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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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IN THE MATTER OF THE JOINT APPLICATION) DOCKET NO. E-04204A-13-0447
OF UNS ELECTRIC, INC. AND UNS GAS, INC.) NO. G-04204A-13-0447
FOR A FINANCING ORDER AUTHORIZING)
VARIOUS FINANCING TRANSACTIONS)

**APPLICATION FOR
FINANCING ORDER**

UNs Electric, Inc. ("UNs Electric") and UNs Gas, Inc. ("UNs Gas"), through undersigned counsel, and pursuant to A.R.S. §§ 40-301 and 40-302, hereby respectfully submits this Joint Application for Financing Order ("Application") requesting that the Arizona Corporation Commission ("Commission") authorize UNs Electric and UNs Gas (the "Companies") to enter into various financing transactions described more fully herein. The requested authority would allow UNs Electric and UNs Gas to: (1) refinance their joint revolving credit facility that expires in November 2016; (2) increase the amount of credit available under one or more revolving credit facilities to each company, individually, from \$70 million to \$100 million; (3) refinance long-term indebtedness maturing in August 2015; (4) increase the amount of long-term indebtedness outstanding at UNs Electric by up to \$80 million and at UNs Gas by up to \$50 million; (5) finance the purchase of an interest in Gila River Unit 3 ("Gila River") by allowing UNs Electric to issue additional debt up to \$35 million and accept new equity contributions up to \$35 million; (6) provide security for any such financing transactions; and (7) enter into these financings up to December 31, 2019. The requested authority is intended to replace the financing authority granted in Decision No. 71917, which expires on December 31, 2014.

As described more fully herein, UNs Electric and UNs Gas believe these authorizations are necessary at this time and are in the public interest. It is further requested that the Commission

1 approve this Application without a hearing and that such approval be granted prior to September 30,
2 2014.

3 In support of this Application, UNS Electric and UNS Gas state as follows:

4 **I. BACKGROUND.**

5 UNS Electric and UNS Gas are Arizona public service corporations with their principal
6 offices and places of business in Tucson, Arizona. UNS Electric and UNS Gas are wholly-owned
7 subsidiaries of UniSource Energy Services, Inc. ("UES"), with an ultimate parent of UNS Energy
8 Corporation. UNS Electric is a vertically integrated electric utility serving approximately 91,000
9 retail customers in Mohave and Santa Cruz counties. UNS Electric owns and operates generation
10 facilities that meet a portion of its power requirements. UNS Gas is a gas distribution company
11 serving approximately 147,000 retail customers in Mohave, Yavapai, Coconino, and Navajo
12 counties in Northern Arizona, as well as Santa Cruz County in Southeast Arizona.

13 The Companies' currently have financing authority as granted by this Commission in
14 Decision No. 71917; however, that authority will expire on December 31, 2014.

15 **II. REQUESTED FINANCING AUTHORITY.**

16 In this Application, UNS Electric and UNS Gas are seeking a Commission order authorizing:

- 17 A. UNS Electric and UNS Gas to enter into one or more credit agreements, and to enter
18 into agreements to refinance any such credit agreements, which may consist of one or
19 more revolving credit facilities so long as, after giving effect to the entry of such a
20 facility, the amount of credit available under such facilities to each company,
21 individually, does not exceed \$100 million;
- 22 B. UNS Gas to refinance its \$50 million in long-term indebtedness due in August 2015,
23 and to issue up to an additional \$50 of long-term debt to fund capital expenditures
24 and for general corporate purposes;
- 25 C. UNS Electric to refinance its \$80 million in long-term indebtedness due in August
26 2015, and to issue up to \$80 million of additional long-term debt to fund capital
27 expenditures and for general corporate purposes;

1 D. UNS Electric to finance the purchase of an interest in Gila River by allowing new
2 debt, in addition to the authorization to issue long-term debt described in C above, up
3 to \$35 million and accept new equity contributions of up to \$35 million over and
4 above any contributions that could otherwise be made under Commission rules and
5 orders.

6 E. UNS Electric and UNS Gas to enter into these transactions on or before December
7 31, 2019.

8 Within 90 days of the completion of any financing transaction made pursuant to the
9 requested Commission order, UNS Electric and UNS Gas would make a compliance filing with the
10 Commission in which UNS Electric and UNS Gas would provide copies of the relevant agreements
11 and provide a description of the business rationale for such financing or refinancing, including a
12 demonstration that the rates and terms received by UNS Electric and UNS Gas were fair and
13 reasonable under prevailing market conditions.

