ERNEST G. JOHNSON
Executive Director

ARIZONA CORPORATION COMMISSION

DATE: JUNE 7, 2010

DOCKET NO.: E-01933A-09-0476

TO ALL PARTIES:

Enclosed please find the recommendation of Administrative Law Judge Jane L. Rodda. The recommendation has been filed in the form of an Order on:

TUCSON ELECTRIC POWER COMPANY
(FINANCE)

Pursuant to A.A.C. R14-3-110(B), you may file exceptions to the recommendation of the Administrative Law Judge by filing an original and thirteen (13) copies of the exceptions with the Commission's Docket Control at the address listed below by **4:00** p.m. on or before:

JUNE 16, 2010

The enclosed is NOT an order of the Commission, but a recommendation of the Administrative Law Judge to the Commissioners. Consideration of this matter has tentatively been scheduled for the Commission's Open Meeting to be held on:

JUNE 29, 2010 and JUNE 30, 2010

For more information, you may contact Docket Control at (602) 542-3477 or the Hearing Division at (602) 542-4250. For information about the Open Meeting, contact the Executive Director's Office at (602) 542-3931.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

KRISTIN K. MAYES, Chairman
GARY PIERCE
PAUL NEWMAN
SANDRA D. KENNEDY
BOB STUMP

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS.	DOCKET NO. E-01933A-09-0476 DECISION NO. ____________ **ORDER**

Open Meeting
June 29 and 30, 2010
Phoenix, Arizona

BY THE COMMISSION:

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

* * * * * * * * * *

FINDINGS OF FACT

1. On October 2, 2009, Tucson Electric Power Company ("TEP" or "Company") filed an application with the Commission requesting authorization for various financing transactions. TEP seeks authorization to (1) increase the cap on its long-term indebtedness by $300 million; (2) increase the amount of its revolving credit facilities by $50 million; (3) increase the amount of equity contributions from UniSource Energy Corporation ("Unisource Energy"), TEP's parent company, by up to $250 million; and (4) extend the period for TEP to enter into these financings.

2. On January 12, 2010, TEP filed affidavits of publication verifying public notice of the financing application. TEP published notice of its financing application in *The Daily Territorial* and *The Arizona Daily Star* on December 14, 2009.

3. On April 1, 2010, TEP filed a supplement to its financing application with information responsive to A.A.C. R13-2-803(A). In its supplemental filing, TEP waived any applicable time

limits as set forth in A.A.C. 14-2-803(B).

4. On April 28, 2010, the Commission's Utilities Division ("Staff") filed a Staff Report recommending conditional approval of the various financing transactions. The Staff Report provided that any comments to the Staff Report should be filed with Docket Control no later than May 7, 2010.

5. No comments to the Staff Report were received.

6. TEP is a wholly owned subsidiary of UniSource Energy, and is a for-profit Class "A" Arizona public service corporation located in Tucson, Arizona. TEP generates, transmits and distributes electricity to approximately 401,000 retail electric customers in a 1,155 square mile area in Tucson, the surrounding Pima County area and including Fort Huachuca in Cochise County.

7. Staff's Engineering Report indicates that from 2002 to 2009, TEP experienced an average annual customer growth of 1.7 percent. In 2008 and 2009, TEP's average retail customers grew by less than 1 percent, compared to annual increases of 2 percent from 2002 to 2007. Staff states that TEP expects retail customer growth of approximately 1 percent annually over the next several years.

8. TEP's annual peak retail load grew from 1,946 MW in 2002 to 2,376 MW in 2008, an average annual increase of approximately 3.38 percent. TEP expects its retail kWh sales to grow at an average rate of 1 to 2 percent over the next several years. The Company projects its annual peak retail load to increase to 2,648 MW in 2014, an average annual increase of approximately 2.08 percent over 2008 levels. TEP's average annual increase in retail kWh sales was 4 percent from 2004 to 2007. As a result of weak economic conditions in 2008 and 2009, TEP's retail kWh sales decreased by 1.4 percent in 2008 and 2009.

9. TEP's current retail rates were established under a settlement agreement approved in Decision No. 70628 (December 1, 2008). Under the settlement agreement, TEP agreed to a moratorium in base rate increases through December 31, 2012.

10. In its application, TEP requests that the Commission issue an Order that authorizes TEP to:

a. Issue additional long-term indebtedness and indebtedness to refinance existing long-term indebtedness so long as, after giving effect to the issuance of such indebtedness and the application of the proceeds thereof, the amount of TEP's outstanding long-term indebtedness (including current maturities thereof) does not exceed $1,300,000,000 (which limit does not include capital lease obligations or indebtedness arising under TEP's credit facilities);

b. Enter into one or more credit or reimbursement agreements, and to enter into agreements to refinance any such credit or reimbursement agreements, which may consist of one or more revolving credit facilities, so long as after giving effect to the entry of such a facility, TEP's revolving credit facilities do not exceed $200 million in the aggregate, and to enter into one or more letter of credit facilities supporting tax-exempt bonds which have been, or in the future will be issued pursuant to lawful authority;

c. Receive additional equity contributions of up to $250 million from UniSource Energy; and

d. Enter into these transactions on or before December 31, 2014.

