



BEFORE THE ARIZONA CORPORATION

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COMMISSIONERS
BOB STUMP - Chairman
GARY PIERCE
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ORIGINAL

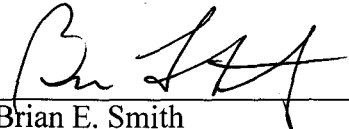
IN THE MATTER OF THE REORGANIZATION
OF UNS ENERGY CORPORATION.

DOCKET NO. E-04230A-14-0011
E-01933A-14-0011

STAFF'S NOTICE OF FILING
SETTLEMENT AGREEMENT

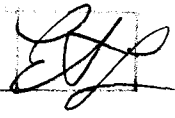
Staff of the Arizona Corporation Commission ("Staff"), on behalf of the Signatories to the Settlement Agreement ("Agreement"), hereby files the Agreement in compliance with the filing deadline of May 16, 2014 set by the Administrative Law Judge in her Procedural Order of April 18, 2014.

RESPECTFULLY SUBMITTED this 16th day of May, 2014.



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Arizona Corporation Commission
DOCKETED
MAY 16 2014

DOCKETED BY 

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2014 MAY 16 P 4 35
AZ CORP COMMISSION
DOCKET CONTROL

Original and thirteen (13) copies
of the foregoing filed this
16th day of May 2014 with:

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

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3 mailed on the 19th day of May
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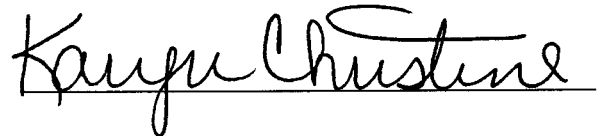
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EXHIBIT A

UNS ENERGY CORPORATION AND FORTIS INC.

JOINT NOTICE OF REORGANIZATION

SETTLEMENT AGREEMENT

DOCKET NOS. E-04230A-014-0011 and E-01933A-14-0011

MAY 16, 2014

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SETTLEMENT AGREEMENT

IN THE MATTER OF THE REORGANIZATION OF UNS ENERGY CORPORATION

DOCKET NOS. E-04230A-014-0011 AND E-01933A-14-0011

The purpose of this Settlement Agreement (“Agreement”) is to settle all issues related to the Joint Notice of Intent to Reorganize under A.A.C. R14-2-803 (“Joint Notice”) filed with the Arizona Corporation Commission (“Commission”) on January 10, 2014, in Docket Nos. E-04230A-014-0011 and E-01933A-14-0011, and involving the following entities:

1. UNS Energy Corporation (“UNS Energy”), on behalf of itself and its affiliates Unisource Energy Services, Inc. (“UES”), Tucson Electric Power Company (“TEP”), UNS Electric, Inc. (“UNS Electric”) and UNS Gas, Inc. (“UNS Gas”) (TEP, UNS Electric and UNS Gas are referred to collectively as the “Regulated Utilities”); and,

2. Fortis Inc. (“Fortis”), on behalf of itself and its affiliates, FortisUS Holdings Nova Scotia Limited (“FortisUS Nova Scotia”), a wholly-owned subsidiary of Fortis, FortisUS Inc. (“FortisUS”), a wholly-owned subsidiary of FortisUS Nova Scotia, and Color Acquisition Sub Inc. (“Color Acquisition”), a wholly-owned subsidiary of FortisUS.

UNS Energy and Fortis are referred to collectively as the “Joint Applicants.”

This Agreement is entered into by the following entities:

Joint Applicants
Commission Utilities Division Staff (“Staff”)
Residential Utility Consumer Office (“RUCO”)
Freeport-McMoRan Copper & Gold Inc.
Arizonans for Electric Choice and Competition
IBEW, Local Unions 387, 769 and 1116 (“IBEW”)
Southern Arizona Homebuilders Association
Arizona Community Action Association
Arizona Investment Council
Noble Americas Energy Solutions LLC
Arizona Solar Deployment Alliance

These entities shall be referred to collectively as “Signatories;” a single entity shall be referred to individually as a “Signatory.”

