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1999 NOV 10 P 1:34
ARIZONA CORPORATION COMMISSION

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AZ CORP COMMISSION
DOCUMENT CONTROL

November 10, 1999

Mr. James S. Pignatelli
Chairman/CEO
Unisource Energy
220 West 6th Street
Tucson, AZ 85702

Arizona Corporation Commission

DOCKETED

NOV 10 1999

DOCKET NO. E-01933A-98-0471
DOCKET NO. E-01933-97-0772
DOCKET NO. RE-00000C-94-0165

DOCKETED BY [Signature]

Dear Jim:

As you know, the full Commission will take up the proposed settlement between Tucson Electric Power (TEP) and the affected parties later this month.

Because of recent filings in the ONEOK/Southwest Gas docket that discusses alleged conduct by TEP and this Commission's former Executive Secretary, Jack Rose, and which concern the TEP pending settlement, I am writing to you seeking written clarification on the record.

I have attached the Prudential correspondence referencing purported dealings between TEP, Mr. Rose and individuals of Prudential Securities.

Please respond in writing to the statements contained in the Prudential documentation, which allege TEP involvement with Mr. Rose and/or Prudential Securities. I am most interested in Mr. Rose's suggestion contained in the June 11, 1999 e-mail that suggests there is some sort of quid-pro-quo involving TEP business in exchange for Mr. Rose's help in securing regulatory approvals.

Given Mr. Rose's efforts to secure a contract with Prudential last year, and what now appears to be an effort by him to line up contracts that involved his work and efforts while still a Commission employee, please inform this Commission about any dealings or discussions with Mr. Rose that concern or relate to TEP settlements and any involvement with Prudential Securities. This should include any discussions you may have had which concern Mr. Rose's trip to New York last year.

I would appreciate an immediate response given that the settlement will be taken up in two weeks. Please file your response in Docket Control and send a copy to all Parties of Record.

Sincerely,

Carl J. Kunasek

Carl J. Kunasek
Chairman

- cc: Commissioner Irvin
Commissioner Mundell
Brian S. McNeil
Deborah Scott
Lyn Farmer
Docket Control
All parties of record

12/14/98

~~Handwritten scribble~~

JACK
ROSE COLL

11:30 AM

① A.L.S. 40-401

1. Cannot hold Commission if have connection to regulated company
2. TONY WEST'S ELECTION IN TEXAS

SITTING
AGMS

1. Asked Jack to stay another 60 days; declined
2. Note on vote of PDC, WROTH S. COURT RULING CASE DOWN
3. INDUSTRIALS DIDN'T WANT TO SUPPORT PDC, JUST WANTED CONCESSIONS

② 3 options

- (a) INDUSTRIAL BANKING
- (b) ENTREPRENEURIAL/CONSULTING
- (c) WASHINGTON — ONE JOB OFFER IN HAND
ANOTHER IN OFFER

③ TALK ON PHONE TOMORROW

→ 11:00 NY TIME

4:00 PM

④ POLICY ADVISORY WORK : US WEST SELLING LOCAL EXCHANGES
TOP SECONITIZATION IS CERTAIN

⑤ PSE : your strategy of FA to KCC is still viable. Will talk with you late about this.

MEMORANDUM

TO: Joseph Fichera
Managing Director, Prudential Securities

FROM: Jack Rose

SUBJECT: Business Proposal

DATE: 12-21-98

Here is a brief summary of some specific projects that I would like to pursue as an investment banker once I complete my employment with the Arizona Corporation Commission in January. This is not a comprehensive list and I would be happy to discuss the specifics in more detail. I have also outlined the major contract issues and how I would propose to resolve them.

1) For a number of complex reasons, many of them involving changes in federal and state universal service support mechanisms, the Regional Bell Operating Companies (RBOC's) are starting to sell their rural exchanges. I have strong reasons to believe that I can almost immediately bring in a substantial advisory contract with one of the RBOC's to provide financial advice and manage these sales. I would anticipate that this contract will result in underwriting opportunities in the future. Furthermore, as a member of the national Rural Task Force, which is rewriting the federal system of cross-subsidies, I have unlimited opportunities to network with rural carriers that may be looking to make acquisitions or be acquired. The knowledge and contacts that I have made while working on this task force will enable me to add substantial value as a banker.

2) I have teamed up with a leading consulting firm that represents state regulatory commissions on electric restructuring. We are currently in the process of jointly responding to several state RFP's for consulting services, and expect to receive several additional state contracts during the next ninety days. I agree with you that providing advisory services to state commissions is a good strategy to obtain underwriting business. However, you need to get involved in the process at an earlier stage, and you need someone who has relationships with the state commissions and the networking ability to land the initial contracts. As a former commission staff director who has networked aggressively over the past few years, I am in an ideal position to get the initial advisory contracts, add value to the state proceedings, and obtain the resulting underwriting business — whether it is securitization or future M & A work. Like any other business, insiders always have an advantage.