Long-term Debt

11. In Decision No. 69946 (October 30, 2007), the Commission authorized TEP to issue long-term debt and refinance existing long-term debt, excluding capital lease obligations and indebtedness authorized in Decision No. 69182 (December 8, 2006), in an amount not to exceed $1 billion. As of June 30, 2009, TEP had total outstanding long-term indebtedness in an aggregate principal amount of $903,615,000.

12. TEP states that it needs to increase its long-term debt cap to $1.3 billion in order to accommodate the financing of plant additions needed for it to continue to provide safe and reliable electrical service to its customers over the next five years. In addition, TEP states that in December 2008, it was awarded an allocation of $200 million of Private Activity Bond ("PAB") volume cap from the Arizona Department of Commerce ("AZDOC"), which it may utilize to issue tax-exempt bonds to finance plant additions.

13. Over the next five years, TEP expects to enter into various long-term debt financing transactions, which it anticipates might include, but not be limited to the following:

a. The issuance of new tax-exempt bonds under the PAB. Under this program TEP may cause tax-exempt bonds to be issued for the local furnishing of electricity during the three-year period of 2009-2011. These tax-exempt bonds would be issued by the Pima County Industrial Development Authority ("Pima Authority"), and could finance expenditures for TEP's local transmission and distribution system. The bonds may be issued in one single series of $200 million or in several series of smaller amounts at the same time, or at different times through 2011. Decisions concerning the maturity dates, interest rate, security, letter of credit support and other terms would be subject to market conditions at the time of issuance. [1]

b. In addition to the potential use of the $200 million in tax-exempt financing, TEP would like to retain the ability to issue long-term taxable corporate debt. TEP states that although it intends to utilize the tax-exempt bonds because they are a low cost source of capital, there is no assurance that TEP will be able to finance on a tax-exempt basis, and thus, needs the ability to issue taxable corporate debt in lieu of the tax-exempt obligations if necessary. According to TEP, such corporate bonds would be unsecured or secured, depending on market conditions and TEP's credit ratings, and could include mortgage bonds issued under TEP's Mortgage and Deed of Trust. Pursuant to a covenant in its Credit Agreement, TEP is limited to $840 million in mortgage bonds. As of September 30, 2009, TEP had $623 million outstanding mortgage bonds securing the Credit Agreement and Letter of Credit Reimbursement Agreement.

c. TEP has approximately $459 million of variable rate tax-exempt bonds outstanding.

[1] During 2008, TEP used the general authority granted to TEP in Decision No. 69946 twice to cause bonds to be issued for its benefit by the Pima Authority. In March 2008, the Pima Authority issued for TEP's benefit $90,735,000 of its 2008 Pima Series A tax-exempt bonds ("2008 Pima A Bonds"). The 2008 Pima A Bonds are unsecured, bear interest at 6.375 percent and mature on September 1, 2029. In June 2008, the Pima Authority issued for TEP's benefit $130,000,000 of its 2008 Pima Series B tax-exempt bonds ("2008 Pima B Bonds"). The 2008 Pima B Bonds bear a variable interest rate and mature on September 1, 2020 and are supported by a letter of credit issued under the Letter of Credit Reimbursement Agreement described herein. The proceeds from the issuance of the 2008 Pima A Bonds and 2008 Pima B Bonds were used to redeem $222.745 million aggregate principal amount of 1997 Pima Series B and Series C tax-exempt bonds which were then held by TEP. TEP then used these redemption proceeds to redeem $138 million of TEP's 7.5 percent Collateral Trust Bonds that matured on August 1, 2008, to repay outstanding loans under TEP's revolving credit facility and to fund a portion of TEP's capital expenditures.

TEP states it has no current plant to refinance these bonds, but that it may be advantageous to refinance all or a portion of such bonds with new fixed- or variable-rate tax-exempt bonds depending on market conditions. As of September 30, 2009, TEP also had approximately $130 million of fixed rate tax-exempt bonds with interest rates that range from 6.95 percent to 7.125 percent. TEP states these bonds, too, may be candidates for refinancing over the next five years. TEP states that recent disruptions in the financial markets have upset the advantageous interest rates historically associated with tax-exempt bonds, and if the conditions were to reoccur, TEP states that it may find it more advantageous to refinance tax-exempt debt with taxable debt. TEP's states that its ability to issue tax-exempt debt may also be limited by applicable tax laws or other requirements.

