30 (Total Energy Available for Sale) as the denominator, it was discovered that the formula was incorrectly using line 31. (Total Retail Sales).

This calculation will be corrected and the values on Schedule 3 will be updated in the next monthly filing to reflect the correct values.

Since the loss calculation is only used in determining Jurisdictional Allocation, this error has no effect on the PPFAC balance. UNS Electric, Inc. ("UNS Electric") does not have any jurisdictionally allocated sales.

G. Recommendations

We recommend that:

- 1-1. The Staff establish assignments and procedures to review the Company's future annual PPFAC filings for reasonableness and errors and, if feasible, respond to the Company's updated information by April 15 as stated in Decision No. 70360.
- 1-2. UNSE should clearly show, document and explain any changes it makes to the presentation of information in future PPFAC filings.
- 1-3. UNSE should correct its PPFAC filings for the errors noted in item F-5, above.

Chapter 2 - Inclusion of Costs Related to the Black Mountain Generating Station in UNSE's PPFAC

A. Review Objective

This chapter describes the background of the BMGS and the costs related to BMGS that UNSE has included in its PPFAC.

B. Discussion

Background of BMGS

BMGS was built, and is currently owned by, UED. UED is a wholly-owned subsidiary of UniSource Energy that engages in developing generation resources and other project development services and related activities. The BMGS is a natural gas-fired combustion turbine located in Northern Arizona. BMGS is a two unit peaking facility in Mohave County. BMGS Units 1 and 2 were released for commercial operation beginning May 30, 2008. UED is an affiliated company to UNSE. UED leases the land on which BMGS is located from UNS Electric. The BMGS is the only generation owned by UNSE affiliate in the Mohave County load area.

In UNSE's last base rate case, Docket No. E-04204A-06-0783, UNSE requested and was denied inclusion of \$60 million in rate base for construction costs associated with the BMGS.

In that rate case, in Decision No. 70360 the Commission allowed UNSE:

...to implement an accounting order and record any and all of the Company's financial activities associated with the BMGS, as if the BMGS were in rate base as of June 1, 2008. Unless otherwise ordered by the Commission, this accounting order would remain in effect until the effective conclusion of UNSE's next rate case.¹

Cost of BMGS

UNSE's response to data request STF 9.1 indicates that the final cost of the BMGS was \$63 million, which includes \$1 million of depreciation. The final cost and the reasons why such cost exceeded the estimates that UNSE had provided for such cost in UNSE's last rate case, Docket No. E-04204A-06-0783, should be investigated in detail in UNSE's current rate case, Docket No. E-04204A-09-0206, where UNSE is requesting rate base inclusion of such costs. Because this is an affiliated transaction, additional regulatory scrutiny is warranted for the cost overruns.

¹ Decision No. 70360 at p. 76.

RFP Process

UNSE entered into a purchase power agreement with its affiliate, UED, for capacity and power from the BMGS, after an independently monitored RFP process.

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Accion Group issued a report detailing its findings and conclusions. A copy of the report was provided in response to data request STF 11.3 and is attached in Appendix II. Concerning the RFP process, Accion Group concluded that:

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Selection of UED

In response to the RFP process, UNSE received two bids, and selected the bid submitted by its affiliate, UED. Copies of the bids were provided in response to data request STF 14.1 and are attached in Appendix II.

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Larkin & Associates also reviewed the bids UNSE received in response to the RFP issued by UNSE on August 20, 2007 from UED and ***Begin Confidential***

*** End Confidential *** Our review of such bids did not reveal anything that would contradict Accion Group's conclusions. However, it is unclear from the review why a *** Begin Confidential*** *** End Confidential *** was needed or how that specification affected the bids received.

Purchased Power Sales Agreement

In 2008, UNSE and UED entered into a Purchased Power Sales Agreement (PPA) under which UED sells all of the capacity and output of the 90 MW natural gas-fired BMGS to UNSE over a five year term. The PPA is a tolling arrangement in which UNSE takes operational control of BMGS and assumes all risk of the operation and maintenance costs, including fuel. Under the terms of the PPA, UNSE pays UED a capacity charge.

Item 19 on page 4 of the PPA, states:

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When asked if the PPA contract was approved by FERC in data request STF 9.3, the Company's responded:

FERC does not actually approve specific contracts; they require filing and acceptance through the FERC process. The contract was filed with FERC on March 12, 2008. The filing was noticed on March 18, 2008 with comments, protests, and interventions due on or before April 2, 2008. No comments, protests, or interventions were filed. Acceptance by FERC on May 8, 2008 was the final action by FERC.

The letter dated May 8, 2008 from the FERC to Mr. Jeffrey M. Jakubiak, Counsel for UniSource Energy Development Company, states that:

On March 12, 2008, UniSource Energy Development Company (UED) submitted for filing a Power Sales Agreement (Agreement) between itself and its affiliate UNS Electric, Inc. (UNS Electric). The Agreement provides UNS Electric full use of two gas fired generating units (90 mW nameplate rating), for a period of five years, currently under development by UED at the Black Mountain Generating Station. The Agreement is accepted for filing, as designated, effective June 1, 2008.

...

This acceptance for filing shall not be construed as constituting approval of the referenced filing or of any rate, charge, classification, or any rule, regulation, or practice affecting such rates or services provided for in the filed documents; nor shall such acceptance be deemed as recognition of any claimed contractual right or obligation associated therewith; and such acceptance is without prejudice to any findings or orders which have been or any which may hereafter be made by the Commission in any proceeding now pending or hereafter instituted by or against your company. (Emphasis added.)

In Docket Nos. E-04204A-08-0124 and E-04230A-08-0124, on April 29, 2008, UNSE presented the PPA to the Commission and requested Commission approval.

In Decision No. 70322, (April 29, 2008) the PPA between UNS Electric, Inc. and UED was neither approved nor disapproved by the Commission. Page four of that Decision stated:

IT IS THEREFORE ORDERED that the proposed Purchased Power Agreement between UNS Electric, Inc., and UniSource Energy Development Company as discussed herein is neither approved nor disapproved.

Gas Transportation Agreements

In 2008, UNS Gas and UNS Electric entered into a 20-year gas transportation agreement and a 20-year natural gas sales agreement, whereby UNS Gas will purchase natural gas for UNS Electric and transport it to the BMGS. In Docket Nos. E-04204A-08-0124 and E-04230A-08-0124, UNS Gas and UNS Electric requested Commission approval of these agreements. In Decision No. 70332, the Commission approved the gas sales and transportation agreements.

