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IN THE MATTER OF THE REORGANIZATION) DOCKET NO. E-04230A-14-0011
OF UNS ENERGY CORPORATION) DOCKET NO. E-01933A-14-0011
)
) SUPPLEMENTAL INFORMATION
) IN SUPPORT OF APPLICATION -
) NOTICE OF FERC APPROVAL

UNSE Energy Corporation¹ and Fortis Inc.² hereby submit: 1) the order issued by the Federal Energy Regulatory Commission ("FERC") on April 2, 2014 providing the requisite authorization for the acquisition of UNS Energy Corporation by Fortis Inc., and 2) the press release issued by UNS Energy Corporation regarding the FERC order.

RESPECTFULLY SUBMITTED this 3rd day of April, 2014.

UNSE ENERGY CORPORATION AND FORTIS INC.

By


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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.

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14 Original and 13 copies of the foregoing
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20 Copy of the foregoing hand-delivered/mailed
21 this 3rd day of April, 2014, to:

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UNITED STATES OF AMERICA 147 FERC ¶ 62,004
FEDERAL ENERGY REGULATORY COMMISSION

Fortis Inc.
FortisUS Inc.
Color Acquisition Sub Inc.
UNS Energy Corporation
Tucson Electric Power Company
UNS Electric, Inc.
UniSource Energy Development Company

Docket No. EC14-56-000

ORDER AUTHORIZING DISPOSITION OF
JURISDICTIONAL FACILITIES

(Issued April 2, 2014)

On February 7, 2014, Fortis Inc. and its subsidiaries, including FortisUS Inc. (FortisUS) and Color Acquisition Sub Inc. (Color, and together with Fortis Inc. and FortisUS, Fortis), and UNS Energy Corporation (UNS Energy), on behalf of itself and its public utility affiliates Tucson Electric Power Company (Tucson Electric), UNS Electric, Inc. (UNS Electric) and UniSource Energy Development Company (Unisource, and together with UNS Energy, Tucson Electric and UNS Electric, UNS Parties) (and collectively, Fortis and UNS Parties, Applicants) filed an application pursuant to 203(a)(1)(A), (a)(1)(B), and (a)(2) of the Federal Power Act (FPA)¹ requesting Commission authorization for a disposition and merger transaction by which: (a) Color will merge with and into UNS Energy, with UNS Energy as the surviving company, and (b) each share of common stock of UNS Energy will be cancelled (collectively, the Transaction). The jurisdictional facilities involved in the Transaction include electric transmission facilities of Tucson Electric and UNS Electric, market-based rate tariffs of Tucson Electric, UNS Electric, and Unisource, as well as power sales agreements under such tariffs, and associated jurisdictional books and records.

Applicants state that Fortis Inc. is an investor-owned gas and electric distribution utility operating under the laws of Newfoundland and Labrador, Canada. Fortis Inc. serves customers across Canada and in New York and the Caribbean. Its regulated holdings include electric distribution utilities in five Canadian provinces, New York and two Caribbean countries, and natural gas utilities in British Columbia, Canada and New York.

¹ 16 U.S.C. § 824b (2012).

Applicants state that FortisUS is an indirect, wholly-owned subsidiary of Fortis Inc. FortisUS currently wholly-owns CH Energy Group, Inc. (CH Energy), and FortisUS Energy Corporation. CH Energy owns Central Hudson Gas & Electric Corporation (Central Hudson) and Central Hudson Enterprises Corporation (CH Enterprises). Applicants state that Fortis Inc. and FortisUS have no other jurisdictional activities under the FPA.

Central Hudson, a wholly owned subsidiary of CH Energy, is a regulated New York gas and electric corporation that operates as a transmission and distribution public utility in New York. Applicants state that Central Hudson owns transmission facilities in New York, but these facilities are under the operational control of the NYISO. Central Hudson owns approximately 66 megawatts (MW) of generating capacity. Central Hudson also possesses market-based rate (MBR) authority granted by the Commission.

Applicants state that FortisUS Energy Corporation owns four qualifying facilities (QFs), which collectively comprise approximately 24 MW, in the market operated by the New York Independent System Operator, Inc. All of the output of the four QFs is currently sold under contracts with National Grid, which expire on December 31, 2016. Fortis US Energy Corporation is a public utility by reason of its market-based rate tariff.

UNS Energy is a holding company existing under the laws Arizona. UNS Energy is principally engaged in the business of owning Tucson Electric, UNS Electric, Unisource and their affiliate UNS Gas, Inc (UNS Gas). According to Applicants, UNS Energy does not itself engage in any Commission-jurisdictional business activities.

Tucson Electric, an Arizona public service corporation, is a vertically integrated utility that provides regulated electric service in Arizona. In addition, Tucson Electric sells electricity at wholesale to other utilities and owner marketers at locations in the southwestern United States under its Commission-granted MBR authority.