14 **III. CREDIT AGREEMENTS.**

15 **A. Status of the Current Credit Agreement.**

16 In Decision No. 71917, (October 12, 2010), the Commission authorized UNS Electric and
17 UNS Gas to refinance or amend their joint revolving credit facility. The current credit agreement,
18 dated November 9, 2010, as amended ("Credit Agreement"), consists of a \$100 million joint
19 revolving credit facility and expires in November 2016. UNS Electric and UNS Gas (each a
20 "Borrower") are each authorized to borrow under this facility up to a maximum of \$70 million;
21 however the total combined amount borrowed cannot exceed \$100 million. The obligations of each
22 Borrower are several and not joint, so neither Borrower guarantees the obligations of the other
23 Borrower. The obligations of each Borrower under the Credit Agreement are guaranteed by UES.

24 The credit facility is unsecured and is guaranteed by UES. Borrowings under the credit
25 facility bear interest at a variable interest rate consisting of a spread over the London Interbank
26 Offered Rate ("LIBOR") or an Alternate Base Rate (similar to a prime rate). As of December 1,
27 2013, the applicable borrowing rate was LIBOR plus 1.25% or Alternate Base Rate plus 0.25%.

1 UNS Electric and UNS Gas also pay a commitment fee of 0.20% on the unused portion of the
2 revolving credit facility. As of December 1, 2013, UNS Electric had \$25 million in outstanding
3 loans under the revolving credit facility and UNS Gas had no outstanding loans under the revolving
4 credit facility.

5 The credit facility has a sublimit for the issuance of letters of credit. Up to \$50 million of the
6 total credit facility amount of \$100 million may be used to issue letters of credit to provide credit
7 support for the energy procurement and hedging activities of UNS Electric and UNS Gas. Fees are
8 payable on the notional amount of the outstanding letters of credit. As of November 30, 2013, the
9 applicable LOC fee was 1.25%. In addition, UNS Electric and UNS Gas pay an "LOC Fronting
10 Fee" of 0.25% to the banks that are issuers of the LOCs. As of December 1, 2013, UNS Electric had
11 \$0.2 million of LOCs issued under the credit facility and UNS Gas had no LOCs issued under the
12 credit facility. The Credit Agreement is scheduled to expire on November 9, 2016.

13 **B. Proposed Authority to Enter Into Credit Agreements.**

14 The revolving credit facility is used as a source of liquidity for working capital purposes, for
15 general corporate purposes and may also be used to issue letters of credit to provide credit
16 enhancement to counterparties for UNS Electric's and UNS Gas' energy procurement and hedging
17 activities. UNS Electric and UNS Gas are requesting authorization to increase the amount either
18 Borrower can draw under the Credit Agreement or under new credit facilities. This change will
19 provide the Borrowers with greater liquidity as they continue to grow, including the liquidity to
20 support their commodity procurement and hedging activities. The refinancing and modification of
21 UNS Electric's and UNS Gas' credit agreements is necessary in order for UNS Electric and UNS
22 Gas to continue providing cost effective, reliable and safe electrical and gas distribution service to
23 their customers, and as such is in the public interest.

24 Therefore, in order to meet UNS Electric's and UNS Gas' short-term liquidity needs, UNS
25 Electric and UNS Gas are seeking authority to enter into one or more credit agreements, and to enter
26 into agreements to refinance any such credit agreements, which may consist of one or more
27 revolving credit facilities so long as, after giving effect to the entry of such a facility, the amount of

1 credit available to each company, individually, does not exceed \$100 million. The \$70 million limit
2 of indebtedness under revolving credit facilities currently applicable to each company would be
3 increased to \$100 million, thereby allowing greater access to credit for both UNS Electric and UNS
4 Gas.

5 The term of any new credit agreement or the length of any extension of the existing Credit
6 Agreement would depend on market conditions at the time the new agreement or extension was
7 executed but would not exceed a term of five years. The interest rates applicable to any new credit
8 facilities will be dependent on market conditions at the time of refinancing.

9 **IV. LONG-TERM DEBT.**

10 In Decision No. 71917, the Commission authorized UNS Electric to issue up to \$30 million
11 in long-term debt. Additionally, in Decision No. 70360 (May 27, 2008), the Commission authorized
12 UNS Electric to issue long-term debt to finance the purchase of the Black Mountain Generating
13 Station. Under this specific authority, in July, 2011, UNS Electric issued \$30 million of long-term
14 debt and received \$20 million in equity contributions. The debt was originally issued at a variable
15 rate, but UNS Electric subsequently entered into a Fixed-for-Floating Rate Swap which has the
16 effect of fixing the cost of the debt at 2.10% per annum. As a result of this financing, and
17 borrowings under previous orders, and excluding debt under the Credit Agreement, UNS Electric
18 has \$80 million of long-term debt which matures in 2015 and another \$50 million of long-term debt
19 maturing in 2023. This Application is intended to provide UNS Electric with the necessary authority
20 to refinance the \$80 million of long-term debt which matures in 2015.