C. Findings and Conclusions

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Virtually all of these costs are the subject of affiliated transactions. Various data requests were asked of UNSE concerning these costs. Larkin also participated in a conference call with UNSE and Staff to help understand the Company's inclusion of costs related to the BMGS in the PPFAC.

Capacity Costs

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***End Confidential *** This amounts to
***End Confidential *** per year. As
stated in response to STF data request 9.9, the Company's rationale for inclusion of the demand charges in the PPFAC is based on its interpretation of Decision No. 70360, that the PPFAC mechanism approved by the Commission provided for recovery of demand charges. Item 11 of the PPA identifies the monthly capacity (demand) charge of *** Begin Confidential ***

*** End Confidential ***

In the prior rate case, Docket No. E-04204A-06-0783, the direct testimony of UNSE's witness Kevin Larson discussed UNSE's requested ratemaking treatment for BMGS. On page three of his testimony, Mr. Larson stated:

The Company is requesting a post-test year adjustment to rate base and a corresponding reclassification of rates effective June 1, 2008, or at a later date if commercial operation is delayed beyond June 1, 2008.

...

The effect of this post test year adjustment is to add approximately \$10 million to the Company's non-fuel revenue requirement, assuming a \$60 million project completion cost.

The annual demand charges for BMGS that UNSE has included in the PPFAC have exceeded the \$10 million annual revenue requirement that was identified by UNSE in Docket No. E-04204A-06-0783.

Start-Ups

For the period June 2008 through April 2009,² UNSE included in the PPFAC over *** Begin Confidential *** ***End Confidential *** for start-up costs.

The Company's basis for the inclusion of these costs in the PPFAC is based on Item 15 of the PPA which provides for *** Begin Confidential ***

***End Confidential ***

Variable O&M

For the period June 2008 through April 2009,³ UNSE included in the PPFAC over *** Begin Confidential *** ***End Confidential *** for variable O&M costs. As stated in the Company's response to data request STF 6.4, UNSE's basis for inclusion of the variable O&M costs in the PPFAC, refers to item 16 of the PPA which provides that the Buyer (UNSE) is responsible for reimbursing the seller (UED) for actual variable O&M costs incurred by the Seller.

The Company's response to data request STF 9.6 stated that the PPFAC forecast uses an average of approximately \$1.00 per MWh for variable O&M costs. Variable O&M costs are booked to FERC Account 555 (Purchased Power) and include costs such as payroll, and miscellaneous expenses such as tools, office supplies, maintenance equipment, lubricants, etc. The Company provided an itemization supporting the variable O&M costs shown on the BMGS invoices. The majority of the costs shown appear to relate to affiliated company labor and supplies.

² May 2009 information for these costs was not available.

³ Id.

There were concerns raised in the last UNSE rate case about affiliated labor costs charged from TEP to UNSE, including concerns about the potential for double recovery and the need for regulatory scrutiny. The Company's response to data request STF 11.1 states that UED does not have any employees. The labor costs included in the variable O&M costs are for employees of UNSE and its affiliate TEP. This raises questions of whether such labor costs should be charged to UNSE ratepayers through the PPFAC. The Company's response to data request STF 11.2 provides the names and titles of eleven UNSE and TEP employees that charge time to UED, five of which are new positions. Labor costs charged through the PPFAC for existing UNSE or TEP employees present a potential double recovery issue. UNSE has failed to demonstrate that such costs are not already being recovered, or should not be recovered through the base rates of UNSE, or of its affiliate TEP or both. In conjunction with a more detailed review of BMGS-related costs and affiliated charges that presumably can better be conducted in the context of UNSE's recently filed base rate case, it should be addressed whether costs for existing or new UNSE or TEP employee positions related to the operation of a new generating plant should be included in UNSE's PPFAC. Decision No. 70360 provided for deferred accounting for BMGS related costs.

Fuel Costs

For the period June 2008 through April 2009,⁴ UNSE has included approximately
*** Begin Confidential *** *** End Confidential *** for BMGS fuel costs
in its PPFAC. *** Begin Confidential ***
***End Confidential *** Data request STF 10.1 asked
the Company to explain why these costs are shown as fuel costs rather than
purchased power costs. The Company's response stated:

The agreement between UED and UNSE is called a PPA and is a Tolling Arrangement where the Buyer (UNSE) is responsible for the fuel and associated transportation charges and certain O&M costs.

UNSE pays for the fuel costs directly to the supplying party; whether it is for fuel supply or transportation. These costs are classified as fuel costs in the FERC accounts.

Conclusion

Larkin was unable to ascertain within the limited time of the PPFAC review whether the over *** Begin Confidential *** *** End Confidential *** of BMGS-related costs, which are primarily the result of affiliated transactions, are reasonable costs for UNSE's Arizona ratepayers.

2. UED Profits on the Affiliated Transaction

The PPA for the sale of the BMGS related capacity and power from UED to UNSE may be permitting the affiliate, UED, to earn profits, similar to, or

⁴ Id.

potentially greater than, what a return on equity would be for a regulated entity. Larkin reviewed available financial information to attempt to identify the level of UED profits and UED's return on equity. Larkin reviewed UED's financial information that was provided in response to STF 12.1 as well as the parent company's UniSource Energy Corp.'s ("UniSource") Form 10-K for the period ending December 31, 2008. The information below is from UniSource's 2008 Form 10-K:

The table below shows the contributions to our consolidated after-tax earnings by our three business segments and Other net income (loss).

	2008	2007	2006
	-Millions of Dollars-		
TEP	\$ 4	\$ 53	\$ 67
UNS Gas	8	4	4
UNS Electric	4	5	5
Other (1)	(2)	(4)	(7)
Income Before Discontinued Operations	14	58	69
Discontinued Operations — Net of Tax (2)	—	—	(2)
Consolidated Net Income	<u>\$ 14</u>	<u>\$ 58</u>	<u>\$ 67</u>

(1) Includes: UniSource Energy parent company expenses; UniSource Energy parent company interest expense (net of tax) on the UniSource Energy Convertible Senior Notes and on the UniSource Energy Credit Agreement; and income and losses from Millennium investments and UED.

(2) Relates to the discontinued operations of Global Solar.