1. RECITALS.

- 1.1 On December 11, 2013, UNS Energy, Fortis, FortisUS and Color Acquisition entered into an Agreement and Plan of Merger (“Merger Agreement”).
- 1.2 Joint Applicants filed the Joint Notice on January 10, 2014, requesting approval of the Merger Agreement under A.A.C. R14-2-803. As set forth in the Joint Notice, Color Acquisition will merge with UNS Energy. UNS Energy will be the surviving entity, becoming a wholly-owned subsidiary of FortisUS with Fortis as its ultimate parent. In effect, UNS Energy’s existing shareholders will be replaced by FortisUS as the sole shareholder of UNS Energy (“Merger Transaction”).
- 1.3 On January 24, 2014, the Joint Applicants filed Direct Testimony in support of the Joint Notice.
- 1.4 Subsequently, the Commission approved applications to intervene filed by RUCO, Freeport-McMoRan Copper & Gold Inc., Arizonans for Electric Choice and Competition, IBEW, Southern Arizona Homebuilders Association, Arizona Community Action Association, City of Nogales, Arizona Investment Council, Noble Americas Energy Solutions LLC, Mohave Electric Cooperative, Inc., Navopache Electric Cooperative, Inc., Sulphur Springs Valley Electric Cooperative, Inc., The Alliance for Solar Choice, Solar Energy Industry Association, Arizona Solar Deployment Alliance, Southwest Energy Efficiency Project and Arizona Public Service Company (collectively “Parties”).
- 1.5 On April 30, 2014, Staff, RUCO and other Intervenors filed Direct Testimony in the docket.
- 1.6 Staff filed a Notice of Settlement Discussions on April 30, 2014. Settlement discussions began on May 5, 2014. The settlement discussions were open, transparent, and inclusive of all Parties to this Docket who desired to participate. All Parties to this Docket were notified of the settlement discussion process, were encouraged to participate in the negotiations, and were provided with an equal opportunity to participate.

- 1.7 The terms of this Agreement are just, reasonable, fair, and in the public interest in that they provide a just and reasonable resolution of the issues arising from this Docket and, among other things, establish appropriate conditions to ensure quality of service by the Regulated Utilities, enhance the financial strength of UNS Energy and the Regulated Utilities, retain local control of the Regulated Utilities, improve access to capital for UNS Energy and the Regulated Utilities, and avoid unnecessary litigation expense and delay.
- 1.8 The Signatories believe that this Agreement balances the interests of the public, UNS Energy, the Regulated Utilities and their customers and employees, and Fortis. Further, the Agreement and the Merger Transaction provide substantial and material benefits including, but not limited to:
- a. Providing \$30 million of direct customer benefits over 5 years through bill credits of \$10 million payable in year 1 and \$5 million per year payable in years 2 through 5.
 - b. Financially strengthening UNS Energy and the Regulated Utilities, which will enhance the Regulated Utilities' ability to provide safe, reasonable and adequate service, improve their individual capital structures, and preserve or improve their credit ratings by:
 - i. immediately injecting \$220 million of equity capital into UNS Energy for the benefit of UNS Energy and the Regulated Utilities;
 - ii. becoming part of a larger, more diverse and financially secure company with a stronger credit rating;
 - iii. establishing appropriate ring fencing measures that will serve to protect each of the Regulated Utilities and its customers; and,
 - iv. improving access to capital markets that will enhance the Regulated Utilities' ability to obtain sufficient capital to meet their needs, including access to debt capital at lower cost.

- c. Continuing strong local utilities by:
 - i. maintaining existing employee levels at the Regulated Utilities and employee benefits for a period of at least 4 years, continuing to perform under the existing collective bargaining agreements for the Regulated Utilities, and ensuring that all future decisions on staffing, employment practices and labor relations at the Regulated Utilities continue to be made by local management of the Regulated Utilities;
 - ii. retaining senior management of UNS Energy and the Regulated Utilities, and maintaining their headquarters in Tucson, Arizona;
 - iii. appointing a Board of Directors of UNS Energy, with oversight over UNS Energy and the Regulated Utilities, a majority of whom will be independent and a majority of whom will be resident in Arizona; and,
 - iv. becoming part of a more diverse family of utilities with the ability to draw upon expanded operational, technical and regulatory expertise while remaining a strong locally-based utility.
- d. Continuing to support low income assistance programs at or above current levels; sustaining their contributions to charitable and community programs; and continuing to provide energy efficiency and renewable energy programs as approved, or may be approved, by the Commission.
- e. Enhancing the Commission's regulatory oversight of the financial and operational stability of UNS Energy and the Regulated Utilities.