Credit and Reimbursement Agreements

14. In Decision No. 69182, the Commission authorized TEP to refinance or amend its Credit Agreement dated August 11, 2006 ("Credit Agreement"). The Credit Agreement consists of two credit facilities: (1) a $150 million revolving credit facility ("Revolver") and (2) a $341 million letter of credit ("LOC") facility ("LOC Facility") supporting a portion of TEP's variable rate tax-exempt debt. The Credit Agreement expires in August 2011, and TEP's existing authority to refinance or amend these facilities expired in December 2009. Under the general financing authority granted in Decision No. 69946, TEP entered into a $132 million letter of credit and reimbursement agreement to support the issuance of new variable rate tax-exempt bonds in 2008.

15. TEP is seeking Commission authority to enter into one or more credit or reimbursement agreements to enable TEP to refinance the Credit Agreement in advance of its August 2011 expiration. TEP seeks an increase in its revolving credit facility from $150 million to $200 million, and to refinance its LOC Reimbursement Agreement prior to expiration in April 2011. TEP states the term of any new credit or reimbursement agreement or the length of any extension of the existing Credit Agreement or LOC Reimbursement Agreement would depend on market conditions at the time the new agreement or extension was executed, but TEP expects any such credit or reimbursement agreement to have a term of five years or less.

16. TEP states that the Revolver is used as a source of liquidity for working capital, for general corporate purposes, and may also be used to issue letters of credit to provide credit enhancement for TEP's energy procurement and hedging activities. TEP requests authorization to increase its Revolver by $50 million, from $150 million to $200 million to provide it with greater liquidity as it continues to grow, including liquidity to support commodity procurement and hedging activities.

17. TEP asserts that in light of the recent volatility and tightening of the credit markets over the last two years, it believes that it is essential that it has financing authority in place to refinance the Credit Agreement well in advance of the August 2011 expiration.

18. TEP asserts that refinancing and modifying its credit and reimbursement agreements is necessary, and consequently in the public interest, in order for TEP to continue providing cost effective, reliable and safe electric service to its customers.

19. The revolving credit facilities are secured by $491 million in mortgage bonds issued under TEP's Mortgage and Deed of Trust. Borrowings under the Revolver bear interest at a variable interest rate consisting of a spread over the London Interbank Offered Rate ("LIBOR") or an Alternate Base Rate (similar to prime rate). The spread over LIBOR or Alternate Base Rate is determined based on a pricing grid that is, in turn, based upon the ratings of the credit facilities established by Standard and Poors ("S&P") and Moody's Investor Service ("Moody's"). The credit facilities are currently rated BBB+ by S&P, and Baa1 by Moody's. As of September 30, 2009, TEP's applicable borrowing rate was LIBOR plus 0.45 percent. TEP also pays a commitment fee of 0.99 percent on the unused portion of the Revolver. As of September 30, 2009, TEP had $25 million in outstanding loans under its Revolver at an average interest rate of 1.21 percent.

20. The LOC Facility under the Credit Agreement provides $341 million of LOCs to support six series of TEP's tax-exempt variable-rate debt obligations. The LOCs support $329 million aggregate principal amount of bonds and up to $12 million to cover varying number of days of accrued interest on such obligations. Fees payable on the LOC Facility are also tied to the pricing grid that is based upon the ratings of the credit facilities. As of September 30, 2009, the applicable LOC fee was 0.45 percent. In addition, TEP pays an "LOC Fronting Fee" of 0.15 percent to the

banks that issuer the LOCs.

21. In 2008, under the general financing authority granted in Decision No. 69946, TEP caused the Pima Authority to issue $130 million of variable rate tax-exempt bonds. A reimbursement Agreement, dated April 30, 2008 (the "LOC Reimbursement Agreement"), was entered into which consists of a $132 million letter of credit facility to provide credit support for the principal of the bonds and up to $2 million of accrued interest. The LOC Reimbursement Agreement is supported by $132 million of mortgage bonds issued under TEP's Mortgage and Deed of Trust. The LOC Reimbursement Agreement expires in April 2011. As of September 30, 2009, the applicable LOC fee under the LOC Reimbursement Agreement was 0.65 percent and the LOC Fronting Fee was 0.24 percent.

22. TEP states that the deterioration in credit quality of many large financial institutions and the acquisitions and consolidations in the banking industry have reduced the number of institutions willing to lend, and have caused the pricing on debt instruments to increase dramatically over the prices prevailing in 2006 and 2008, when the credit markets were liquid and competitive. TEP states that recent quotes by financial institutions indicate that if TEP had refinanced its credit facilities at the time it filed its Finance Application with the Commission, it would have paid a spread of approximately 3.00 percent over LIBOR to borrow, compared to the 0.45 percent it is currently paying under the Credit Agreement.