The table below summarizes the income (loss) for the Other non-reportable segments in the last three years.

	2008	2007	2006
	-Millions of Dollars-		
UniSource Energy Parent Company	\$ (5)	\$ (5)	\$ (6)
Millennium	—	1	—
UED	3	—	—
Total Other Loss From Continuing Operations	\$ (2)	\$ (4)	\$ (7)
Discontinued Operations — Net of Tax	—	—	(2)
Total Other Net Loss	<u>\$ (2)</u>	<u>\$ (4)</u>	<u>\$ (9)</u>

UED

UED completed the construction of the 90 MW BMGS in Kingman, Arizona in May 2008. UED sells the output of BMGS to UNS Electric through a PPA. See *UNS Electric, Factors Affecting Results of Operation, Purchased Power Agreement*, above.

In December 2008, UniSource Energy contributed \$59 million of equity to UED by canceling an intercompany promissory note in the amount of \$59 million. Borrowings under the promissory note were used to finance the development of BMGS.

For 2008, UED recorded after-tax income of \$3 million related to the operation of BMGS.

In 2008, UED paid dividends to UniSource Energy of less than \$1 million. UED did not make dividend payments in 2007 or 2006.

As stated in the 2008 UniSource Form 10-K, UED earned an after tax income of approximately \$3 million in 2008.

Based on a review of UED's monthly trial balances for the months June through November 2008, UED had an average common equity balance of approximately
*** Begin Confidential ***

*** End Confidential ***

Conclusion

The level of UED's 2008 after-tax earnings in comparison with UED's average equity balance for June through November of 2008 raises questions about the reasonableness of the return earned by UED on its affiliated transaction with UNSE.

D. Recommendations

- 2-1. Clarification should be sought regarding whether it was the Commission's intention for UNSE to recover the substantial costs associated with the BMGS through the PPFAC. In Decision No. 70360 the Commission provided the Company with an opportunity to record all of the Company's financial activities associated with BMGS, as if the BMGS were in rate base as of June 1, 2008 and provided that such matters would be addressed in the next rate case:

To provide such encouragement, we will authorize UNSE to implement an accounting order to record all of the Company's financial activities associated with BMGS, as if the BMGS were in rate base as of June 1, 2008. Unless otherwise ordered by the Commission, this accounting order would remain in effect until the effective conclusion of UNSE's next rate case.

- 2-2. The costs resulting from the affiliated transactions between UNSE and affiliates including, but not limited to, UED, TEP and UNSG pertaining to the BMGS should be reviewed in detail in the context of UNSE's recently filed base rate case, Docket No. E-04204A-09-0206, where UNSE has requested rate base inclusion of BMGS.
- 2-3. Until such a detailed review of charges for BMGS has been completed in UNSE's current rate case and the results of that review are evaluated by

the Commission, all amounts UNSE charged through its PPFAC related to BMGS should potentially be subject to refund.

- 2-4. UNSE's response to data request STF 9.1 indicates the final costs for BMGS was \$63 million, which includes \$1 million of depreciation. The final costs and the reasons why such costs have apparently exceeded the estimates that UNSE had provided in UNSE's last rate case, Docket No. E-04204A-06-0783, should be investigated in detail in UNSE's current rate case, Docket No. 04204A-09-0206, where UNSE is requesting rate base inclusion of such costs. Because this is an affiliated transaction, additional regulatory scrutiny is warranted for the cost overruns.

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S NINTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 15, 2009**

Appendix I
Page 1 of 23
PPFAC Review

STF 9.1 Please provide the total construction cost for each of the Black Mountain Units.

RESPONSE: The total construction cost for Black Mountain Generating Station was \$63 million. [note: current draft rate case testimony indicates that the book value of BMGS is \$62M, which includes \$1M of depreciation].

RESPONDENT: Carmine A. Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S SIXTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 8, 2009**

STF 6.6 Refer to Schedule 2, line 3 of the April 1, 2009 PPFAC filing.
Why is no amount shown for PPFAC adjustments to fuel and
purchased power costs for the column titled "Proposed 6/1/2009"?

RESPONSE: Line 3 is specifically reserved for accounting adjustments that may
be applicable from one PPFAC year to the next. For 2009, there
are no accounting adjustments.

In the initial 2008 filing, this line was used to show the actual
mark-to-market value of the forward gas purchases at the time of
filing (the value was removed from the projected fuel and
purchased power costs and shown separately). In order to eliminate
confusion and following several discussions with Staff, it was
determined that the actual market-to-market hedges for the PPFAC
year should be shown in projected fuel and purchased power costs
as they represent anticipated costs associated with fuel purchases
and not an accounting adjustment.

RESPONDENT: Carmine A. Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S TENTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 22, 2009**

STF 10.4 Refer to UNSE's response to STF 6.6. Please specify the dates of the discussions and names of the Staff personnel who participated in these discussions.

RESPONSE: During the TEP rate case settlement negotiations, several changes were made to the Purchase Power Fuel Adjustor Clause ("PPFAC") that were applied to both TEP's and UNS Electric's schedules, since the schedules are basically identical documents for the two companies.

These changes were discussed with the settling parties' representatives, specifically Barbara Keene from the Arizona Corporation Commission Staff and Ralph Smith, Staff's witness during the rate case proceedings. These discussions took place over several months, from February 2008 to approximately December 2008.

RESPONDENT: Carmine A. Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S EIGHTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 15, 2009**

STF 8.1 Refer to Schedule 3 (Line 6) and Schedule 5 (Line 5) of the 4/1/09 PPFAC filing. Why are the amounts on these lines different for the months of March through May 2009?

RESPONSE: The forecasted amounts on Schedule 5 should be the same as the forecasted amount on Schedule 3, as shown on the Load Input Tab in Column H. This data gets updated when new loads are forecasted; however, the months May through June did not get updated and the data shown is from the previous filing.

Since the change in forecasted data would result in a change of 29 / 10,000 of a penny per kWh it was deemed insignificant and no correction was filed.