1.9 The Signatories agree to ask the Commission: (1) to find that the terms and conditions of this Agreement are just and reasonable and in the public interest, along with any and all other necessary findings; and (2) to approve the Agreement as soon as practicable, but no later than September 18, 2014.

TERMS AND CONDITIONS

2. CONDITIONS OF APPROVAL.

- 2.1 The Signatories agree to the conditions of approval set forth in Attachment A to this Agreement ("Conditions").
- 2.2 The Signatories agree that the Merger Transaction, subject to the Conditions, would not impair the financial status of UNS Energy or the Regulated Utilities, otherwise prevent UNS Energy or the Regulated Utilities from attracting capital at fair and reasonable terms, or impair the ability of the Regulated Utilities to provide safe, reasonable and adequate service.

The Signatories also agree that the Merger Transaction is expected to improve the financial status of UNS Energy and the Regulated Utilities, improve their access to capital at more favorable terms and enhance the ability of the Regulated Utilities to continue providing safe, reasonable and adequate service to their customers.

- 2.3 The Signatories agree that approval of the Merger Transaction, subject to the Conditions, is in the public interest.

3. CANCELLATION OF TEP HOLDING COMPANY ORDER CONDITIONS.

- 3.1 The Signatories acknowledge that certain conditions set forth in the TEP Holding Company Order, Decision No. 60480 (November 25, 1997), may no longer apply. The Signatories further acknowledge that the Commission has modified or waived several of those conditions in subsequent orders to reflect changed circumstances.
- 3.2 The Signatories agree that: (i) the Conditions adopted in this Docket shall supersede the conditions set forth in the TEP Holding Company Order, Decision No. 60480, as subsequently modified by the Commission and (ii) the conditions set forth in the TEP Holding Company Order, Decision No. 60480, as subsequently modified, should be vacated.

4. COMMISSION EVALUATION OF SETTLEMENT AGREEMENT.

- 4.1 All currently filed testimony and exhibits shall be offered into the Commission's record as evidence.
- 4.2 The Signatories recognize that Staff does not have the power to bind the Commission. For purposes of proposing a settlement agreement, Staff acts in the same manner as any party to a Commission proceeding.
- 4.3 The Signatories recognize that the Commission will independently consider and evaluate the terms of this Agreement. If the Commission issues an order adopting all material terms of this Agreement, such action shall constitute Commission approval of the Agreement. Thereafter, the Signatories shall abide by the terms as approved by the Commission.
- 4.4 If the Commission fails to issue an order adopting all material terms of this Agreement, any or all of the Signatories may withdraw from this Agreement, and such Signatory or Signatories may pursue, without prejudice, their respective remedies at law. For purposes of this Agreement, whether a term is material shall be left to the discretion of the Signatory choosing to withdraw from the Agreement. If a Signatory withdraws from the Agreement pursuant to this paragraph and files an application for rehearing, the other Signatories, except for Staff, shall file a document with the Commission that supports approval of the Agreement in its entirety. Staff shall not be obligated to file any document or take any position regarding the withdrawal or legal remedy sought by any other Signatory.

5. MISCELLANEOUS PROVISIONS.

- 5.1 This case has attracted a large number of participants with widely diverse interests. To achieve consensus for settlement, many participants are accepting positions that, in any other circumstances, they would be unwilling to accept. They are doing so because this Agreement, as a whole, is consistent with their long-term interests and with the broad public interest. The acceptance by any Signatory of a specific element of this Agreement shall not be considered as precedent for acceptance of that element in any other context.