Additions to Equity

23. Decision No. 69946 also authorized TEP to receive capital contributions from UniSource Energy in an amount up to $150 million. In this Application, TEP requests authority to obtain up to $250 million of additional equity contributions from its parent in order to maintain a balanced capital structure.

24. TEP asserts that allowing it to obtain additional equity from its parent is in the public interest because TEP's ability to reduce leverage and maintain a balanced capital structure allows TEP greater access to more favorably priced capital in the debt markets.

Request for Extension of Time

25. TEP requests that the Commission extend the time period to enter into the transactions

described herein through December 31, 2014.

Use of Proceeds

26. TEP states that it will use the proceeds from the issuance of new long-term indebtedness to: (1) refinance existing long-term indebtedness; (2) finance a portion of the Company's capital expenditure program;[2] and (3) pay-off outstanding borrowings under TEP's revolving credit facility.

27. TEP anticipates capital expenditures of $894 million for the period 2010 to 2013.

28. TEP intends to use its revolving credit facility (1) as a source of liquidity for working capital purposes; (2) to issue letters of credit to provide credit enhancement to counterparties for the company's energy procurement and hedging activities; and (3) for other lawful corporate purposes.

29. TEP does not propose to limit the amount of LOC Facilities. LOC credit facilities supporting variable rate tax-exempt bonds do not result in proceeds to TEP, but rather provide credit support for tax-exempt bonds, the proceeds of which are used to finance TEP's capital expenditures.

Staff's Conclusions and Recommendations

30. Staff reviewed TEP's total planned capital expenditures for generation, transmission and distribution and general capital expenditures as included in TEP's Application, and as provided in response to Staff's Data Requests. The Staff Engineering Report indicates that the funds requested in the Application are required to upgrade pollution control devices, replace certain generation equipment, and maintain TEP's generation resources.[3] Total generation expenditures for the 2010-2014 period are expected to be $674 million, and include expenses related to maintain, replace and upgrade facilities at the remote generation stations such as Four Corners, Navajo and San Juan and at the Springerville and Tucson generating stations. Anticipated expenditures also include an estimated amount for the purchase of Sundt Unit 4 ($62 million) at the lease expiration date in 2011, as well as amounts for the construction of new local generation in the Tucson area during 2012-2014.

31. A summary of TEP's forecasted capital expenditures for the period 2010-2014

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[2] The financing authority being requested in the Application is not associated with specific projects but is intended to fund a portion of all projects included in the Construction Work Plan.

[3] Engineering Report (attached to Staff Report) at 3.

follows:

Summary of TEP's Capital Expenditures 2010-2014
(Dollars in millions)

Generation	$674
General	$159
Transmission & Distribution	$607
Total	$1,440

32. Having reviewed TEP's generation, transmission and distribution projects, Staff believes that the Company's proposed capital expenditures are appropriate to meet the projected needs of TEP's existing and new customers and will promote reliability. Staff states that TEP's ability to serve its native load reliably and cost effectively is contingent upon the Company upgrading existing electric facilities, replacing certain equipment and adding new transmission and distribution infrastructure. Staff believes that the upgrades that TEP plans should improve its system from a reliability perspective and will also help the Company to meet new reliability criteria developed by the Western Electricity Coordinating Council ("WECC") and North America Electric Reliability Corporation ("NERC"), and recently approved by the Federal Energy Regulatory Commission ("FERC").

33. Staff concludes that the expenditure levels associated with the projects proposed by the Company are reasonable, but states that this does not imply a specific treatment for rate base making purposes in the Company's future rate filings.

34. Staff states that the general nature of TEP's request calls for placing conditions on the borrowings to prevent TEP from incurring an excessive amount of debt. Staff recommends that TEP's authority to issue debt under the general authority discussed herein should be conditioned on TEP maintaining a minimum percentage of equity in its capital structure and a minimum Cash Coverage Ratio ("CCR"). Staff believes equity-to-debt capitalization is an effective parameter for measuring financial leverage and risk and that the CCR measures a borrower's ability to pay interest

expense with operating cash flow.[4]

35. Staff determined that at December 31, 2009, TEP's capital structure consisted of 1.7 percent short-term debt, 1.9 percent current obligations under capital leases, 23.1 percent capital lease obligations, 42.8 percent long-term debt, and 30.5 percent equity.

36. Staff usually considers that the minimum financially prudent capital structure for an investor-owned utility with access to the capital markets equity is 40 percent of total capital. Staff believes, however, that given TEP's continuing progress in building its equity from its "historically compromised financial position" in the 1990s, a minimum 30 percent equity ratio is acceptable for TEP at this time.

37. Staff concludes that any authorization of the long-term debt threshold as proposed by TEP in this application should be conditioned on subsequent to any debt issued under the $1.3 billion long-term debt threshold, that common equity represents at least 30 percent of total capital, as defined herein.