RESPONDENT: Carmine A. Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S SEVENTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 13, 2009**

STF 7.4 Please refer to Schedule 3 (April 1, 2009 filing) and the attachment provided in response to STF 4.3. Below is a recalculation of line 3 on schedule 3 based on the information provided by the company. Please reconcile the amounts below with those on line 3 of schedule

Line							
1	Distribution losses % [1]	0.088233795	0.053641722	0.057980146	-0.01155067	0.14195147	
2	1-distribution losses %	0.911766205	0.946358878	0.942019854	1.011550672	0.858042859	
3	Retail native load energy sales mwh [2]	141,991,520	192,852,621	182,508,731	173,755,975	139,655,271	
	Retail native load energy sales mwh incl.						
4	losses [3]	155,732,379	203,783,813	193,741,916	171,771,894	162,760,251	
	Retail native load energy sales mwh incl.						
5	losses shown on Sch 3, line 3	155,732,379	202,767,849	194,478,649	171,794,294	167,340,592	
6	Difference		(0)	1,015,964	(736,733)	(22,400)	(4,580,341)

- [1] Stf 4.3 attachments
[2] Schedule 3, line 2 (4/1/09 filing)
[3] Line 3 divided by line 2

RESPONSE: During the process of reconciling these loss numbers, a calculation error was discovered on Schedule 6, Public Information, on the monthly filings.

The loss percentage used on the June filing used the loss value shown on the Support 1 tab, as discussed in response to STF 4.3, therefore, the above recalculation shows a zero difference.

However, it was requested that we show the loss percentage value on the Public information sheet starting in July. This calculation inadvertently used the wrong denominator in the calculation – instead of using line 30 (Total Energy Available for Sale) as the denominator, it was discovered that the formula was incorrectly using line 31 (Total Retail Sales).

This calculation will be corrected and the values on Schedule 3 will be updated in the next monthly filing to reflect the correct values.

Since the loss calculation is only used in determining Jurisdictional Allocation, this error has no effect on the PPFAC balance. UNS Electric, Inc. (“UNS Electric”) does not have any jurisdictionally allocated sales.

RESPONDENT: Carmine A. Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S ELEVENTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 22, 2009**

STF 11.3 Refer to the response to STF 9.5. Provide copies of all the bids received.

RESPONSE: ----- Since ~~an~~ affiliate was bidding into the request for proposal ("RFP"), all bid submissions were submitted directly to The Accion Group, the Independent Monitor during the RFP process. Please see the PDF file STF 11.3 TEP Final Report 2007 RFP (Confidential) on the enclosed CD for a copy of the Independent Monitor's report that includes a detailed analysis of the RFP process and a summary of proposals with specific details from each bid.

If Commission Staff would like copies of the individual bids, we will need to request the bids from The Accion Group.

The PDF file on the enclosed CD contains confidential information and is being provided pursuant to the terms of the Protective Agreement and is not identified by Bates numbers.

RESPONDENT: Carmine A. Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S FOURTEENTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 29, 2009**

STF 14.1 Please refer to the response to 11.3. Please provide non-redacted copies of all bid submissions.

RESPONSE: Please see the following PDF files on the enclosed CD for non-redacted copies of all bid submissions:

- STF 14.1 UED Bid Proposal (UNSE090607) (Confidential)
- STF 14.1 NAEP Bid Sheet- 09-06-2007-RFP (Confidential)
- STF 14.1 North Arizona Energy Project LLC (CA) (Confidential)

The PDF files contain confidential information and are being provided pursuant to the terms of the Protective Agreement and are not identified by Bates numbers.

RESPONDENT: Carmine Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S NINTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 15, 2009**

STF 9.3 Was this contract approved by the FERC? If so, please provide a copy of the order. If not, what is the status of the approval?

RESPONSE: FERC does not actually approve specific contracts; they require filing and acceptance through the FERC process. The contract was filed with FERC on March 12, 2008. The filing was noticed on March 18, 2008 with comments, protests, and interventions due on or before April 2, 2008. No comments, protests, or interventions were filed. Acceptance by FERC on May 8, 2008 was the final action by FERC.

Please refer to the PDF file STF 9.3 on the enclosed CD for the FERC letter accepting UniSource Energy Development Company and UNS Electric, Inc.'s PPA.

RESPONDENT: Carmine A. Tilghman

FEDERAL ENERGY REGULATORY COMMISSION
WASHINGTON, D.C. 20426

OFFICE OF ENERGY MARKET REGULATION

UniSource Energy Development Co.
Docket No. ER08-662-000

May 8, 2008

Troutman Sanders LLP
410 9th Street N.W., Suite 1000
Washington, D.C. 20004

Attention: Mr. Jeffrey M. Jakubiak
Counsel for UniSource Energy Development Co.
and UNS Electric, Inc.

Reference: Power Sales Agreement

Dear Mr. Jakubiak:

On March 12, 2008, UniSource Energy Development Company (UED) submitted for filing a Power Sales Agreement (Agreement) between itself and its affiliate UNS Electric, Inc. (UNS Electric). The Agreement provides UNS Electric full use of two gas-fired generating units (90 mW nameplate rating), for a period of five years, currently under development by UED at the Black Mountain Generating Station. The Agreement is accepted for filing, as designated, effective June 1, 2008.

This filing was noticed on March 18, 2008, with comments, protests or motions to intervene due on or before April 2, 2008. No comments, protests or motions to intervene were filed. Notices of intervention and unopposed timely filed motions to intervene are granted pursuant to the operation of Rule 211 and Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.211 and § 385.214). Any opposed or untimely filed motion to intervene is governed by the provisions of Rule 214.

This acceptance for filing shall not be construed as constituting approval of the referenced filing or of any rate, charge, classification, or any rule, regulation, or practice affecting such rates or services provided for in the filed documents; nor

Docket No. ER08-662-000

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shall such acceptance be deemed as recognition of any claimed contractual right or obligation associated therewith; and such acceptance is without prejudice to any findings or orders which have been or any which may hereafter be made by the Commission in any proceeding now pending or hereafter instituted by or against your company.

Authority to act on this matter is delegated to the Director, Division of Tariffs and Market Development - West, under 18 C.F.R. § 375.307. This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order, pursuant to 18 C.F.R. § 385.713.

If you have any questions regarding this letter order, please contact Robert Petrocelli at (202) 502-8447.

Sincerely,

Steve P. Rodgers, Director
Division of Tariffs and
Market Development-West

cc: All Parties

Document Content(s)

19218689.DOC.....1-2

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S NINTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 15, 2009**

STF 9.9 Refer to the Order in Docket No. E-04204A-08-0124. (a) What account are the deferred demand charges booked to? (b) Provide the monthly deferred demand charge balances for each of the months June 2008 through the most recent available. (c) How does the company envision recovering these charges?