- 5.2 No Signatory is bound by any position asserted in negotiations, except as expressly stated in this Agreement. No Signatory shall offer evidence of conduct or statements made in the course of negotiating this Agreement before this Commission, any other regulatory agency, or any court.
- 5.3 Neither this Agreement nor any of the positions taken in this Agreement by any of the Signatories may be referred to, cited, and/or relied upon as precedent in any proceeding before the Commission, any other regulatory agency, or any court for any purpose except to secure approval of this Agreement and enforce its terms.
- 5.4 To the extent any provision of this Agreement is inconsistent with any existing Commission order, rule, or regulation, this Agreement shall control.
- 5.5 Each of the terms of this Agreement is in consideration of all other terms of this Agreement. Accordingly, the terms are not severable. The captions in this Agreement and Attachment A hereto are included for convenience of reference only and in no way define, delineate and/or restrict any of the provisions hereof or otherwise affect their construction or effect.
- 5.6 The Signatories shall make reasonable and good faith efforts necessary to obtain a Commission order approving this Agreement. The Signatories shall support and defend this Agreement before the Commission. Subject to Paragraph 4.4 above, if the Commission adopts an order approving all material terms of the Agreement, the Signatories will support and defend the Commission's order before any court or regulatory agency in which it may be at issue.
- 5.7 This Agreement may be executed in any number of counterparts and by each Signatory on separate counterparts, each of which when so executed and delivered shall be deemed an original and all of which taken together shall constitute one and the same instrument. This Agreement may also be executed electronically or by facsimile.
- 5.8 All filings required by the terms of this Agreement shall be made in Docket Control in this Docket unless otherwise specified.

ATTACHMENT A

SETTLEMENT CONDITIONS DOCKET NOS. E-04230A-14-0011 AND E-01933A-14-0011

A. Customer Benefits & Protections

1. Ratepayer Benefits/Savings - Ratepayer Benefits/Savings - UNS Energy shall provide ratepayer credits totaling \$30 million over 5 years, to be shared by the customers of TEP, UNS Electric and UNS Gas (referred to collectively as the "Regulated Utilities") as follows:
 - (a) A total of \$10 million in year one (commencing October 1, 2014) with \$5 million being payable to customers as a bill credit to be applied to the monthly customer charge in an amount proportional to the average customer charge in each class¹ and \$5 million to be passed through to customers as a per kWh or per therm credit through the Regulated Utility's Purchased Power and Fuel Adjustor Clause ("PPFAC") or Purchased Gas Adjustor ("PGA").
 - (b) A total of \$5 million per year in years 2 through 5 payable to customers as a bill credit to be applied to the monthly customer charge in an amount proportional to the average customer charge in each class.
 - (c) All bill credits payable under subsections (a) and (b) hereof shall commence October 1st of each applicable year and be completed within six (6) months, i.e., by the following March 1st.
2. Within sixty (60) days of the closing, Fortis shall make an equity infusion through UNS Energy into the Regulated Utilities totaling \$220 million. However, if the transaction closes after September 30, 2014, the equity infusion may be made into UNS Energy to retire debt.
3. Fortis and UNS Energy agree and commit that benefits from the sale of coal, that would otherwise be used for TEP generation, to third parties for treatment to generate Internal Revenue Code Sec. 45 credits and to buy-back treated coal for burn at Springerville 1 and 2 (and any other TEP coal-fired generating plants where such arrangements are established) will be passed onto TEP ratepayers through the PPFAC.
4. In all rate cases filed by the Regulated Utilities through 2020, with a test year ending on or after December 31, 2015, the Regulated Utilities shall show that the proposed rate increases are demonstratively lower than those that would have been proposed absent the acquisition of UNS Energy by Fortis.

¹ TEP's customer classes consist of Residential Service, Small General Service, Large General Service, Large Light and Power Service and Lighting; UNS Electric's customer classes consist of Residential Service, Small General Service, Large General Service and Large Power Service and Lighting; UNS Gas' customer classes consist of Residential Service, Small Volume Service and Large Volume Service.