38. Staff states that approval of the requested new debt limits would negate the necessity of TEP filing financing applications whenever it has the need to enter into any new debt agreements, and that approval of the requested debt threshold would provide TEP with the flexibility to take advantage of any favorable conditions in the financial markets when it needs capital. Accordingly, Staff believes the authorization to increase the long-term debt is appropriate, but should include an expiration date, at a date certain, to maintain reasonable oversight by requiring the Company to seek reauthorization.

39. Staff reports that TEP's cash forecasts anticipate near-term Revolver borrowing requirements in excess of $100 million. Staff states that maintaining adequate liquidity capacity gives TEP's investors, bondholders, bankers, and rating agencies comfort that TEP may withstand and react quickly to unexpected circumstances and turmoil in the capital markets. Staff concludes that due to the potential for unexpected cash requirements, it would be prudent to reserve a portion of the Revolver for these potential needs.

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[4] CCR represents the number of times internally generated cash covers required interest payments on short-term and long-term debt. A CCR greater than 1.0 means that operating cash flow is greater than interest expense.

40. Staff believes that TEP's request not to limit the amount of LOCs is appropriate since the LOCs are "self-limiting" to the amount of tax-exempt debt authorized and related accrued interest.

41. As part of this application, TEP is requesting authorization to provide security by issuing mortgage bonds under its Mortgage and Deed of Trust. Staff notes that A.R.S. § 40-285 requires public service corporations to obtain Commission authorization to encumber certain utility assets. Staff states that the intent of the statute is to protect captive customers from a utility disposing of assets that are necessary to provide service, and thus, attempts to preempt any service impairment that might result.

42. Staff opines that pledging assets as security benefits the borrower by increasing access to capital funds or to preferable interest rates.

43. A.A.C. R14-2-803.A states: "Any utility or affiliate intending to organize a public utility holding company or reorganize an existing public utility holding company will notify the Commission's Utility Division in writing at least 120 days prior thereto."

44. Decision No. 58063 (November 3, 1992) states that a public utility holding company increasing or decreasing its financial interest in an affiliate would be considered a reorganization and therefore would be subject to A.A.C. R14-2-803.

45. Decision No. 58063 exempts a public utility holding company from the requirement of A.A.C. R14-2-803 when the holding company increases or decreases its financial interest in an affiliate or utility by an amount not exceeding designated "exempt amounts" based on pre-existing utility assets in all jurisdictions including Arizona. Staff concludes that the current application would be exempt if the reorganization (i.e., the equity investment from UniSource Energy to TEP) does not exceed $50 million in one calendar year.

46. A.A.C. R14-2-803.A directs the Company to include certain information related to the reorganization in its notice of intent. Staff finds that the information TEP provided in the supplement to its application satisfactorily meets this requirement.

47. A.A.C. R14-2-803.B states, "Commission staff will, within 30 days after receipt of the notice of intent, notify the Applicant of any questions which it has concerning the notice or

supporting information. The Commission will, within 60 days from the receipt of the notice or intent, determine whether to hold a hearing on the matter or approve the organization or reorganization without a hearing."

48. TEP's supplement to the application states that it waives any applicable time limits as set forth in A.A.C. 14-2-803.B.

49. A.A.C. R14-2-803.C states, "[t]he Commission may reject the proposal if it determines that it would impair the financial status of the public utility, otherwise prevent it from attracting capital at fair and reasonable terms, or impair the ability of the public utility to provide safe, reasonable and adequate service."

50. The application requests authority to receive additional equity capital contributions from UniSource Energy for the purpose of maintaining a balanced capital structure. Staff states that it generally considers equity of at least 40 percent of total capital to be the minimum financially prudent capital structure for an investor-owned utility with access to the capital markets. Staff believes that TEP should continue increasing the proportion of equity in its capital structure until it represents at least 40 percent of total capital.

51. Staff states that as TEP issues additional debt, it will need to increase its equity to maintain its current proportion of equity in its capital structure. Staff's pro forma capital analysis considering a $250 million equity contribution indicates that TEP would have a capital structure consisting of 1.5 percent short-term debt, 1.7 percent current obligations under capital leases, 20.7 percent capital lease obligations, 38.3 percent long-term debt, and 37.8 percent equity. Because Staff's pro forma capital structure includes less than 40 percent equity, Staff asserts that TEP's request to receive additional equity should only be used to provide needed equity enhancement. Staff concludes that there is no reason to deny TEP's request to receive up to $250 million of additional equity from its parent for the purpose of enhancing its equity position.

52. Staff concludes that TEP's requested authorizations are within its corporate powers, are compatible with the public interest, would not impair TEP's ability to provide services and would be consistent with sound financial practices if subsequent to any debt issuance: (1) common equity represents no less than 30 percent of total capital (common equity, preferred stock, capital leases –

including current obligations, long-term debt – including current maturities less investments in capital lease debt) and (2) the CCR is equal to or greater than 1.75 when equity is between 30 and 40 percent of total capital, and is equal to or greater than 1.25 when equity is 40 percent or higher of total capital.

