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BEFORE THE ARIZONA CORPORATI

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AZ CORP COMMISSION
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IN THE MATTER OF REORGANIZATION)	DOCKET NO. E-04230A-14-0011
OF UNS ENERGY CORPORATION)	DOCKET NO. E-01933A-14-0011
))
)	NOTICE OF FILING DIRECT
)	TESTIMONY ON BEHALF OF
)	SOUTHERN ARIZONA
)	HOMEBUILDERS ASSOCIATION

Southern Arizona Homebuilders Association ("SAHBA") hereby provides notice of filing of the Prepared Direct Testimony of David Godlewski on behalf of SAHBA in the above-docketed proceedings.

Dated this 29th day of April 2014.

Respectfully submitted,

Lawrence V. Robertson, Jr.
Attorney for Southern Arizona Homebuilders Association

The original and thirteen (13) copies of the foregoing will be filed the 30th day of April 2014 with:

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

A copy of the same served by e-mail or first class mail that same date to:

Arizona Corporation Commission

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APR 30 2014

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DIRECT TESTIMONY

OF

DAVID GODLEWSKI

ON BEHALF OF SOUTHERN ARIZONA HOMEBUILDERS ASSOCIATION

DOCKET NO. E-04230A-14-0011

DOCKET NO. E-01933A-14-0011

Q.1 Please state your name, business affiliation and business address.

A.1 My name is David Godlewski. I am President of the Southern Arizona Homebuilders Association ("SAHBA"). My business address and SAHBA's business address is 2840 North Country Club Road, Tucson, Arizona, 85716.

Q.2 Please describe SAHBA, and include in your description a reference to any instance(s) when SAHBA may have had occasion to participate in proceedings before the Commission on behalf of its members.

A.2 SAHBA is a member trade organization with 340 dues-paying members, which includes Home Builders, Developers, and Associate members. SAHBA was incorporated in 1952, and its coverage area from the National Association of Home Builders includes Pima, Cochise and Santa Cruz Counties. SAHBA is a 501(C)(6) organization under the United States Internal Revenue Code.

SAHBA represents building industry professionals ranging from builders, developers, land planners, architects, engineers, environmental consultants, trade contractors, banking and mortgage, real estate, and the many supporting disciplines necessary to create, sell, remodel, furnish and maintain new homes and communities throughout Southern Arizona. SAHBA provides a venue for its members to share information and to network with other professionals involved in the home building industry. SAHBA serves as an advocate for its membership and keeps them apprised of changes in regulatory and governmental matters that will affect their businesses, and

1 participates in regulatory proceedings as appropriate. SAHBA also serves as the
2 sponsoring organization of a semi-annual home show allowing members and other
3 merchants to gather and showcase the latest in home improvement and indoor and outdoor
4 living areas.

5 In connection with the foregoing, SAHBA actively participated as an advocate on
6 behalf of its membership in the proceedings before the Commission in Docket Nos. E-
7 01933A-07-0402 and E-01933A-05-0650, which resulted in the Commission's issuance of
8 Decision No. 72501. That decision reinstated Tucson Electric Power Company's ("TEP")
9 historic line extension tariff provisions, which previously had been "removed" by TEP
10 pursuant to the Commission's Decision No. 70628. In addition, SAHBA actively
11 participated as an advocate on behalf of its membership in the proceedings in Docket No.
12 W-01933A-12-0291, which was TEP's most recent rate case; and, SAHBA was a signatory
13 party to the Settlement Agreement reached in that proceeding which was approved by the
14 Commission in Decision No. 73912.

