

ORIGINAL



0000150140

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
BOB STUMP, CHAIRMAN
GARY PIERCE
BRENDA BURNS
BOB BURNS
SUSAN BITTER SMITH

2014 JAN 31 P 3:55

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL

IN THE MATTER OF THE REORGANIZATION) DOCKET NO. E-04230A-14-0011
OF UNS ENERGY CORPORATION) DOCKET NO. E-01933A-14-0011
)
)
) NOTICE OF ERRATA
)

UNS Energy Corporation¹ and Fortis Inc.² hereby file the attached corrected pages to the Direct Testimony of Kevin P. Larson (page 4) and the Direct Testimony of Barry V. Perry (pages 7 and 8).

RESPECTFULLY SUBMITTED this 31st day of January, 2014

UNS ENERGY CORPORATION AND FORTIS INC.

By 
Bradley S. Carroll
UNS Energy Corporation
88 East Broadway Blvd., MS HQE910
P. O. Box 711
Tucson, Arizona 85702

Arizona Corporation Commission
DOCKETED

JAN 31 2014

DOCKETED BY 

and

¹ On behalf of itself and its affiliates UniSource Energy Services, Inc., Tucson Electric Power Company, UNS Electric, Inc. and UNS Gas, Inc.
² On behalf of itself and its affiliates FortisUS Holdings Nova Scotia Limited, FortisUS Inc. and Color Acquisition Sub Inc.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27

Michael W. Patten
Roshka DeWulf & Patten, PLC
One Arizona Center
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Attorneys for UNS Energy Corporation

and

Patricia Lee Refo
Snell & Wilmer, L.L.P.
One Arizona Center
400 East Van Buren Street, Suite 1900
Phoenix, Arizona 85004

Attorneys for Fortis Inc.

Original and 13 copies of the foregoing
filed this 31st day of January, 2014 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Copy of the foregoing hand-delivered/mailed
this 31st day of January, 2014 to:

Jane Rodda
Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Brian E. Smith
Bridget Humphrey
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

1 Steve Olea
2 Director, Utilities Division
3 Arizona Corporation Commission
4 1200 West Washington Street
5 Phoenix, Arizona 85007

6 Daniel W. Pozefsky
7 Chief Counsel
8 Residential Utility Consumer Office
9 1110 West Washington, Suite 220
10 Phoenix, Arizona 85007

11 C. Webb Crockett
12 Patrick Black
13 Fennemore Craig PC
14 2394 E. Camelback Road, Suite 600
15 Phoenix, Arizona 85016

16
17
18
19
20
21
22
23
24
25
26
27
By *Jaclyn Howard*

Kevin P. Larson Errata

1 difficult market conditions. In 2008, during the onset of the financial crisis, Fortis
2 and its regulated utilities raised nearly C\$1.2 billion in the capital markets.
3 Joining a larger utility holding company with a stronger credit rating that can
4 compete for and attract capital in all market conditions will provide tangible
5 benefits for UNS Energy, the Arizona Utilities and our customers. Further details
6 about Fortis' access to the capital markets are included in the direct testimony of
7 Barry Perry.

8
9 Additionally, we expect Fortis to periodically contribute equity to UNS Energy in
10 order to maintain balanced capital structures at the Arizona Utilities. Fortis has a
11 proven track record of supporting the equity capital of its utility companies. Over
12 the past five years, Fortis contributed approximately C\$820 million to fund the
13 capital expenditure programs and support the financial strength of its regulated
14 utility companies and related parent companies. This includes the \$65 million of
15 equity received by Central Hudson Gas & Electric Corporation ("Central
16 Hudson") upon the close of Fortis' June 2013 acquisition of Central Hudson's
17 parent company, CH Energy Group.