3) I believe that I can secure an advisory contract with a local electric utility to look for acquisition opportunities within Arizona. The structure of the Arizona market is grossly inefficient and there will be numerous asset sales during the next few years as the market is deregulated. This will create underwriting opportunities.

4) One of the Arizona IOU's will be high on the national acquisition list when its stranded cost recovery is resolved. I believe that I can quickly obtain an advisory contract with this company to

look for merger partners.

5) When the Arizona restructuring plan is complete, there is a very high probability that I can bring in the resulting stranded asset securitizations. Given my knowledge of the Arizona market and my regulatory contacts, this is very close to a sure thing.

6) Last week Southwest Gas Corporation announced that it is being bought out in an all cash transaction. Given my relationship with this company and my ability to advise them on important regulatory issues related to the merger, I believe that I am well positioned to get some of the underwriting business.

7) Arizona is ripe for a water roll up — the industry is very fractured and there are tremendous efficiencies to be gained from consolidation. Furthermore, the state regulatory commission has been studying this issue for some time and is prepared to offer regulatory incentives for consolidation. I have been discussing this issue with several major parties.

8) I believe that I can land an advisory contract and underwriting business with a major IPP that is looking to site a project in Arizona.

CONTRACT ISSUES

I am looking for an investment bank that is willing to be creative and implement a highly entrepreneurial pay-for-performance relationship. I know that I have the ability to bring in substantial business and help position an investment bank to take advantage of opportunities in telecommunications, energy, and water.

COMPENSATION

We both need an employment contract that closely reflects the value that I bring to your organization. I understand that the bulk of employee compensation comes from a bonus pool, but I am extremely reluctant to bring in substantial new business and then rely on the vagaries of your compensation system. I also understand that it is difficult to split up underwriting fees in advance. I would propose that we resolve this difficulty in the following manner. During the next two years I will retain all the advisory fees that I generate. Advisory fees will first go to pay my base salary, and the balance will be paid to me on a quarterly basis. I believe that I can generate these consulting type fees without affiliating with an investment bank, and I simply can't put them into a pool without some guarantee. If I can keep the advisory fees, I am willing to take my chances with the bonus pool on underwriting commissions.

EXPENSES

Prudential will provide office space, staff support, travel, and other reasonable expenses.

TERM

I would propose a two year contract with a six month "out" provision: if I have not brought in at least one six figure advisory contract within six months, Prudential has the right to cancel the contract. If the relationship is successful, after two years I will enter into a standard employment contract.

JOB TITLE

I should have a job title that is sufficiently prestigious to enable me to work directly with CEO's and impress state commissions. I can report to anyone that you choose to designate, but I need to have the job title of managing director, and the flexibility to manage my own projects.

I recognize that an employment contract of this type is unusual on Wall Street — but I am in a unique position to add value to your organization. I believe that my industry knowledge, corporate contacts, regulatory contacts, and creativity will enable me to bring in transactions that Prudential could not otherwise obtain. I also feel that my intimate understanding of regulatory processes will add a dimension to your banking team that your competitors lack — keeping in mind that all of these issues have significant regulatory overtones. The downside is minimal and the upside dramatic. I hope you will reach the conclusion that this proposed relationship has a positive expected value.

David Dubin Wednesday May 26, 1999 04:18 PM
Investment Banking Group--Business Origination 212-778-4920 Fax Number: 212-778-1902

~~Name: [Redacted]~~

To: Joe Fichera/PSG/Prudential
Martin Wade/PSG/Prudential@Prudential

cc:
Subject: Unisource/Oneok

FYI, regarding UniSource and ONEOK.

----- Forwarded by David Dubin/PSG/Prudential on 05/26/99 04:16 PM -----

jrose_az@hotmail.com
Wednesday May 26, 1999 03:52 PM

To: David Dubin/PSG/Prudential
cc:
Subject: Unisource/Oneok

David,

I met with Gene Dubay yesterday and today for further discussions on the possible purchase of Unisource by Oneok. As I noted yesterday, both Gene and Unisource CEO Jim Pignatelli are very interested and want to meet ASAP. Gene also said that

he had no objection to Prudential representing Unisource on the sell side, while continuing to represent Oneok on other pending transactions.

Gene is going to have someone at Oneok start crunching numbers, and will begin discussions with other members of Oneok management. We probably need to start putting something together ourselves.

I am trying to set up a meeting between Pignatelli, Dubay and myself for next week. I'm also scheduled to go golfing with Pignatelli next week and will try to lock up the sell side mandate, but I need to get more information on pricing before I have this discussion.