Applicants state that Tucson Electric owns or leases approximately 2,490 MW of generating capacity. Tucson Electric owns, or participates in, an overhead electric transmission system consisting of approximately 2,005 circuit-miles of high voltage lines (rated 138 kV to 500 kV). Tucson Electric provides open access to these facilities pursuant to its Open Access Transmission Tariff (OATT). Tucson Electric operates a balancing authority area (BAA) within Arizona and portions of western New Mexico.

Applicants state that Tucson Electric does not provide any wholesale or retail natural gas service, and does not own or operate any natural gas pipelines or distribution facilities. Tucson Electric is subject to regulation by the Arizona Corporation Commission (Arizona Commission).

UNS Electric is an Arizona electric utility operating company that provides retail electric service to approximately 93,000 customers in Arizona. According to Applicants, substantially all of UNS Electric's customers are in the residential and commercial classifications. UNS Electric owns generating facilities with a combined rating of approximately 230 MW. UNS Electric's transmission system consists of approximately 334 circuit-miles of transmission lines rated 69 kilovolts (kV) and above. The majority of UNS Electric's transmission facilities are located in northwestern Arizona, with the balance located in southeastern Arizona. UNS Electric provides transmission service to these facilities pursuant to its OATT. Applicants state that UNS Electric does not operate its own BAA; rather, its transmission lines and load are part of the Tucson Electric BAA. UNS Electric is subject to regulation by the Arizona Commission and has been granted MBR authority by the Commission.

Applicants state that UniSource, an Arizona corporation, is a public utility by virtue of having an MBR tariff on file with the Commission, but does not presently engage in any activities subject to the Commission's jurisdiction.

UNS Gas is an Arizona distribution company serving approximately 150,000 retail customers in Arizona. UNS Gas owns 31 miles of gas transmission lines. Its gas transmission and distribution lines serve three electric generation facilities located in Arizona. Applicants state that UNS Gas is subject to regulation by the Arizona Commission and that UNS Gas is the only subsidiary of UNS Electric that owns or controls natural gas distribution facilities.

Applicants state that according to the Agreement and Plan of Merger, dated as of December 11, 2013, by and among FortisUS, Color, Fortis Inc. and UNS Energy (Merger Agreement), Color will merge with and into UNS Energy. After consummation of the Transaction, all of the outstanding shares of common stock of UNS Energy will be cancelled, UNS Energy will become a wholly owned, indirect subsidiary of Fortis Inc., and subsidiaries of UNS Energy (such as Tucson Electric, UNS Electric, UNS Gas, and UniSource) will become either wholly owned or partially owned subsidiaries of Fortis Inc., consistent with UNS Energy's ownership interest prior to the consummation. Applicants state that holders of the common shares of UNS Energy prior to consummation of the Transaction will be entitled to receive monetary compensation for their shares.

Applicants state that the Transaction is consistent with the public interest because it will have no adverse impact on competition, rates, or regulation and will not result in cross-subsidization or the pledge or encumbrance of utility assets for the benefit of an associate company.

Applicants state that the Transaction will not have an adverse effect on horizontal competition in the Tucson Electric BAA or the NYISO, the relevant markets for the

Transaction, where Applicants' generating facilities are located. Applicants state that the generation of UNS Energy and Fortis Inc. do not overlap in either of the relevant markets. FortisUS and its affiliates own generation in the NYISO market, but not the Tucson Electric BAA, while UNS Energy owns generation in the Tucson Electric BAA, but not the NYISO market. Therefore, Applicants state that the Transaction will not have an adverse impact on horizontal competition.

Applicants state that Transaction will not have an adverse impact on vertical competition because neither Fortis Inc. and its affiliates nor UNS Energy and its affiliates provide inputs to electricity products in the same geographic markets. Fortis Inc. and its affiliates do not own or control any fuel delivery or supply facilities, or any other input to generation, in the Tucson Electric BAA, while UNS Energy and its affiliates do not own or control any fuel delivery or supply facilities, or any other input to generation, in the NYISO market.

Central Hudson owns transmission facilities within New York, which are all under the operational control of the NYISO. The operations of the NYISO markets are subject to market monitoring. Tucson Electric and UNS Electric own and operate transmission facilities in Arizona and New Mexico, which are governed by the terms of each utility's OATT. Applicants state that the open access requirements of the NYISO, Tucson Electric's, and UNS Electric's OATTs prohibit entities from using the transmission facilities to exercise vertical market power. Thus, Applicants submit that none of the Applicants can exercise vertical market power through ownership or control of transmission facilities.

Applicants state that none of the them hold any ownership interest in or control of fuel supplies, fuel delivery systems, including intrastate gas transportation, or other inputs to electric power production or any new sites for electric generation that could be used to raise barriers to entry in any relevant markets. Therefore, Applicants submit that the Transaction will not have an adverse impact on vertical competition.