21 In Decision No. 71917, the Commission authorized UNS Gas to issue up to \$30 million in
22 long-term debt. Presently, UNS Gas has \$50 million in senior notes that mature in August 2015.
23 This Application is intended to provide UNS Gas with the necessary authority to refinance these
24 notes. UNS Gas also has \$50 million of long-term notes maturing August 2026.

25 In addition to such refinancing, and in light of ongoing capital expenditure requirements and
26 the need for financial flexibility in meeting these requirements, UNS Electric and UNS Gas request
27 authority to issue up to \$80 million and \$50 million respectively of additional long-term. A larger

1 amount is being requested for UNS Electric due to its larger asset base and larger capital budget.

2 The specific terms of any long-term debt to be issued under the requested authority would
3 depend on market conditions at the time of issuance, the credit ratings of each respective company,
4 and other factors such as the maturity dates of other outstanding indebtedness and the mix of fixed
5 and floating rate debt at each company. Such new long-term debt could be issued on either a fixed
6 or floating rate basis. The specific interest rates will depend on market conditions at the time of
7 issuance. Other variables to be determined at the time of issuance include maturity date and whether
8 the debt will be secured or not. These and other transaction-specific terms would be dependent on
9 market conditions and would be negotiated with the intent of obtaining favorable terms to UNS
10 Electric and UNS Gas.

11 Moreover, based on the Companies' forecasted capital budgets, it is not anticipated that they
12 will necessarily utilize the full amount of the requested long-term debt authority. However, given
13 the period of time covered by this request and the need to timely react to unforeseen circumstances,
14 the requested level of authority is both important and prudent.

15 **V. FINANCING FOR GILA RIVER PURCHASE.**

16 UNS Electric anticipates that it will have an opportunity to purchase 25% of Gila River
17 Unit 3 as part of a purchase and sale agreement being negotiated between Tucson Electric Power,
18 UNS Electric and Gila River. It is presently expected that the purchase transaction will close by
19 the end of 2014. UNS Electric's share of Gila River is expected to be 25% of the total cost to TEP
20 and UNS Electric. In order to finance the purchase price of Gila River and to maintain a balanced
21 capital structure, UNS Electric will need to finance the purchase with a mix of debt and equity
22 capital. Specifically, UNS Electric is seeking authority to issue up to \$35 million of new debt in
23 addition to the \$80 million of new long-term debt for which authorization is requested in Part IV of
24 this application, and to receive up to \$35 million of additional equity contributions through UES
25 from its parent, UNS Energy Corporation, over and above any contributions that could otherwise
26 be made under Commission rules and orders. The final decision on which capital sources to use
27 will depend on the cost of debt at that time, as well as UNS Electric's ability to maintain a

1 reasonably balanced capital structure after the purchase is made, and in no circumstance will raise
2 more than needed to complete the purchase.

3 Depending on market conditions and other factors, the debt would either be new long-term
4 debt, new short-term or intermediate-term debt. In the latter case, UNS Electric would intend to, and
5 is seeking authorization to allow it to refinance the short-term or intermediate-term debt with new
6 long-term debt at a later date, prior to January 2020.

7 The terms of this new long-term debt will be dependent on both the market conditions at the
8 time of issuance and the investors' or lenders' assessment of UNS Electric's creditworthiness. At
9 this time, the Company expects that it would issue new long-term debt with a maturity of five to
10 thirty years. The principal would likely be due in a single payment at maturity, although there is the
11 possibility that there may be some required principal amortization or more than one maturity date.
12 Also, the debt may be issued in the public markets or in a private placement, and it may be issued in
13 connection with a refinancing of short-term or intermediate-term debt described below. Finally this
14 debt may be unsecured, secured by the assets being purchased with the financing, or secured on the
15 same basis as other secured borrowings at UNS Electric.