5. Fortis, UNS Energy and/or the Regulated Utilities shall not seek recovery of or on the acquisition premium or any goodwill amount in any future rate proceeding nor shall ratepayers of the Regulated Utilities be responsible in any manner for the recovery of said premium.
6. Fortis shall not allocate any Fortis specific costs to the Regulated Utilities for possible recovery in a future rate proceeding for 5 years after the closing. Fortis shall file notice with Docket Control of any intent to use a shared services model whereby central office or general office costs would be allocated to the Regulated Utilities. Fortis and UNS Energy shall file a code of conduct regarding UNS Energy and the Regulated Utilities' affiliate transactions within 60 days after the closing. Fortis and UNS Energy shall file with the Commission within 60 days after the closing its procedures for managing any intercompany transactions.
7. Fortis and UNS Energy shall not pass any costs of the shareholder litigation related to the merger to ratepayers of the Regulated Utilities.
8. Fortis, UNS Energy, and/or the Regulated Utilities shall not seek recovery of or on the transaction and transition costs associated with the merger, and agree that any Change of Control and Retention payments related to the merger will not be borne by the ratepayers of the Regulated Utilities.
9. Fortis shall hold the Regulated Utilities' ratepayers harmless from the impacts of any fluctuations in foreign exchange rates and any incremental taxes arising from its international ownership structure.
10. Fortis acknowledges and agrees that if a future acquisition by Fortis causes a material adverse impact on the Regulated Utilities, Fortis agrees that the Commission may act, as it deems necessary, to protect the Regulated Utilities, as permitted by law, upon notice and opportunity to be heard. Materiality shall be at the sole discretion of the Commission.
11. The Regulated Utilities shall not include in their revenue requirements any increase in the total compensation of the Senior Management Personnel (the 11 executives at the date of closing) in any rate increase request using a test year ending December 31, 2017, or earlier. If the number of Senior Management Personnel in a test year ending December 31, 2017 or earlier is less than 11, the aforementioned total compensation will be reduced proportionately.
12. In the event that Fortis completes any additional mergers or acquisitions within the United States before the Commission adopts an order approving new rates for the Regulated Utilities, Fortis must share the follow-on merger savings that are reasonably applicable to the Regulated Utilities and their customers between shareholders and ratepayers, on a 50/50 basis, to the extent the portions of such savings realized by Fortis are material (i.e., 5 percent or more of UNS Energy's consolidated net income on an after-tax basis). UNS Energy must submit, within 90 days of the follow-on merger

closing, a comprehensive and detailed proposal to share the follow-on merger savings, to begin on the closing date of the follow-on merger.

13. UNS Energy, the Regulated Utilities and FortisUS agree that the goodwill and transaction costs of this acquisition will be excluded from the rate base, expenses, and capitalization in the determination of rates and earned returns of the Regulated Utilities and for Arizona state regulatory accounting and reporting purposes.
14. To the extent permissible under U.S. Generally Accepted Accounting Principles (“U.S. GAAP”), no goodwill or transaction costs associated with this acquisition will be reflected on the books of the Regulated Utilities. Should U.S. GAAP, including any future accounting changes, require that the goodwill associated with the acquisition be “pushed down” and therefore reflected in the accounts of the Regulated Utilities, the goodwill will not be reflected in the regulated accounts of the Regulated Utilities for purposes of determining rate base, setting rates, establishing capital structure or other regulatory accounting and reporting purposes.
15. UNS Energy and the Regulated Utilities will prepare a final schedule of the external costs to achieve the merger following consummation of the transaction as a demonstration that there will be no recovery requested in the Regulated Utilities’ rates, or recognition in the determination of rate base of any legal or financial advisory fees, or other external costs associated with the FortisUS acquisition of UNS Energy, and indirectly, the Regulated Utilities.

B. Credit Quality and Capital Requirements

16. TEP will be precluded from paying dividends to UNS Energy in an amount that comprises more than 60 percent of TEP’s annual earnings, for a period of 5 years or until such time as TEP’s equity capitalization reaches 50 percent of total capital, excluding any goodwill required to be recorded on TEP’s books, in accordance with U.S. GAAP, whichever is earlier. Each of UNS Electric and UNS Gas will be precluded from paying dividends to UNS Energy or UniSource Energy Services in an amount that comprises more than 60 percent of their respective annual earnings, for a period of 5 years after closing or until such time as its respective equity capitalization reaches 50 percent of total capital, excluding any goodwill required to be recorded on their books, in accordance with U.S. GAAP, whichever is earlier. These restrictions are contingent upon receiving necessary consents of lenders in the UNS Energy credit facility. Notification of lender consent will be filed in Docket Control within five (5) days of being received. If lender consent is not achieved by July 1, 2014, the Regulated Utilities shall file an application with the Commission by August 1, 2014, to address this issue.
17. UNS Energy shall maintain a capital structure that is separate from that of Fortis.
18. UNS Energy and the Regulated Utilities shall not pledge or encumber any assets of the Regulated Utilities for the benefit of Fortis or Fortis’ other affiliates, nor shall the Regulated Utilities guarantee any indebtedness of Fortis or Fortis’ other affiliates.