RESPONSE: In Decision No. 70322 (April 29, 2008), Docket No. E-04204A-08-0124, Commission Staff recommended that UNS Electric's current PPFAC be restructured to allow recovery of demand charges. Staff also recommended that UNS Electric be allowed to defer demand costs associated with the proposed Black Mountain PPA until the Commission addressed those costs in the pending rate case. At that time, it was unknown whether the Commission would rule on the recommended changes prior to the start of the PPA, which took effect on June 1, 2008.

In Decision No. 70360 (May 27, 2008), Docket No. E-04204A-06-0783, the Commission approved a PPFAC mechanism that incorporated the Staff's recommendations on recovery of demand charges. Because that approval occurred before the Black Mountain PPA became effective, there was no need to defer demand charges.

RESPONDENT: Carmine A. Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S SIXTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 8, 2009**

STF 6.4 Refer to Monthly revenue-expense report provided in response to STF 3.1. What FERC account numbers are the Variable O&M costs booked to? Provide a description of what these costs relate to for each line item.

RESPONSE: The variable O&M costs are booked to FERC Account 555 (Purchased Power).

In accordance with the Purchase Power and Sale Agreement between UNS Electric (Buyer) and UniSource Energy Development Company ("UED") (Seller), the Buyer is responsible for reimbursing the Seller for actual variable O&M costs incurred and paid for by the Seller.

These costs include typical O&M costs, such as payroll and consumables.

RESPONDENT: Carmine A. Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S NINTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 15, 2009**

STF 9.6 Refer to the response to STF 6.4 and the monthly-revenue expense report contained in the 4/1/09 PPFAC filing. Provide a detailed itemization (including account numbers and descriptions of the corresponding costs) of the variable O&M (payroll, consumables, etc.) costs shown on this schedule.

RESPONSE: The 04/01/2009 Purchased Power and Fuel Adjustor Clause ("PPFAC") filing is largely a forecast and, therefore, contains no Actual Variable O&M costs. As commented in our response to STF 6.4, our forecast uses an average of approximately \$1.00 per MWh as an estimate for variable O&M costs. These costs include payroll and miscellaneous expenses such as tool purchases, office supplies, maintenance equipment, lubricants, etc.

Please see the PDF file STF 9.6-Confidential on the enclosed CD for schedules for the months of June 2008 through February 2009 to accompany the Black Mountain invoices provided in response to STF 9.7.

The PDF file on the enclosed CD contains confidential information and is being provided pursuant to the terms of the Protective Agreements for Docket E-04204A-06-0783 and Dockets E-04204A-08-0124 and E-04230A-08-0124, and is not identified by Bates numbers.

RESPONDENT: Kevin Battaglia

UNISOURCE ENERGY CORP

FORM 10-K (Annual Report)

Filed 03/02/09 for the Period Ending 12/31/08

Address	ONE SOUTH CHURCH AVENUE SUITE 100 TUCSON, AZ 85701
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Symbol	UNS
SIC Code	4911 - Electric Services
Industry	Electric Utilities
Sector	Utilities
Fiscal Year	12/31

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CONTRIBUTION BY BUSINESS SEGMENT

The table below shows the contributions to our consolidated after-tax earnings by our three business segments and Other net income (loss).

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	-Millions of Dollars-		
TEP	\$ 4	\$ 53	\$ 67
UNS Gas	8	4	4
UNS Electric	4	5	5
Other ⁽¹⁾	(2)	(4)	(7)
Income Before Discontinued Operations	<u>14</u>	<u>58</u>	<u>69</u>
Discontinued Operations — Net of Tax ⁽²⁾	<u>—</u>	<u>—</u>	<u>(2)</u>
Consolidated Net Income	<u>\$ 14</u>	<u>\$ 58</u>	<u>\$ 67</u>

(1) Includes: UniSource Energy parent company expenses; UniSource Energy parent company interest expense (net of tax) on the UniSource Energy Convertible Senior Notes and on the UniSource Energy Credit Agreement; and income and losses from Millennium investments and UED.

(2) Relates to the discontinued operations of Global Solar.

LIQUIDITY AND CAPITAL RESOURCES**Liquidity**

The primary source of liquidity for UniSource Energy, the parent company, is dividends from its subsidiaries, primarily TEP. Also, under UniSource Energy's tax sharing agreement, subsidiaries make income tax payments to UniSource Energy, which makes payments on behalf of the consolidated group. The table below provides a summary of the liquidity position of UniSource Energy on a stand-alone basis and each of its segments.

<u>Balances As of</u> <u>February 25, 2009</u>	<u>Cash and Cash</u> <u>Equivalents</u>	<u>Borrowings</u> <u>under Revolving</u> <u>Credit Facility ⁽³⁾</u>	<u>Amount Available</u> <u>under Revolving</u> <u>Credit Facility</u>
	-Millions of Dollars-		
UniSource Energy stand-alone	\$ 4	\$ 42	\$ 28
TEP	24	11	139
UNS Gas	8	10	25 ⁽¹⁾
UNS Electric	5	16	19 ⁽¹⁾
Other	9 ⁽²⁾	N/A	N/A
Total	<u>\$ 50</u>		

(1) Currently, either UNS Gas or UNS Electric may borrow up to a maximum of \$45 million, but the total combined amount borrowed cannot exceed \$60 million.

(2) Includes cash and cash equivalents at Millennium and UED.

(3) Includes LOCs issued under Revolving Credit Facilities

Short-term Investments

UniSource Energy has a short-term investment policy which governs the investment of excess cash balances by UniSource Energy and its subsidiaries. We review this policy periodically in response to market conditions to adjust, if necessary, the maturities and concentrations by investment type and issuer in the investment portfolio. As of December 31, 2008, UniSource Energy's short-term investments include highly-rated and liquid money market funds and commercial paper. These short-term investments are classified as Cash and Cash Equivalents on the Balance Sheet.

OTHER NON-REPORTABLE BUSINESS SEGMENTS**RESULTS OF OPERATIONS**

The table below summarizes the income (loss) for the Other non-reportable segments in the last three years.