18
19 2. \$200 Million Equity Contribution Will Improve the Financial Position of TEP and
20 UNS Electric

21 Upon completion of the proposed acquisition, Fortis will immediately invest \$200
22 million of equity into UNS Energy. UNS Energy will either invest the \$200 million
23 as equity into TEP and UNS Electric, retire UNS Energy shorter-term debt, or some
24 combination of the equity contribution and debt retirement. The level of each will
25 depend on the timing of the acquisition closing. TEP and UNS Electric intend to
26 purchase Unit 3 at the Gila River Power Plant ("Gila River") in December 2014 for
27 \$219 million, a large investment that will require external financing. The \$200

Barry V. Perry Errata

1 committed credit facility to fund equity requests from its regulated utility subsidiaries. In 2012
2 and 2013, Fortis provided common equity to its regulated utility subsidiaries of approximately
3 C\$75 million and C\$180 million, respectively. Over the past five years, Fortis contributed
4 common equity of approximately C\$820 million to fund the capital expenditure programs and
5 support the financial strength of its regulated utilities, and a further C\$300 million to directly
6 fund Fortis' 51% interest in the Waneta hydroelectric generating plant expansion project in
7 British Columbia.

8 **III. PLAN TO FINANCE THE ACQUISITION OF UNS ENERGY**

9 **Q. How does Fortis plan to finance the acquisition of UNS Energy over the long-term?**

10 A. Over the long-term, Fortis will finance the acquisition of UNS Energy primarily through
11 the issuance of common equity. Fortis already has secured a substantial portion of that equity
12 financing. Upon announcement of the acquisition, Fortis executed a "bought deal"⁹ transaction
13 with a group of underwriters and lead investors to issue C\$1.8 billion of convertible debentures.
14 These convertible debentures will convert to common equity once all regulatory and
15 governmental approvals required to finalize the acquisition have been obtained and all other
16 outstanding conditions under the Merger Agreement have been fulfilled or waived (the
17 "Convertible Debenture Offering"). Fortis filed a Short Form Prospectus with Canadian
18 securities regulatory authorities on December 20, 2013 (the "Prospectus") in conjunction with
19 the Convertible Debenture Offering which is available on the Fortis website.¹⁰ The Convertible
20 Debenture Offering closed on January 9, 2014.

21 Fortis will obtain the remaining long-term financing required to complete the acquisition
22 by issuing a combination of common equity, preferred equity and long-term debt. As
23 mentioned previously, the long-term financing plan for the acquisition will result in Fortis
24

25 ⁹ A "bought deal" is a securities offering where an investment bank commits to buy the entire offering from the
26 client company. In essence, the underwriters buy the securities at a fixed price and take full risk of subsequent
market price fluctuations.

27 ¹⁰ [https://www.fortisinc.com/Investor-Centre/Financial-and-Regulatory-Reports/Documents/E\\$1.6B-Convertible-Debenprotures-IRceipts-Final.pdf](https://www.fortisinc.com/Investor-Centre/Financial-and-Regulatory-Reports/Documents/E$1.6B-Convertible-Debenprotures-IRceipts-Final.pdf)

1 regaining its "Stable" outlook and maintaining a consolidated capital structure that supports its
2 A- and A(low) credit ratings.

3
4 **Q. Has Fortis also secured short-term financing arrangements for this acquisition?**

5 A. Yes. Fortis has secured C\$2.0 billion of bridge financing from a group of banks¹¹ to
6 ensure that funds are available to close the acquisition, including those funds to be received
7 from the convertible debentures. These short-term financing arrangements are further described
8 on page 56 of the Prospectus referred to above.

9
10 **IV. STANDALONE MANAGEMENT AND FINANCING OF THE REGULATED**
11 **UTILITIES OF FORTIS**

12
13 **Q. Please describe the business philosophy of Fortis and how it is applied to its**
14 **regulated utilities.**

15 A. As stated in the direct testimony of Mr. Marshall, Fortis believes the effective
16 management of regulated utilities requires local management and decision making. Local
17 management is positioned to understand the assets, operations, customer service
18 expectations, community relations and the applicable regulatory framework.

19 As stated in the direct testimony of Mr. Marshall, each of Fortis' principal regulated
20 utilities has its own board of directors. Fortis believes that good governance of a regulated
21 utility is advanced by the majority of the directors being independent and living or doing
22 business in the jurisdiction served by the utility, thereby providing focus and support to
23 local management decision making. Fortis typically appoints a minority of related directors to
24 the boards of its regulated utilities. These related directors typically include the utility's CEO,
25 at least one CEO from an affiliated subsidiary and one or two officers or directors of Fortis.

26
27

¹¹ The banking group includes the Bank of Nova Scotia, Royal Bank of Canada, Canadian Imperial Bank of
28 Commerce, Bank of Montreal, TD Bank, National Bank, HSBC, Caisse Desjardin and Wells Fargo.