15
16 **Q.3 Did you participate on behalf of SAHBA and its members in each of these**
17 **proceedings?**

18 **A.3 Yes.**

19
20 **Q.4 Why did SAHBA and its members decide to seek leave to intervene and participate in**
21 **this proceeding?**

22 **A.4 On January 10, 2014, UNS Energy Corporation ("UNS Energy") and Fortis, inc. ("Fortis")**
23 **filed a Joint Notice of Intent to Reorganize with the Commission pursuant to A.A.C. R14-**
24 **2-801 et seq. describing a proposed reorganization which would ultimately result in the**
25 **merger of UNS Energy and Fortis, if approved by the Commission as requested by UNS**
26 **Energy and Fortis. SAHBA's utility regulatory attorney has advised us that the governance**
27 **provisions of the merger agreement between UNS Energy and Fortis provide that within**
28 **two (2) years following completion of the merger Fortis will occupy a dominant role in**

1 determining the composition of the Board(s) of Directors for UNS Energy and its utility
2 affiliates, TEP, UNS Electric and UNS Gas. As a consequence, Fortis will also be in a
3 position to substantially influence the policies of UNS Energy and its utility affiliates with
4 respect to relationships with their respective ratepayers and the communities within which
5 they provide service.

6 In that regard, both as ratepayers and as residents and businesses within the
7 communities in which TEP provides electric service, SAHBA and its members have shared
8 a mutually beneficial relationship with TEP as the local electric service provider. On more
9 than one (1) occasion, TEP has been both attentive and responsive to the concerns and
10 needs of SAHBA and its members. Accordingly, it is SAHBA's hope that this positive and
11 ongoing historic collaborative relationship will be continued into the future, in the event
12 that the proposed merger is approved by the Commission.

13 Against the above background, SAHBA concluded that its participation in this
14 proceeding on behalf of both SAHBA and its members was necessary and appropriate.
15 Clearly, SAHBA and its members could be substantially and directly affected by a
16 Commission decision approving the proposed merger. Further, there is no other person or
17 entity best qualified to articulate and advance the particular interests of SAHBA and its
18 members.

19
20 **Q.5 Please provide a specific example of how the current policies of TEP are important to**
21 **SAHBA and its members.**

22 **A.5** As I previously indicated, in its Decision No. 72501, the Commission reinstated TEP's
23 historic line extension tariff provisions. This reinstatement was, and continues to be,
24 critical to the economic well-being of the developer and homebuilder industries in TEP's
25 service area as they endeavor to recover from the devastating effects of the 2008 financial
26 crisis and the subsequent recession, which particularly impacted their industries. In that
27 regard, 5,000 annual new housing starts has been considered to be the baseline for a healthy
28 homebuilding industry in Pima County, yet during 2013 the rate of recovery had

1 progressed to approximately 2,250 new starts.

2 In connection with the foregoing, the ability of the developer and homebuilder
3 industries to successfully recover and move forward in turn directly impacts the economic
4 well-being of hundreds of businesses and thousands of jobs in TEP's service area which are
5 dependent upon these industries.

6 Against this background, any change in TEP's current line extension policies that
7 conceivably could have a detrimental economic impact upon the developer and
8 homebuilding industries would be a matter of serious concern to SAHBA and its members.
9 SAHBA's members already make significant advances in aid of construction and
10 contributions in aid of construction to fund electric utility infrastructure under TEP's
11 current line extension policies. Depending upon the circumstances, they may also be
12 required to pay "carrying costs" and "gross up" amounts to TEP. Further, all of these types
13 of project expenditures are being made in an environment where, as a result of the post-
14 2008 recession, sources of financing historically relied upon by the homebuilding industry
15 are no longer available. In that regard, in recent years, TEP and its senior management
16 have been aware of and particularly responsive to the needs and concerns of SAHBA and
17 its members, for which we are most appreciative.

18
19 **Q.6 How and upon whom would a change in the current line extension policies of TEP**
20 **have a detrimental economic impact?**

21 **A.6** It is important to understand that developers and homebuilders know as a part of their
22 planning and entitlement process for residential subdivisions what infrastructure funding
23 will be required of them. Given that this is a process which can entail many months, and
24 perhaps several years, it is imperative that they not be subject to sudden or unanticipated
25 changes in polices and regulations which implicate that planning process, including utility
26 line extension policies. In that regard, as the housing market begins to recover in southern
27 Arizona, builders and developers are again buying land to take through the planning and
28 entitlement process. Needless to say, any abrupt or dramatic change in line extension

1 policies could (i) jeopardize, if not eliminate, the economic feasibility of some projects and
2 (ii) also adversely impact those businesses and jobs which are dependent upon the
3 homebuilding industry. Thus, coordination and collaboration among TEP and SAHBA's
4 members is very important from SAHBA's perspective.