	<u>2008</u>	<u>2007</u>	<u>2006</u>
	-Millions of Dollars-		
UniSource Energy Parent Company	\$ (5)	\$ (5)	\$ (6)
Millennium	—	1	—
UED	3	—	—
Total Other Loss From Continuing Operations	<u>\$ (2)</u>	<u>\$ (4)</u>	<u>\$ (7)</u>
Discontinued Operations — Net of Tax	—	—	(2)
Total Other Net Loss	<u>\$ (2)</u>	<u>\$ (4)</u>	<u>\$ (9)</u>

UniSource Energy Parent Company

UniSource Energy parent company expenses include interest expense (net of tax) related to the UniSource Energy Convertible Senior Notes and the UniSource Credit Agreement.

UED

UED completed the construction of the 90 MW BMGS in Kingman, Arizona in May 2008. UED sells the output of BMGS to UNS Electric through a PPA. See *UNS Electric, Factors Affecting Results of Operation, Purchased Power Agreement*, above.

In December 2008, UniSource Energy contributed \$59 million of equity to UED by canceling an intercompany promissory note in the amount of \$59 million. Borrowings under the promissory note were used to finance the development of BMGS.

For 2008, UED recorded after-tax income of \$3 million related to the operation of BMGS.

In 2008, UED paid dividends to UniSource Energy of less than \$1 million. UED did not make dividend payments in 2007 or 2006.

Discontinued Operations — Global Solar

Global Solar recorded losses of \$2 million in 2006. On March 31, 2006, Millennium completed the sale of its interest in Global Solar. In these financial statements, UniSource Energy accounts for Global Solar as a discontinued operation and recognizes 100% of Global Solar's losses through the date of the sale.

FACTORS AFFECTING RESULTS OF OPERATIONS**Millennium Investments**

Millennium is in the process of exiting its remaining investments. At December 31, 2008, Millennium's investment balance was \$29 million and had \$3 million in cash. Millennium's investment balances include \$14 million at Sabinas, \$9 million at Haddington and \$2 million at Valley Ventures.

Millennium made \$25 million in dividend payments to UniSource Energy in 2008 and \$15 million in 2007. Millennium's remaining commitment for all of its investments combined is less than \$1 million, which is expected to be funded over the next one to two years.

Millennium is in the process of finalizing a sale of its 50% interest in Sabinas to Mimosa. In December 2008, Mimosa and Millennium signed a letter delineating the general terms of the sale and purchase. The terms called for an upfront \$5 million payment to Millennium which was received in January 2009. Other key terms of the transaction include a three year, interest-bearing, collateralized \$15 million note from Mimosa and an interest in carbon credits created from flaring coal mine methane at Mimosa mines. The sale is expected to close before the end of the first quarter of 2009.

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S ELEVENTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 22, 2009**

STF 11.1 Does Unisource Energy Development Company have any employees? If so, provide a list of all job titles.

RESPONSE: No, UniSource Energy Development Company ("UED") has no employees.

RESPONDENT: Carmine A. Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S ELEVENTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 22, 2009**

STF 11.2

Refer to the response to STF 9.6. (a) Are the labor costs shown on these schedules for Unisource Energy Development employees or Tucson Electric Power employees? (b) Provide the job titles associated with the labor costs shown on these schedules. (c) Indicate whether any of the positions in response to 2(b) are new positions. (d) If they do not relate to new positions, how were the labor costs on these schedules treated in each of the last rate cases: 1. UNS Electric 2. UNS Gas and 3. Tucson Electric Power (e) If the labor costs were included in any of the last rates cases, indicate for each company whether the labor costs were recorded as labor expense, as an affiliate charge, etc. with an explanation of how the expense was derived.

RESPONSE:

- a. The labor costs shown on these schedules are for employees of UNS-Electric, Inc. ("UNS Electric") and Tucson Electric Power Company ("TEP").
- b. Please see the Excel workbook STF 11.2 on the enclosed CD.
- c. Please see the Excel workbook STF 11.2 on the enclosed CD.
- d.- e. Each of the positions below are able to direct charge a specific project in their own company or in an affiliated company. How their time was included in the prior rate cases depends on the projects that they worked on during the respective company's test period. The TEP employees would have been included in the UNS Electric rate case only if they charged to a UNS Electric project during the test period. For the TEP rate case, labor was based on a three year average, so they would have been included in TEP rates only to the extent that they were in the three year average. The UNS Electric lineman (#5 below) would have direct charged time during the test period to whatever project was worked.

1. Mgr, Corp. Envir Svcs/Land Mg - TEP Employee
2. Sr Chem/Environ Engineer- TEP Employee
3. Dir, Corp Env Compl & Permits - TEP Employee
4. Office Specialist - TEP Employee
5. Journeyman Lineman KG - UNS Electric Employee