Applicants state that the Transaction will have no adverse effect on rates, because while both Tucson Electric and UNS Electric have captive customers in Arizona, their retail rates are regulated by the Arizona Commission and will continue to be so regulated after the consummation of the Transaction. Tucson Electric has long-term (i.e., a year or longer) wholesale power contracts with Salt River Project, the Navajo Tribal Utility Authority, and the Tohono O'odham Utility Authority, but the prices in these contracts have been negotiated under Tucson Electric's MBR authority and will not be impacted by the consummation of the Transaction. Tucson Electric and UNS Electric also engage in short-term wholesale transactions at market-based rates as previously authorized by the Commission, and the revenues related to those short-term transactions are passed through to the utility's retail customers through each utility's Purchased Power and Fuel Adjustment Clause currently contained in their respective retail rates. Central Hudson

does not have any captive customers or cost-based wholesale requirements customers and will continue to sell power at wholesale at market-based rates as previously authorized by the Commission. Accordingly, Applicants submit that the Transaction will have no adverse effect on wholesale ratepayers or transmission customers.

Applicants state that the Transaction will not diminish the Commission's regulatory authority, create a regulatory gap or shift regulatory authority between the Commission and any state commission. Both before and after the proposed Transaction is consummated, Tucson Electric, UNS Electric and UniSource will continue to be public utilities subject to the Commission's jurisdiction. Similarly, the Arizona Commission will continue to have jurisdiction over Tucson Electric, UNS Electric and UNS Gas. Accordingly, Applicants submit that the Transaction will not have an adverse impact on regulation.

Applicants state that, based on facts and circumstances known to them or that are reasonably foreseeable, the Transaction will not result in, at the time of the Transaction or in the future, cross-subsidization of a non-utility associate company or the pledge or encumbrance of utility assets of a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional facilities for the benefit of an associate company, including: (1) any transfer of facilities between a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, and an associate company; (2) any new issuance of securities by a traditional public utility associate company that has captive customers or that owns, or provides transmission service over, jurisdictional transmission facilities, for the benefit of an associate company; (3) any new pledge or encumbrance of assets of a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, for the benefit of an associate company; or (4) any new affiliate contracts between a non-utility associate company and a traditional public utility associate company that has captive customers or that owns or provides transmission service over jurisdictional transmission facilities, other than non-power goods and service agreements subject to review under sections 205 and 206 of the FPA.

The filing was noticed on February 10, 2014, with comments, protests or interventions due on or before March 10, 2014. El Paso Electric Company filed a motion to intervene, raising no substantive issues. Notices of intervention and unopposed timely filed motions to intervene are granted pursuant to the operation of Rule 214 of the Commission's Rules of Practice and Procedure (18 C.F.R. § 385.214 (2013)). Any opposed or untimely filed motion to intervene is governed by the provision of Rule 214.

Order No. 652 requires that sellers with market-based rate authority timely report to the Commission any change in status that would reflect a departure from the

characteristics the Commission relied upon in granting market-based rate authority.² The foregoing authorization may result in a change in status. Accordingly, Applicants are advised that they must comply with the requirements of Order No. 652. In addition, Applicants shall make appropriate filings under section 205 of the FPA, to implement the Transaction.

Information and/or systems connected to the bulk system involved in this transaction may be subject to reliability and cybersecurity standards approved by the Commission pursuant to FPA section 215. Compliance with these standards is mandatory and enforceable regardless of the physical location of the affiliates or investors, information database, and operating systems. If affiliates, personnel or investors are not authorized for access to such information and/or systems connected to the bulk power system, a public utility is obligated to take the appropriate measures to deny access to the information and/or the equipment/software connected to the bulk power system. The mechanisms that deny access to information, procedures, software, equipment, etc. must comply with all applicable reliability and cybersecurity standards. The Commission, NERC or the relevant regional entity may audit compliance with reliability and cybersecurity standards.

After consideration, it is concluded that the Transaction is consistent with the public interest and is hereby authorized, subject to the following conditions:

- (1) The Transaction is authorized upon the terms and conditions described in this Order and for the purposes set forth in the application;
- (2) The foregoing authorization is without prejudice to the authority of the Commission or any other regulatory body with respect to rates, service, accounts, valuation, estimates or determination of cost or any other matter whatsoever now pending or which may come before the Commission;
- (3) Nothing in this order shall be construed to imply acquiescence in any estimate or determination of cost or any valuation of property claimed or asserted;
- (4) The Commission retains authority under sections 203(b) and 309 of the FPA, to issue supplemental orders as appropriate;
- (5) If the Transaction results in changes in the status or the upstream ownership