5
6 **Q.7 Please provide a specific example of how the current relationship between SAHBA,
7 and its members and TEP is mutually beneficial.**

8 A.7 As I have previously indicated, TEP is a long-standing and valued partner of SAHBA and
9 its members. In our efforts to advocate for our membership and keep them apprised of
10 changes in regulatory and governmental matters that will affect their businesses, SAHBA
11 hosts a monthly Technical Committee Meeting with members of our association and
12 representatives from government, government agencies and utilities. This venue provides
13 an opportunity for TEP to share news and information relevant to SAHBA members and
14 for SAHBA members to engage with TEP on matters of importance to their projects. This
15 results in ongoing dialogue between TEP and SAHBA members that is beneficial to both.

16
17 **Q.8 Is it the hope of SAHBA and its members that within the context of this proceeding
18 both UNS Energy and Fortis will indicate an express intent to continue the positive
19 relationship between TEP and the developer and homebuilder business communities
20 within TEP's service area?**

21 A.8 Absolutely. We would be very surprised and disappointed if that was not the intent of each
22 company; and, the context of this proceeding provides an appropriate opportunity for them
23 to express such an intent.

24
25 **Q.9 At what point(s) in this proceeding might such an expression of intent occur?**

26 A.9 You have advised me that three (3) opportunities for a written expression of an intent of
27 that nature by UNS Energy and Fortis would be within (i) the language of the Settlement
28 Agreement, if a settlement is reached, (ii) the prepared Rebuttal Testimony of UNS Energy

1 and Fortis, if a settlement is not reached, or (iii) as an agreed upon additional written
2 condition to the merger, supplemental to the twenty-four conditions proposed thus far by
3 UNS Energy and Fortis, whether or not a Settlement Agreement is reached.
4

5 **Q.10 In their January 24, 2014 prepared Direct Testimony, UNS Energy's and Fortis'**
6 **witnesses discussed the governance provisions of their Merger Agreement, and how**
7 **the same could affect the size and composition of the Board of Directors of both UNS**
8 **Energy and TEP upon completion of the merger and in subsequent years. Is the size**
9 **and composition of those Boards of Directors a matter of interest to SAHBA and its**
10 **members; and, if so, why?**

11 A.10 Yes, SAHBA is quite interested in both the size and composition of each Board of
12 Directors which you have mentioned. Those Boards of Directors will (i) set policy for
13 UNS Energy and TEP as to a wide array of matters and/or (ii) make policy
14 recommendations to Fortis U.S. and Fortis with respect to the operations of those two (2)
15 companies.

16 In that regard, SAHBA believes that each of those Boards of Directors should be
17 large enough to allow for a diverse mixture of backgrounds and experience among the
18 Board membership as a whole. In addition, SAHBA believes that the preponderance of
19 members of TEP's Board of Directors should reside and (preferably) do business or have
20 business relationships in TEP's service area.
21

22 **Q.11 Do SAHBA and its members believe that, in determining whether or not the proposed**
23 **merger would be in the "public interest," the Commission should take into account**
24 **the views of Fortis as to what will be the size and composition of future Boards of**
25 **Directors for UNS Energy and TEP?**

26 A.11 In terms of the two (2) general guidelines or criteria I have suggested, yes. And, I would
27 think criteria of that nature would probably also be appropriate for consideration with
28 respect to the Boards of Directors of UNS Electric and UNS Gas, given the goal of Board

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membership which is both diverse and attuned to the particular needs and characteristics of the service area(s) in question.

Q.12 Does SAHBA have a position with respect to the proposed merger between UNS Energy and Fortis?

A.12 Not as of this juncture.

Q.13 Does that complete your Direct Testimony on behalf of SAHBA and its members?

A.13 Yes.