53. Staff further concludes that:

a. The expenditure levels associated with the projects included in the construction work plan are reasonable;

b. TEP should be authorized to incur up to $1.3 billion (in addition to existing capital leases and revolving credit facility obligations) in long-term indebtedness;

c. TEP should be authorized to enter into one or more credit or reimbursement agreements, increase the amount of revolving credit facilities to $200 million and use LOC facilities as desirable and beneficial to support tax-exempt bonds which have been or in the future will be issued pursuant to lawful authority;

d. TEP should be authorized to provide security where it is desirable and beneficial for any financing transactions authorized in this proceeding by the issuance of mortgage bonds under its Mortgage and Deed of Trust;

e. TEP should be authorized to conduct the activities enumerated in the application that are necessary to secure and maintain debt;

f. The $1.3 billion long-term debt cap authorized in this proceeding should expire on December 31, 2014;

g. All authorizations to refinance and amend the revolving credit facilities should expire on December 31, 2014, and all existing revolving credit facilities that expire before January 1, 2017, incurred under lawful authorization shall remain valid through their maturity dates; and

h. There is no financial basis under A.A.C. R14-2-803.C to reject the Company's recapitalization plan, and thus, TEP should be authorized to receive up to $250 million in additional equity capital from its parent company UniSource Energy to improve and maintain its capital structure.

54. Staff recommends that the Commission:

a. Find and conclude that the approval of TEP's financing application is in the public interest;

b. Authorize TEP to issue long-term indebtedness provided that, after giving effect to the issuance of such indebtedness, the aggregate outstanding principal amount of TEP's long-term indebtedness (including current maturities thereof), shall not exceed $1.3 billion except as provided in (g) below. Such limit does not include existing capital lease obligations, or indebtedness arising under TEP's credit and reimbursement agreements;

c. Authorize TEP to enter into any refinancing, refunding, renewal, reissuance and rollover of any outstanding indebtedness, as well as the incurrence or issuance of any additional long-term indebtedness, and the amendment or revision of any terms or provisions of, or relating to, any long-term indebtedness so long as total long-term indebtedness outstanding, after giving effect to such issuance, does not exceed the levels set forth in (b) above;

d. Authorize TEP to enter into one or more credit or reimbursement agreements, and to entered into agreements to refinance any such credit or reimbursement agreements, which may consist of one or more revolving credit facilities so long as, after giving effect to the entry of such a facility, TEP's revolving credit facilities do not exceed $200 million in the aggregate, and to enter into one or more letter of credit facilities which provide letters of credit to support tax-exempt bonds which have been, or in the future will be, issued pursuant to lawful authority;

e. Authorize TEP to provide security for any such financing transactions by the issuance of mortgage bonds under its Mortgage and Deed of Trust;

f. Authorize TEP to receive additional equity contributions of up to $250 million from UniSource Energy;

g. Authorize TEP to exceed the $1.3 billion long-term debt cap set forth in (b) above for a period not to exceed 90 days in circumstances where that cap is exceeded due to the effect of recognizing both the issuance of refinancing debt and the existing debt to be refinanced;

h. Condition the issuance of long-term indebtedness under the authority set forth in (b) above (other than in the case of refinancing long-term indebtedness) upon TEP having equity equal to a least 30 percent of its total capital and a CCR of at least 1.75 when equity is between 30 and 40 percent of total capital, and a CCR of 1.25 if equity is 40 percent or higher of total capital. The equity ratio and the CCR are to be determined on a pro forma basis after giving effect to the long-term debt to be issued pursuant to the authority and the discharge of any long-term debt being refunded or refinanced thereby. For purposes of this Order, the equity ratio shall be the ratio of (a) common stock equity to (b) total capitalization, using the most recently audited financial statements as adjusted for capital contributions, distributions and issuances, repayment or purchases of debt or equity occurring after the most recently audited financial statements. For the purposes of this Order, total capitalization shall be defined as the sum of common stock equity, preferred stock, long-term debt (including current maturities thereof), capital lease obligations (including current obligations under capital leases), less TEP's investments in capital lease debt. For purposes of this Order, the CCR shall be the ratio of (a) the sum of operating income, depreciation and amortization expense for the twelve-month period ending on the last day of the period covered by the most recently audited financial statements, to (b) interest expense for the twelve-month period ending on the last day of such period minus interest expense for such period for any indebtedness being or having been refinanced or refunded with the proceeds of long-term debt being or having been issued subsequent to such period plus interest expenses for twelve month on the indebtedness being or having been issued subsequent to such period (calculated, in the case of indebtedness bearing a floating rate of interest, at the rate initially in effect on the date of the issuance there). For purposes of this Order, future changes in Generally Accepted Accounting Principles ("GAAP") that have the effect of lowering TEP's equity will be exempted from the equity and CCR tests until the Commission makes a determination. TEP shall make a filing with the Commission requesting such a determination within 30 days after the Company files its quarterly report on Form 10-Q or its annual report on Form 10-K with the Securities and Exchange Commission following the end of the fiscal quarter in which the GAAP change occurs. Incurring obligations under authorized credit or reimbursement agreements is not considered to be the incurrence of long-term indebtedness which is subject to the conditions set forth in this (h);