19. There shall be no sale or transfer of ownership of UNS Energy or any of the Regulated Utilities, or a portion thereof, for 5 years after the closing unless modified by the Commission. Fortis acknowledges that Commission approval must be obtained in advance for any sale or transfer of ownership of UNS Energy or any of the Regulated Utilities. Any sale of assets of the Regulated Utilities shall be in accordance with A.R.S. Section 40-285.
20. UNS Energy, FortisUS and Fortis acknowledge the Regulated Utilities' need for capital to continue to deliver service to their customers. FortisUS commits to providing the equity capital, when required, to UNS Energy, to the extent necessary for the Regulated Utilities to continue to provide safe and reliable service to their customers pursuant to the Regulated Utilities' rights and obligations as public service corporations under Arizona law.
21. The Regulated Utilities will be registered with at least one of the following credit rating agencies: Fitch, Moody's or S&P. The Regulated Utilities will continue to maintain separate debt instruments as well as their own corporate and debt credit ratings with at least one of these nationally recognized rating agencies.
22. Fortis, FortisUS and UNS Energy will continue to support the objective of maintaining and supporting an investment grade credit rating for each of the Regulated Utilities.
23. The Regulated Utilities will not lend to, guarantee or financially support Fortis or any of its affiliates, or any subsidiary or other joint venture of UNS Energy or the Regulated Utilities except as authorized by the Commission. Furthermore, the Regulated Utilities will not engage in, provide financial support to or guarantee any non-regulated businesses, except as authorized by the Commission.
24. The Regulated Utilities shall maintain banking, committed credit facilities and cash management arrangements which are separate from UNS Energy, FortisUS, Fortis and other affiliates.
25. Neither FortisUS nor Fortis may, at closing of the approved acquisition of UNS Energy, and indirectly the Regulated Utilities, have any cross default provision that affects the Regulated Utilities in any manner. Neither Fortis nor FortisUS, nor any of their affiliates may enter into any cross default provision following the closing that affects the Regulated Utilities in any manner.

C. Quality of Service

26. Fortis and UNS Energy will ensure that sufficient Senior Management Personnel will reside or live in Arizona on a continuing basis to make decisions on behalf of UNS Energy pertaining to the Regulated Utilities' customer service issues.

27. The current level of employees of the Regulated Utilities will be maintained for a period of at least 4 years following closing under their respective current conditions of employment, subject to changes in the ordinary course of business.
28. The Regulated Utilities shall use best efforts to maintain or improve their quality of service based upon the following criteria until otherwise directed by the Commission: Tucson Electric Power and UNS Electric shall maintain a rolling 3-year average System Average Interruption Duration Index (“SAIDI”), System Average Interruption Frequency Index (“SAIFI”), and Customer Average Interruption Duration Index (“CAIDI”) at a maximum of the 3-year averages for each of those measures for the period 2011 through 2013 as reported to the Commission in Docket Nos. E-00000A-11-01113 and E-00000V-13-0070. UNS Gas shall use best efforts to maintain or improve a rolling 3-year average number of customer complaints with the Commission's Consumer Services group at a maximum of the 3-year average of number of complaints for the period 2011 through 2013.
29. The Regulated Utilities intend to continue their steady efforts to maintain and improve safe and reliable electric and gas services and will continue to comply with all of their commitments and obligations.
30. UNS Energy, Fortis and FortisUS acknowledge and agree to support the Regulated Utilities in maintaining a high level of customer service, providing safe, reliable service to the Regulated Utilities’ customers, and providing a safe workplace for employees. Consistent with this condition, the Regulated Utilities will continue to engage in workforce planning processes to address workforce needs, such as anticipated retirements, training and other relevant factors.

D. Customer Programs

31. In their next rate cases, TEP and UNS Electric will propose a pilot program for a “buy through” tariff available to Large Light and Power Service and Large Power Service customers, respectively.
32. TEP will not propose any material modifications to its existing Line Extension tariff in its next rate case and TEP will abide by the Line Extension tariff as approved by, or may be approved by, the Commission.
33. The Regulated Utilities will continue their energy efficiency programs as approved by, or may be approved by, the Commission.
34. The Regulated Utilities will continue their renewable energy programs as approved by, or may be approved by, the Commission.
35. UNS Energy, TEP, UNS Electric, UNS Gas and FortisUS commit to continue support for the Regulated Utilities’ low income assistance programs at or above current levels.