RESPONDENT: Kevin Battaglia

Company	Year	Month	Task	Name	Job Title	Position Status	T Earnings	Ss Tax	Med Tax	T Futa	SUI T	SUI T	SUI T	Work Comp	Prem	Sum
033	2008	Jun	BMG0553	Hughes,Eric P	Operations Inst & Elec Tech	New Position	3878.12	219.21	51.27	0	0	0	0	0	31.47	0
033			BMG0553	Coffee,Dennis L	Supr,Substation & Gen Maint	New Position	2105.39	116.45	27.23	0	0	0	0	0	21.26	0
033			BMG0553	Searles,Roger L	Operations Inst & Elec Tech	New Position	3765.54	206.68	48.34	0	0	0	0	0	30.58	0
							Sum: 9749.05	Sum: 542.1	Sum: 126.1	Sum: 0	Sum: 0	Sum: 0	Sum: 0	Sum: 83.31	Sum: 67.06	0
033		Jul	BMG0553	Hughes,Eric P	Operations Inst & Elec Tech	New Position	9842.12	550.8	128.82	0	0	0	0	0	64.2	0
033			BMG0553	Searles,Roger L	Operations Inst & Elec Tech	New Position	8503.06	469.6	109.83	0	0	0	0	0	64.2	0
033			BMG0553	Coffee,Dennis L	Supr,Substation & Gen Maint	New Position	4800.29	265.5	62.09	0	0	0	0	0	48.49	0
							Sum: 23145.47	Sum: 1285	Sum: 300	Sum: 0	Sum: 0	Sum: 0	Sum: 179.75	Sum: 103.58	0	0
033		Aug	BMG0553	Hughes,Eric P	Operations Inst & Elec Tech	New Position	13167.85	728.07	170.31	0	0	0	0	0	75.51	0
033			BMG0553	Searles,Roger L	Operations Inst & Elec Tech	New Position	14670.85	822.1	192.26	0	0	0	0	0	105.36	0
033			BMG0553	Coffee,Dennis L	Supr,Substation & Gen Maint	New Position	6316.17	350	81.83	0	0	0	0	0	63.8	0
							Sum: 34194.87	Sum: 1900	Sum: 444	Sum: 0	Sum: 0	Sum: 0	Sum: 272.74	Sum: 71.99	0	0
033		Sep	BMG0553	Hughes,Eric P	Operations Inst & Elec Tech	New Position	9322.6	521.26	121.9	0	0	0	0	0	75.51	0
033			BMG0553	Searles,Roger L	Operations Inst & Elec Tech	New Position	10136.92	572.13	133.8	0	0	0	0	0	75.51	0
033			BMG0553	Coffee,Dennis L	Supr,Substation & Gen Maint	New Position	4800.29	265.52	62.1	0	0	0	0	0	48.49	0
							Sum: 24259.81	Sum: 1358	Sum: 317	Sum: 0	Sum: 0	Sum: 0	Sum: 195.99	Sum: 48.49	0	0
002		Oct	BMG0546	Bakken,Erik	Mgr, Corp. Envir Svcs/Land Mg	TEP Support	115.38	0	1.53	0	0	0	0	0	0.09	0
002			BMG0553	Hughes,Eric P	Operations Inst & Elec Tech	New Position	8305.75	456.33	106.74	0	0	0	0	0	69.74	0
033			BMG0553	Searles,Roger L	Operations Inst & Elec Tech	New Position	7725.51	427.44	99.97	0	0	0	0	0	66.18	0
002			BMG0546	Fang,Zigang	Chem/Envir Engineer, Jr	TEP Support	1522.77	88.55	20.71	0	0	0	0	0	1.22	0
033			BMG0553	Coffee,Dennis L	Supr,Substation & Gen Maint	New Position	6737.26	373.07	87.15	0	0	0	0	0	68.04	0
002			BMG0546	Greer,Monette L	Sr Chem/Envir Engineer	TEP Support	163.37	7.17	1.67	0	0	0	0	0	0.13	0
002			BMG0546	Komadina,Charles W	Dir, Corp Env Compl & Permits	TEP Support	793.92	0	10.5	0	0	0	0	0	0.64	0
							Sum: 25363.96	Sum: 1352	Sum: 328	Sum: 0	Sum: 0	Sum: 0	Sum: 206.04	Sum: 0.18	0	0
002		Nov	BMG0546	Bakken,Erik	Mgr, Corp. Envir Svcs/Land Mg	TEP Support	230.77	0	3.07	0	0	0	0	0	0.18	0
002			BMG0553	Searles,Roger L	Operations Inst & Elec Tech	New Position	8197.25	450.8	105.43	0	0	0	0	0	71.78	0
002			BMG0553	Coffee,Dennis L	Supr,Substation & Gen Maint	New Position	6400.39	355.32	83.01	0	0	0	0	0	64.64	0
002			BMG0546	Fang,Zigang	Chem/Envir Engineer, Jr	TEP Support	234.27	13.6	3.18	0	0	0	0	0	0.19	0
002			BMG0546	Komadina,Charles W	Dir, Corp Env Compl & Permits	TEP Support	1535.16	0	21.62	0	0	0	0	0	1.23	0
002			BMG0546	Gebell,Patricia A	Office Specialist	TEP Support	20.16	1.23	0.29	0	0	0	0	0	0.02	0
002			BMG0546	Greer,Monette L	Sr Chem/Envir Engineer	TEP Support	2361.84	117.39	27.47	0	0	0	0	0	1.88	0
							Sum: 25841.48	Sum: 1308	Sum: 330	Sum: 0	Sum: 0	Sum: 0	Sum: 203.62	Sum: 0.87	0.49	0
002		Dec	BMG0546	Greer,Monette L	Sr Chem/Envir Engineer	TEP Support	606.79	28.39	6.64	1.7	0.87	0	0	0	0.29	0
002			BMG0546	Komadina,Charles W	Dir, Corp Env Compl & Permits	TEP Support	226.84	6.86	3.01	0.87	0.45	0	0	0	0.18	0
033			BMG0553	Coffee,Dennis L	Operations Inst & Elec Tech	New Position	6063.53	335.8	78.44	0	0	0	0	0	61.24	0
033			BMG0553	Searles,Roger L	Operations Inst & Elec Tech	New Position	6897.32	377.08	88.2	0	0	0	0	0	54.15	0
033			BMG0553	Hughes,Eric P	Operations Inst & Elec Tech	New Position	5896.06	313.26	73.24	0	0	0	0	0	53.85	0
							Sum: 19690.54	Sum: 1061	Sum: 249	Sum: 2.57	Sum: 1.32	Sum: 1.32	Sum: 169.91	Sum: 0.1	0.1	0
002	2009	Jan	BMG0546	Bakken,Erik	Mgr, Corp. Envir Svcs/Land Mg	TEP Support	119.19	6.58	1.54	0	0	0	0	0	0.1	0
002			BMG0546	Greer,Monette L	Sr Chem/Envir Engineer	TEP Support	214.95	11.33	2.65	1.44	1.4	0	0	0	0.17	0
033			BMG0553	Searles,Roger L	Operations Inst & Elec Tech	New Position	6984.93	378.19	88.45	44.73	53.5	62.27	0	0	62.27	0
033			BMG0553	Reaume,Daniel J	Operations Inst & Elec Tech	New Position - Temporary	1287.62	78.59	18.38	10.14	12.17	12.45	0	0	13.84	0
033			BMG0553	Dibert,Walter P	Operations Inst & Elec Tech	New Position - Temporary	1370.4	84.97	19.87	10.96	10.97	10.97	0	0	13.84	0
033			BMG0553	Coffee,Dennis L	Supr,Substation & Gen Maint	New Position	6174.69	339.02	79.2	43.59	52.26	62.37	0	0	62.37	0
033			BMG0553	Hughes,Eric P	Operations Inst & Elec Tech	New Position	6466.43	395.56	92.52	50.87	60.91	60.41	0	0	60.41	0
002			BMG0546	Komadina,Charles W	Dir, Corp Env Compl & Permits	TEP Support	292.05	18.44	4.31	0.79	0.57	0.23	0	0	0.23	0
							Sum: 22890.26	Sum: 1312	Sum: 306	Sum: 162	Sum: 193	Sum: 193	Sum: 211.49	Sum: 0	0.29	0
002		Feb	BMG0546	Bakken,Erik	Mgr, Corp. Envir Svcs/Land Mg	TEP Support	357.57	19.91	4.65	0	0	0	0	0	0.29	0
033			BMG0553	Hughes,Eric P	Operations Inst & Elec Tech	New Position	5787.56	352.98	82.56	0.19	0.19	0.19	0	0	57.74	0
033			BMG0553	Searles,Roger L	Operations Inst & Elec Tech	New Position	6327.92	330.81	77.37	0	0	0	0	0	63.14	0
033			BMG0553	Reaume,Daniel J	Operations Inst & Elec Tech	New Position - Temporary	1370.4	84.97	19.87	10.96	13.15	13.84	0	0	13.84	0
033			BMG0551	Coffee,Dennis L	Supr,Substation & Gen Maint	New Position	3479.78	191.13	44.71	0.94	1.2	35.14	0	0	35.14	0
033			BMG0546	Coffee,Dennis L	Supr,Substation & Gen Maint	TEP Support	3479.78	191.57	44.8	1.06	1.2	35.14	0	0	35.14	0
002			BMG0546	Greer,Monette L	Dir, Corp Env Compl & Permits	TEP Support	525.69	31.79	7.44	0	0	0	0	0	0.42	0
							Sum: 23860.61	Sum: 1338	Sum: 313	Sum: 24	Sum: 28	Sum: 28	Sum: 220.32	Sum: 0	0.77	0
002		Mar	BMG0546	Bakken,Erik	Mgr, Corp. Envir Svcs/Land Mg	TEP Support	357.58	19.9	4.66	0	0	0	0	0	0.29	0
002			BMG0546	Greer,Monette L	Sr Chem/Envir Engineer	TEP Support	1574.48	81.98	19.17	0	0	0	0	0	1.26	0
033			BMG0554	Schulzump,Reginald D	Journeymen Lineman KG	UNS-E Support	70.58	3.67	0.86	0	0	0	0	0	0.71	0
033			BMG0554	Licher,Stephen D	Customer Technician	UNS-E Support	102.85	5.7	1.33	0.33	0.39	0.39	0	0	1.04	0
033			BMG0553	Searles,Roger L	Operations Inst & Elec Tech	New Position	9569.16	500.9	117.13	0	0	0	0	0	94.13	0
033			BMG0553	Dibert,Walter P	Operations Inst & Elec Tech	New Position - Temporary	2740.8	169.93	39.74	21.92	26.31	27.68	0	0	27.68	0
033			BMG0551	Coffee,Dennis L	Supr,Substation & Gen Maint	New Position	4871.71	267.57	62.58	0	0	0	0	0	49.21	0
033			BMG0546	Coffee,Dennis L	Supr,Substation & Gen Maint	New Position	4871.71	268.03	62.67	0	0	0	0	0	49.21	0
033			BMG0553	Hughes,Eric P	Operations Inst & Elec Tech	New Position	7754.98	472.95	110.62	0	0	0	0	0	75.74	0
002			BMG0546	Komadina,Charles W	Dir, Corp Env Compl & Permits	TEP Support	1343.42	79.11	18.5	0	0	0	0	0	1.07	0
002			BMG0546	Gebell,Patricia A	Office Specialist	TEP Support	31.46	1.92	0.45	0	0	0	0	0	0.03	0
							Sum: 33288.73	Sum: 1871	Sum: 437	Sum: 22	Sum: 22	Sum: 26	Sum: 26	Sum: 300.37	Sum: 0	0