i. Authorize the execution, delivery and performances by TEP of all contracts, agreements, and other instruments which are incidental to any or all of the foregoing or otherwise deemed by TEP to be necessary, desirable or appropriate in connection therewith;

j. Order that the authorization to issue long-term debt, enter into one or more credit agreements for revolving credit facilities and receive additional equity contributions shall replace the existing authorizations of Decisions Nos. 69946 and 69182, that those authorizations expire upon the effective date of this Order, and that all existing obligations incurred under lawful authorizations shall remain valid;

k. Provide that the Order in this matter be deemed effective upon issuance and that TEP may enter into the transactions authorized in this Order through December 31, 2014, and that all existing letter of credit facilities and all existing revolving credit facilities that expire before January 1, 2017, incurred under lawful authorization shall remain valid through their maturity dates; and

l. Order that within 90 days of the completion of any financing transaction under the authority set forth in (b), TEP make a compliance filing with the Commission in which TEP provides copies of the relevant agreements and provides a description of the business rationale for such financing or refinancing, including a demonstration that the rates and terms received by TEP were fair and reasonable under prevailing market conditions.

Conclusions

55. Staff's recommendations as forth in the Staff Report and discussed herein are reasonable and should be adopted.

56. TEP's request for an increase in is long-term debt authority from $1 billion to $1.3 billion, an increase in its revolving credit facilities from $150 million to $200 million, authorization to receive up to $250 million in addition equity from its parent, and that the foregoing authority extend through December 31, 2014, as conditioned as recommended by Staff, is reasonable, compatible with the public interest, with sound financial practices, and with the proper performance by TEP of service as a public service corporation, and will not impair TEP's ability to perform that service.

57. Setting a general debt cap allows TEP to respond quickly to market conditions, but nothing herein should prevent TEP from filing a separate finance application for specific authority that does not fall within the authority approved herein.

58. The commission acknowledges that TEP has demonstrated financial prudency and acumen by increasing its equity to over 30 percent of total capital from a negative equity position in the 1990's. It is TEP's demonstrated commitment to improving its equity position that allows the commission to grant the general authority herein. The Commission expects, however, that TEP will continue to demonstrate financial prudency and manage its authority hereunder in such a way as to continue to improve its credit ratings so as to be able to access advantageous borrowing terms.

CONCLUSIONS OF LAW

1. TEP is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§ 40-301, 40-302, and 40-303.

2. The Commission has jurisdiction over TEP and of the subject matter of the application.

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

4. The financing as conditioned and approved herein is for lawful purposes within TEP's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by TEP of service as a public service corporation, and will not impair TEP's

ability to perform the service, and will not impair TEP's ability to perform that service.

5. The financing approved herein is for the purposes stated in the application, is reasonably necessary for those purposes and such purposes are not reasonably chargeable to operating expenses or to income.

ORDER

IT IS THEREFORE ORDERED that Tucson Electric Power Company is authorized to issue long-term indebtedness, provided that, after the issuance of such indebtedness, the aggregate outstanding principal amount of long-term indebtedness (including the current maturities thereof), shall not exceed $1.3 billion (excluding existing capital lease obligations and indebtedness arising under Tucson Electric Power Company's credit and reimbursement agreements) and as conditioned herein.

IT IS FURTHER ORDERED that Tucson Electric Power Company may enter into any refinancing, refunding, renewal, reissuance and rollover of any outstanding indebtedness, as well as the incurrence or issuance of any additional long-term indebtedness, and the amendment or revision of any terms or provisions of, or relating to, any long-term indebtedness so long as total long-term indebtedness outstanding, after giving effect to such issuance, does not exceed the $1.3 billion limit.

IT IS FURTHER ORDERED that Tucson Electric Power Company may enter into one or more credit or reimbursement agreements, and enter into agreements to refinance any such credit or reimbursement agreements, which may consist of one or more revolving credit facilities so long as, after giving effect to the entry of such a facility, TEP's revolving credit facilities do not exceed $200 million in the aggregate, and that Tucson Electric Power Company may enter into one or more letter of credit facilities which provide letters of credit to support tax-exempt bonds which have been, or in the future will be, issued pursuant to lawful authority.

IT IS FURTHER ORDERED that Tucson Electric Power Company may provide security for any financing transactions approved herein by issuing mortgage bonds under its Mortgage and Deed of Trust.