E. Corporate Governance

36. Ring Fencing - Appropriate ring fencing measures as described herein shall be implemented to protect each of the Regulated Utilities and its ratepayers from any financial distress that may be incurred by Fortis or its other affiliates. These shall include, but are not limited to, maintaining the existence of separate capital structures, the establishment of a 'golden share' to be held by one independent person residing in Arizona (the consent of whom would be required in order for UNS Energy to file for voluntary bankruptcy protection), the establishment of an independent Board of Directors for UNS Energy, dividend restrictions on the Regulated Utilities, and prohibitions on intercompany loans and guarantees burdening the Regulated Utilities.
37. Fortis shall have appointed the Board of Directors of UNS Energy which shall have oversight over UNS Energy and the Regulated Utilities no later than 1 year after the closing. A majority of the directors of UNS Energy shall have and shall have had permanent residence in Arizona for at least 3 years prior to appointment. A majority of directors of UNS Energy shall be independent.
38. Within 1 year following the close of the transaction, UNS Energy shall establish a 'golden share' to be held by one independent person who shall have and shall have had permanent residence in Arizona for at least three (3) years prior to appointment. The consent of the holder of the golden share would be required in order for UNS Energy or any of its Regulated Utilities to file for voluntary bankruptcy protection.
39. The requirements of the Regulated Utilities as determined to be necessary to meet their regulatory obligations to serve their customers shall be given first priority by the UNS Energy Board of Directors.
40. The corporate headquarters for UNS Energy shall remain in Tucson, Arizona.
41. The Regulated Utilities shall be governed, managed and operated as follows:
 - i. The board of directors of the Regulated Utilities will be responsible for management oversight generally, including the approval of annual capital and operating budgets; establishment of dividend policy; and determination of debt and equity requirements. The UNS Energy and Regulated Utilities' board of directors will have an audit committee, the majority of whom will also be independent. The responsibility of this committee will include the oversight of the ongoing financial integrity and effectiveness of internal controls of UNS Energy and the Regulated Utilities.
 - ii. The Regulated Utilities' local management will continue to make decisions regarding staffing levels and hiring practices; will continue to negotiate future collective bargaining agreements; will continue to be the direct contact and decision making authority in regulatory matters; and, will continue to represent the Regulated Utilities in all future regulatory matters.

iii. UNS Energy and its subsidiaries shall continue to support and, where appropriate, enhance (a) existing charitable and community corporate "giving programs," (b) educational, environmental, economic and philanthropic partnerships and (c) consumer partnerships. For a period of five (5) years from closing, UNS Energy and the Regulated Utilities shall make annual charitable contributions within the communities served by the Regulated Utilities not less than the level of charitable contributions made by UNS Energy and the Regulated Utilities for the fiscal year that ended December 31, 2012, and otherwise maintain a level of involvement in community activities in the State of Arizona not less than the level of community involvement and related activities carried on by UNS Energy and the Regulated Utilities for the fiscal year that ended December 31, 2012.

42. Upon closing, TEP, UNS Electric and UNS Gas will amend their respective organizational documents to provide protections to ensure legal separateness from UNS Energy and FortisUS.

F. Financial Transparency and Reporting Requirements

43. Annual reporting – The conditions ordered by the Commission herein shall be tracked and reported annually for a period of 5 years following the close of the transaction. UNS Energy will file a report in Docket Control by April 1 of each year, beginning April 1, 2016, reporting on the prior calendar year's status of the conditions. The report will, at a minimum, provide a description of the performance of each condition that has quantifiable results. If any condition is not being met, the report shall provide proposed corrective measures and target dates for completion of such measures.

44. Any significant adjustment to fringe benefits or significant adjustment to wages and benefits paid to contract workers of the Regulated Utilities shall be included as part of the Regulated Utilities' annual information filing referred to in paragraph 43 above.

45. Fortis and UNS Energy shall report to the Commission and RUCO within ten (10) business days any changes in the credit ratings of Fortis Inc., UNS Energy or the Regulated Utilities.

46. UNS Energy will maintain its own accounting books and records separate from Fortis'. All UNS Energy financial books and records will be maintained in Arizona. UNS Energy's financial books and records and state and federal utility regulatory filings and documents will continue to be available to the Commission, Staff and RUCO upon request, at UNS Energy's Arizona offices.

47. Fortis will provide the Commission, Staff and RUCO full access to all books of accounts, as well as all documents, data and records of their affiliates regarding any transactions the Commission, Staff or RUCO determines might have some effect, direct or indirect, on the Regulated Utilities' financial health, customer rates, or operations.