16 The terms of new short-term or intermediate-term debt also will depend on market conditions
17 at the time of issuance, and also on lenders' assessment of UNS Electric's creditworthiness. UNS
18 Electric expects that it would issue new short-term or intermediate-term debt with a maturity of one
19 month to five years. The interest payable on this debt would likely be at a variable rate of interest,
20 but it may be fixed depending on market conditions. The principal would likely be due in a single
21 payment at maturity, although there may be some required principal amortization. The debt may be
22 unsecured, secured by the assets being purchased with the financing, or secured on the same basis as
23 other secured borrowings at UNS Electric. If secured, the Company expects the security to be the
24 same as the security for the long-term debt as described above.

25 The Company requests the flexibility to issue either long-term, short- or intermediate-term
26 debt in order to take advantage of market conditions, and to potentially realize economies of scale by
27

1 timing the issuance of new long-term debt to coincide with the refinancing of long-term debt
2 maturing in 2015.

3 **VI. TIME PERIOD FOR AUTHORIZED FINANCINGS.**

4 UNS Electric and UNS Gas request that the Commission authorize them to enter into the
5 transactions described above through December 31, 2019.

6 **VII. USE OF PROCEEDS.**

7 UNS Electric and UNS Gas intend to use their revolving credit facilities for the following
8 purposes: (i) as a source of liquidity for working capital purposes; (ii) to issue letters of credit to
9 provide credit enhancement to counterparties for UNS Electric's and UNS Gas's energy
10 procurement and hedging activities; and (iii) for other lawful corporate purposes.

11 UNS Electric and UNS Gas intend to use the proceeds from the issuance of new long-term
12 indebtedness for the following purposes: (i) refinance existing long-term indebtedness; (ii) finance a
13 portion of their respective capital expenditure program for the next five years; (iii) pay down any
14 outstanding borrowings under the UNS Electric / UNS Gas revolving credit facility; and (iv) in the
15 case of UNS Electric, finance a portion of UNS Electric's acquisition of an interest in Gila River.
16 As disclosed on page K-38 of UNS Energy Corporation's Annual Report on Form 10-K for the fiscal
17 year ended December 31, 2012 as filed with the Securities and Exchange Commission (SEC), UNS
18 Gas anticipates cumulative capital expenditures of \$72 million and UNS Electric anticipates
19 cumulative capital expenditures of \$190 million (exclusive of expenditures for Gila River) for the
20 periods 2013 to 2017.

21 **VIII. UNS ELECTRIC'S AND UNS GAS'S FINANCIAL CONDITION.**

22 UNS Electric's ratio of Total Equity to Total Capitalization as of September 30, 2013 was
23 51.5%. UNS Gas' ratio of Total Equity to Total Capitalization as of September 30, 2013 was 53.0%.

24 Moody's Investor Service has rated the \$100 million of UNS Electric guaranteed senior
25 notes, the \$100 million of UNS Gas guaranteed senior notes, and the UNS Electric / UNS Gas
26 revolving credit facility. As of September 30, 2013, the rating on each of these debt obligations was
27 Baa2.

1 Commission Decision No. 71917 conditioned UNS Electric's and UNS Gas's authority to
2 issue additional long-term debt (excluding debt issued under revolving credit facilities and long-term
3 debt being issued to refinance debt) upon the borrowing entity having equity equal to at least 33
4 percent of its total capital and a CCR (cash coverage ratio) of at least 1.75 when equity is between 33
5 and 40 percent of total capital, or a CCR of at least 1.25 if equity is 40 percent or higher of total
6 capital.

7 Under that order:

- 8 A. the equity ratio and CCR is determined on a pro forma basis after giving
9 effect to the issuance of the long-term debt to be issued pursuant to the
10 authority and the discharge of the any long-term debt being refunded or
11 refinanced thereby;
- 12 B. the equity ratio is the ratio of (a) common stock equity to (b) total
13 capitalization, using the most recently audited financial statements as adjusted
14 for capital contributions, distributions, and issuances, repayments or purchases
15 of debt or equity occurring after the most recently audited financial
16 statements;
- 17 C. total capitalization is defined as the sum of common stock equity, preferred
18 stock, long-term debt (including current maturities thereof) and capital lease
19 obligations (including current obligations under capital leases);
- 20 D. the CCR is the ratio of (a) the sum of operating income, depreciation and
21 amortization expense for the twelve-month period ending on the last day of
22 the period covered by the most recently audited financial statements, to (b)
23 interest expense for the twelve-month period ending on the last day of such
24 period minus interest expense for such period for any indebtedness being and
25 having been refinanced or refunded with the proceeds of long-term debt being
26 and having been issued subsequent to such period plus interest expense for
27 twelve months on the indebtedness being and having been issued subsequent

1 to such period (calculated, in the case of indebtedness bearing a floating rate
2 of interest at the rate initially in effect on the date of issuance thereof). In
3 addition; and

4 E. future changes in GAAP that have the effect of lowering the borrowing
5 entity's equity will be exempted from the equity and cash coverage ratio tests
6 until the Commission makes a determination. The borrowing entity shall
7 make a filing with the Commission requesting such a determination within 30
8 days after the borrowing entity files or the borrowing entity's affiliated (when
9 the borrowing entity's affiliate includes the borrowing entity's results from
10 operations and financial position) files its quarterly report on Form 10-Q or its
11 annual report on Form 10-K with the SEC following the end of the fiscal
12 quarter in which the GAAP change occurs.