Jack Rose

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jrose_az@hotmail.com
Friday June 11, 1999 03:58 PM

To: David Dubin/PSG/Prudential
cc: joseph_fichera@prusec.com
Martin Wade/PSG/Prudential
Subject: Update

David,

I need to update you on a number of developments. First, I met with Jim Pignatelli, CEO of Unisource Energy (parent of Tuscon Electric Power), and he has agreed to give Prudential the stranded cost securitization underwriting, which he expects will total about \$450MM. He needs some help getting regulatory approval for his settlement and he expects me to help him out in that regard. We should probably meet with him the next time he is in NY so we can complete the understanding. I also talked to him about the sale of Unisource. He agrees that they are likely takeover candidates after the stranded costs issues are resolved. I suggested to him that Oneok would be a likely merger partner and he asked me to set up a meeting with their management.

Second, I am going to Denver next week to meet with a number of people at ES West to identify specific projects that we can do for them. Their CFO, Al Spies, has agreed to give us some business. Once we identify likely projects we can fly out a team and give them a proposal.

Third, we had a major win on the regulatory front this week with Oneok.

As you know, last week we wrapped up a settlement in Nevada. We now have a tentative settlement agreement in Arizona, and should have final approval in July. Oneok expects to close on Southwest in September, when we will complete the underwriting that they have agreed upon.

Fourth, the ouster of Tony West this week from the Arizona Commission was a very positive event. We now have two very close allies on the three member panel. This should expedite regulatory approval on future acquisitions in Arizona of Unisource and Citizens. It also puts me in a position to add substantial value on all of these transactions.

Jack Rose

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jrose_az@hotmail.com
Friday June 11, 1999 03:38 PM

To: David Dubin/PSG/Prudential
cc: Martin Wade/PSG/Prudential
Jonathan Blum/PSG/Prudential
Subject: Re: Meeting with Dubay on Citizens

David,

I have a meeting tentatively scheduled for Monday at 11:00 a.m. in Kansas City to meet with Gene Dubay regarding the Citizens acquisition. I hope that both Marty and Jonathan can attend, but we need to move forward as quickly as possible if we are going to assist Oneok in preparing a preemptive bid.

Jack Rose

>From: david_dubin@prusec.com
>To: Jrose_AZ@hotmail.com
>CC: martin_wade@prusec.com, jonathan_blum@prusec.com
>Subject: Meeting with Dubay on Citizens
>Date: Mon, 7 Jun 1999 10:17:52 -0400
>
>Jack,
>
>Martin Wade would like to have Jonathan Blum, also an MD in M&A, join him
>in the meeting with you and Gene to discuss strategy for Citizens
>Utilities. Jonathan has significant utility M&A experience from his tenure
>at Smith Barney; he was even involved in an analysis of a break-up of
>Citizens.
>
>Jonathan cannot make a meeting on Thursday in Tucson, but both he and Marty
>will go to Kansas City at the earliest time available for all parties.
>Could you find out when Gene will be available, other than this Thursday?
>Let me know and I'll check those times with Marty and Jonathan.
>
>David
>
>

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David Dubin Monday June 21, 1999 09:05 PM
Investment Banking Group—Business Origination 212-778-4920 Fax Number: 212-778-1902

To: Joe Fichera/PSG/Prudential
cc:
Subject: ONEOK's Financing Requirements

Some thoughts on points to raise with Dubai related to the Company's financing and strategy:

1. In light of the favorable pace of approvals in AZ and NV for the SWX acquisition, we understand that the closing date has been accelerated to 9/1/99.
 - What is OKE's thinking about timing of the related financings?
 - Has Company decided on sequencing of various offerings: lead with debt or the preferred?

2. We don't want to divert management's time from getting the deal closed, but when may be begin work on the financing?
 - Who will be coordinating from OKE: Dubai or Jim Kneale?
 - Should we be in discussions with PaineWebber now?
 - Is PW working with Company on registration statement or is there a shelf in place?

3. What is the larger strategic plan that would lead OKE to be interested in diversifying into providing electric utility services?
 - In particular, how do the Citizens Utilities properties fit into the plan?
 - How will OKE organize to manage these operations?
 - How does UniSource (Tucson Electric Power) fit into the plan?
 - Does SWX bring with it some of the management needed to operate in the electric business in its service territories?

4. How is the OKE handling its dealings with the rating agencies and major institutional holders (who own about 40% of stock)?
 - Has OKE visited with agencies about its expansion plans and presented a financial plan that address target capitalization ratios, coverage factors, realistic financing plans? (PSI can be helpful in preparing studies and presentations for agencies and investors.)
 - Has thought been given to meetings with key holders to discuss the long-term plan and how its implementation should positively impact stock price?
 - (Would we want to mention how Carol Coale could play role in getting the story into market -- assuming she's convinced about it herself?)