IT IS FURTHER ORDERED that Tucson Electric Power Company may receive additional equity contributions of up to $250 million from UniSource Energy Corporation for the purpose of augmenting its equity ratio as part of total capitalization.

IT IS FURTHER ORDERED that Tucson Electric Power Company is authorized to exceed the $1.3 billion long-term debt threshold level set forth above for a period not to exceed 90 days in circumstances where that threshold is exceeded due to the effect of recognizing both the issuance of refinancing debt and the existing debt to be refinanced.

IT IS FURTHER ORDERED that the authority to issue long-term indebtedness herein is conditioned on Tucson Electric Power Company having equity equal to a least 30 percent of its total capital and a Cash Coverage Ratio of at least 1.75 when equity is between 30 and 40 percent of total capital, and a Cash Coverage Ratio of 1.25 if equity is 40 percent or higher of total capital. The equity ratio and the Cash Coverage Ratio are to be determined on a pro forma basis after giving effect to the long-term debt to be issued pursuant to the authority and the discharge of any long-term debt being refunded or refinanced thereby. For purposes of this Order, the equity ratio shall be the ratio of (a) common stock equity to (b) total capitalization, using the most recently audited financial statements as adjusted for capital contributions, distributions and issuances, repayment or purchases of debt or equity occurring after the most recently audited financial statements, and total capitalization shall be defined as the sum of common stock equity, preferred stock, long-term debt (including current maturities thereof), capital lease obligations (including current obligations under capital leases), less Tucson Electric Power Company's investments in capital lease debt. For purposes of this Order, the Cash Coverage Ratio shall be the ratio of (a) the sum of operating income, depreciation and amortization expense for the twelve-month period ending on the last day of the period covered by the most recently audited financial statements, to (b) interest expense for the twelve-month period ending on the last day of such period minus interest expense for such period for any indebtedness being or having been refinanced or refunded with the proceeds of long-term debt being or having been issued subsequent to such period plus interest expenses for twelve month on the indebtedness being or having been issued subsequent to such period (calculated, in the case of indebtedness bearing a floating rate of interest, at the rate initially in effect on the date of the issuance there).

IT IS FURTHER ORDERED that for purposes of this Order, future changes in GAAP that have the effect of lowering Tucson Electric Power Company's equity will be exempted from the equity and Cash Coverage Ratio tests until the Commission makes a determination. Tucson Electric Power Company shall make a filing with the Commission requesting such a determination within 30 days after filing its quarterly report on Form 10-Q or its annual report on Form 10-K with the Securities and Exchange Commission following the end of the fiscal quarter in which the GAAP change occurs.

IT IS FURTHER ORDERED that incurring obligations under authorized credit or reimbursement agreements is not considered to be the incurrence of long-term indebtedness which is subject to the conditions set forth herein.

IT IS FURTHER ORDERED that this authorization to issue long-term debt, enter into one or more credit agreements for revolving credit facilities and receive additional equity contributions replaces the existing authorizations under Decisions Nos. 69946 and 69182, that those authorizations shall expire upon the effective date of this Order, and that all existing obligations incurred under lawful authorizations shall remain valid.

IT IS FURTHER ORDERED that Tucson Electric Power Company's authorizations approved herein shall extend through December 31, 2014, and all existing letter of credit facilities and all existing revolving credit facilities that expire before January 1, 2017, incurred under lawful authority shall remain valid through their maturity dates.

IT IS FURTHER ORDERED that Tucson Electric Power Company is hereby authorized to engage in any transaction and to execute or cause to be executed any documents or modifications to existing documents to effectuate the authorization granted herein, including notes and bonds evidencing or securing the indebtedness authorized herein.

IT IS FURTHER ORDERED that Tucson Electric Power Company is expressly required to use the proceeds as set forth in its application and discussed herein.

IT IS FURTHER ORDERED that any refinancing transaction pursuant to this authority shall be subject to review in the first Tucson Electric Power Company rate case after the completion of the transaction.

IT IS FURTHER ORDERED that Tucson Electric Power Company shall within 90 days of the completion of any financing transaction under the authority granted herein, file with Docket Control as a compliance filing in this matter, copies of the relevant agreements and provide a description of the business rationale for such financing or refinancing, including a demonstration that the rates and terms received by TEP were fair and reasonable under prevailing market conditions.

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

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

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN COMMISSIONER

COMMISSIONER COMMISSIONER COMMISSIONER

IN WITNESS WHEREOF, I, ERNEST G. JOHNSON, Interim Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this ______ day of _________, 2010.

ERNEST G. JOHNSON
EXECUTIVE DIRECTOR

DISSENT ________________

DISSENT ________________

JR:

SERVICE LIST FOR: TUCSON ELECTRIC POWER COMPANY

DOCKET NO.: E-01933A-09-0476

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