13 UNS Electric and UNS Gas believe that it is reasonable and prudent to condition the issuance
14 of additional long-term indebtedness (excluding debt issued under revolving credit facilities and
15 long-term debt being issued to refinance debt) upon such equity and cash coverage ratios tests and
16 propose that the authorization for additional long-term debt (excluding debt issued under revolving
17 credit facilities and long-term debt being issued to refinance debt) requested hereby be similarly
18 conditioned.

19 UNS Electric and UNS Gas believe that the amount of financing authority requested is
20 reasonable and prudent and will not diminish UNS Electric's or UNS Gas's financial integrity.

21 **IX. CONCLUSION.**

22 UNS Electric and UNS Gas believe that Commission approval of their Application would
23 provide UNS Electric and UNS Gas with the required flexibility to access the capital markets in a
24 timely and efficient manner and to select the appropriate financing options to match the purpose of
25 the financings. UNS Electric and UNS Gas believe that the financing authority requested herein is
26 consistent with sound financial practices and their duties as public service corporations, and is in the
27 public interest.

1 WHEREFORE, for all of the foregoing reasons, UNS Electric and UNS Gas request that the
2 Commission issue an Order:

- 3 1. Finding and concluding that the approval of this Application is in the public interest;
- 4 2. Authorizing UNS Electric and UNS Gas to enter into one or more credit agreements
5 with terms of up to five years, and to enter into agreements to refinance any such
6 credit or reimbursement agreements with new terms of up to five years, which may
7 consist of one or more revolving credit facilities so long as, after giving effect to the
8 entry of such a facility, the amount of credit available under such facilities to each
9 company, individually, does not exceed \$100 million;
- 10 3. Authorizing UNS Electric and UNS Gas to issue long-term debt to refinance long-
11 term debt maturing in August 2015;
- 12 4. Authorizing UNS Gas to issue up to \$50 million of additional long-term debt;
- 13 5. Authorizing UNS Electric to issue up to \$80 million of additional long-term debt for
14 purposes other than purchasing a share of Gila River;
- 15 6. Authorizing UNS Electric to issue new debt up to \$35 million and accept new equity
16 contributions from parent up to \$35 million, for the specific purpose of purchasing a
17 share of Gila River;
- 18 7. Authorizing UNS Electric to issue long-term debt to refinance debt issued under the
19 authority set forth in (6) above;
- 20 8. Authorizing UNS Electric and UNS Gas to provide security for any such financing
21 transactions;
- 22 9. Conditioning the issuance of long-term indebtedness under the authority set forth in
23 (4), (5) and (6) above upon the borrowing entity having equity equal to at least 33
24 percent of its total capital and a CCR of at least 1.75 when equity is between 33 and
25 40 percent of total capital, or a CCR of at least 1.25 if equity is 40 percent or higher
26 of total capital ;
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- 10. Authorizing the execution, delivery and performance by UNS Electric and UNS Gas of all contracts, agreements, and other instruments which are incidental to any or all of the foregoing or otherwise deemed by UNS Electric and UNS Gas to be necessary, desirable or appropriate in connection therewith;
- 11. Ordering that the authorization to issue long-term debt, enter into one or more credit agreements for revolving credit facilities in the Order shall replace the existing authorization of Decision No. 71917, that such authorization terminate upon the effective date of the Order, and that all existing agreements and obligations incurred under lawful authorizations shall remain valid;
- 12. Ordering that the Order be deemed effective upon issuance and that UNS Electric and UNS Gas may enter into the transactions authorized under the Order through December 31, 2019; and
- 13. Granting any other relief that the Commission determines to be appropriate and in the public interest at this time.

RESPECTFULLY SUBMITTED this 18th day of December, 2013.

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UNS GAS, INC.

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Original and 13 copies of the foregoing
filed this 18th day of December, 2013, with:

Docket Control
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Copy of the foregoing hand-delivered/mailed
this 18th day of December, 2013, to:

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