² *Reporting Requirement for Changes in Status for Public Utilities with Market-Based Rate Authority*, Order No. 652, 70 Fed. Reg. 8,253 (Feb. 18, 2005), FERC Stats. & Regs. ¶ 31,175, order on reh'g, 111 FERC ¶ 61,413 (2005).

of Applicants' affiliated Qualifying Facilities, if any, an appropriate filing for recertification pursuant to 18 C.F.R. § 292.207 (2013) shall be made;

- (6) Applicants shall make appropriate filings under section 205 of the FPA, as necessary, to implement the Transaction;
- (7) Applicants must inform the Commission of any change in circumstances that would reflect a departure from the facts the Commission relied upon in authorizing the Transaction; and
- (8) Applicants shall notify the Commission within 10 days of the date that the Transaction has been consummated.

This action is taken pursuant to the authority delegated to the Director, Division of Electric Power Regulation – West under 18 C.F.R. § 375.307(2013). This order constitutes final agency action. Requests for rehearing by the Commission may be filed within 30 days of the date of issuance of this order pursuant to 18 C.F.R. § 385.713(2013).

Steve P. Rodgers
Director
Division of Electric Power Regulation - West



UNS Energy Corporation

FOR IMMEDIATE RELEASE

April 2, 2014

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FEDERAL ENERGY REGULATORY COMMISSION APPROVES ACQUISITION OF UNS ENERGY BY FORTIS

Tucson, Ariz. – The Federal Energy Regulatory Commission has approved the proposed acquisition of UNS Energy Corporation (NYSE:UNS) by a subsidiary of Fortis Inc. (TSX:FTS), finding that the transaction is consistent with the public interest.

UNS Energy shareholders approved the acquisition on March 26, 2014. The transaction remains subject to the approval of the Arizona Corporation Commission; review by the Committee on Foreign Investment in the United States; the expiration or termination of the applicable waiting period under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended; and the satisfaction of customary closing conditions. UNS Energy anticipates the transaction will be finalized by the end of 2014.

About UNS Energy:

UNS Energy is a Tucson, Arizona-based company with consolidated assets of approximately \$4 billion. UNS Energy subsidiary Tucson Electric Power serves approximately 413,000 customers in southern Arizona. UNS Energy subsidiary UniSource Energy Services provides natural gas and electric service for approximately 243,000 customers in northern and southern Arizona. UNS Energy shares are listed on the New York Stock Exchange and trade under the symbol UNS. To learn more, visit www.uns.com. Additional details about the proposed transaction are available online at www.uns.com/acquisition/.

About Fortis:

Fortis is the largest investor-owned gas and electric distribution utility in Canada with total assets of approximately \$18 billion and fiscal 2013 revenue exceeding \$4 billion. Its regulated utilities account for 90% of total assets and serve more than 2.4 million customers across Canada and in New York State and the Caribbean. Fortis owns non-regulated hydroelectric generation assets in Canada, Belize and Upstate New York. The Corporation's non-utility investment is comprised of hotels and commercial real estate in Canada.

Fortis shares are listed on the Toronto Stock Exchange and trade under the symbol FTS. Additional information can be accessed at www.fortisinc.com or www.sedar.com.

Forward Looking Statements

Statements included in this news release and any documents incorporated by reference which are not historical in nature are intended to be, and are hereby identified as, "forward-looking statements" for purposes of the safe harbor provided by Section 21E of the Exchange Act. Forward-looking statements may be identified by words including "anticipates," "intends," "estimates," "believes," "projects," "expects," "plans," "assumes," "seeks," and similar expressions. Forward-looking statements including, without limitation, those relating to UNS Energy's and its subsidiaries' future business prospects, revenues, proceeds, working capital, investment valuations, liquidity, income, and margins, as well as the timing and consequences of the Fortis acquisition, are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to several important factors, including those identified from time-to-time in the forward-looking statements. Those factors include, but are not limited to: the possibility that various conditions precedent to the consummation of the Fortis transaction will not be satisfied or waived; the ability to obtain regulatory approvals of the Fortis transaction on the timing and terms thereof; state and federal regulatory and legislative decisions and

actions; regional economic and market conditions which could affect customer growth and energy usage; weather variations affecting energy usage; the cost of debt and equity capital and access to capital markets; the performance of the stock market and changing interest rate environment, which affect the value of our pension and other retiree benefit plan assets and the related contribution requirements and expense; unexpected increases in O&M expense; resolution of pending litigation matters; changes in accounting standards; changes in critical accounting estimates; the ongoing restructuring of the electric industry; changes to long-term contracts; the cost of fuel and power supplies; cyber attacks or challenges to our information security; and the performance of TEP's generating plants; and certain presently unknown or unforeseen factors, including, but not limited to, acts of terrorism. UNS Energy and its subsidiaries undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise. Given these uncertainties, undue reliance should not be placed on the forward-looking statements.