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S TENTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 22, 2009**

STF 10.1 Refer to the Monthly Revenues Expenses Report, Fuel Cost Section. Why are the Black Mountain purchased power costs shown as fuel costs in the PPFAC filing as opposed to purchased power costs?

RESPONSE: The agreement between UniSource Energy Development (“UED”) and UNS Electric, Inc. (“UNS Electric”) is called a Power Purchase and Sale Agreement (“PPA”) and is a Tolling Arrangement where the Buyer (UNS Electric) is responsible for the fuel and associated transportation charges and certain O&M costs.

UNS Electric pays for the fuel costs directly to the supplying party; whether it is for fuel supply or transportation. These costs are classified as fuel costs in the FERC accounts.

RESPONDENT: Carmine A. Tilghman

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S TWELFTH SET OF DATA REQUESTS REGARDING THE PPFAC
REVIEW
DOCKET NO. E-04204A-06-0783
April 22, 2009**

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PPFAC Review

STF 12.1 Please provide monthly trial balances for **UniSource Energy Development** for each of the months June 2008 through the most recent month available.

RESPONSE: Please see the PDF file STF 12.1 (Confidential) on the enclosed CD for copies of UniSource Energy Development's trial balances for June 2008 through December 2008. We are unable to provide a trial balance for 2009 until our first quarter filing for the SEC is complete.

The PDF file contains confidential information and is being provided pursuant to the terms of the Protective Agreement and is not identified by Bates numbers.

RESPONDENT: Maya Liddell

**UNS ELECTRIC, INC.'S RESPONSES TO
STAFF'S FOURTH SET OF DATA REQUESTS REGARDING THE DECEMBER
2008 PPFAC FILING
DOCKET NO. E-04204A-06-0783
March 30, 2009**

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PPFAC Review

STF 4.3 Schedule 3. Show the calculations for the amounts on line 3 for each of the months June 2008 through October 2008.

RESPONSE: The amounts on Line 3 – Retail Native Load Energy Sales Including Losses – are calculated in the following manner:

Retail native load sales (as shown on Schedule 7 for each month) are divided by (1 – distribution loss percentage). The distribution loss percentage is calculated and shown in each month's PPFAC filing on the Support 1 tab. The loss factor varies each month and is the difference between the metered amount of City Gate load (sum of energy flowing into the system) and the amount that is billed each month.

Please see UNSE_Support_1-Confidential.xls on the enclosed CD for the Support 1 tab for the months of June through October.

The Excel file on the enclosed CD contains confidential information and is being provided pursuant to the terms of the Protective Agreement and is not identified by Bates numbers.

RESPONDENT: Carmine Tilghman

APPENDIX II

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