48. Fortis, UNS Energy, and their subsidiaries shall make their employees, officers, and agents available to testify before the Commission to provide information relevant to the matters within the jurisdiction of the Commission.
49. Fortis agrees to cooperate fully with the Commission's, Staff's or RUCO's audits of the accounting records of UNS Energy, the Regulated Utilities, and Fortis and its subsidiaries relevant to matters within the jurisdiction of the Commission.
50. UNS Energy and the Regulated Utilities will, for purposes of its financial accounting and financial reporting, continue to use the generally accepted accounting principles which include, but are not limited to determinations by the Financial Accounting Standards Board ("FASB"), or any successor entity, for U.S. publicly accountable enterprises (i.e., "U.S. GAAP" or simply "GAAP").
51. Commencing for the year in which the closing takes place, the Regulated Utilities will provide the Commission with the annual Affiliated Interest Report filing Fortis' financial statements, including balance sheets, income statements, and cash flow statements for Fortis, and FortisUS and its major regulated and unregulated energy company subsidiaries in the United States. U.S. business entities with annual revenues less than ten percent of total Fortis revenues may be aggregated, provided that each entity included is fully identified. Aggregated U.S. business entities shall be identified as either regulated or unregulated. To satisfy this filing requirement, Fortis' U.S. GAAP, Canadian dollar denominated, quarterly and annual Financial Reports, including Management Discussion and Analysis, which have been filed publicly with Canadian securities regulators, will be filed with the Commission by the Regulated Utilities.

G. Acknowledgement of Arizona Laws & Procedures

52. Fortis shall take notice of and agrees to fully comply with applicable Arizona and federal statutes and Commission rules including, without limitation, the affiliated interest rules as set forth in the Arizona Administrative Code.
53. Fortis affirmatively acknowledges the need to secure Commission approval when the Regulated Utilities incur debt, issue equity instruments, and sell assets as required by Arizona law.
54. UNS Energy will not share the Regulated Utilities' customer specific information with Fortis affiliates for purposes other than the management of UNS Energy and the Regulated Utilities and provision of electric and/or natural gas service to customers. Fortis shall secure confidentiality agreements from any affiliate with which it shares customer information. Fortis is on notice of a rule making docket in Docket No. RU-00000A-14-0014 regarding the sharing of customer information.
55. The Regulated Utilities agree to reasonably evaluate long term power purchase and tolling agreements when preparing future resource plans, including those required by Commission rule, and selecting supply side resources in a manner that is consistent

with applicable statutes and regulations so that the Commission can make a proper assessment between alternative resources, including comparison against company owned proposals.

56. Fortis acknowledges that the Commission has the jurisdiction to approve the costs to be recovered through retail rates including, but not limited to, all expenses (including income taxes), cost of equity, rate of return and capital structures for the Regulated Utilities.
57. UNS Energy and the Regulated Utilities will continue to abide by the conditions set forth in the Citizens Acquisition Order in Decision No. 66028 (July 3, 2003) (as modified or waived by subsequent Commission orders) until further order of the Commission. Fortis and FortisUS acknowledge these conditions and will abide by them as applicable.

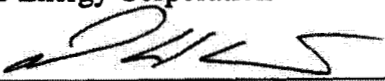
H. Miscellaneous

58. Fortis and UNS Energy shall file for Commission approval within 60 days after the closing its proposed procedures for valuing and allocating intercompany transactions related to the transfer of assets and to the provision of goods and services to and between affiliates. The Company's proposed procedures shall address, at a minimum, transfers of goods and services between the Regulated Utilities and other affiliates similar to provisions in TEP's existing Commission approved Code of Conduct and could involve making appropriate updates to the Code of Conduct.
59. Fortis, UNS Energy, the Regulated Utilities, and affiliates shall comply with all applicable Commission and Federal Energy Regulatory Commission ("FERC") requirements relating to affiliate transactions.
60. Fortis, UNS Energy, and the Regulated Utilities shall maintain up-to-date organizational charts that illustrate the vertical chain of command and, when applicable, horizontal reporting/coordination requirements in and among affiliates.
61. Fortis, UNS Energy, and the Regulated Utilities shall maintain up-to-date, job position descriptions which clearly delineate duties and responsibilities. The job descriptions will state whether the position can be expected to work for more than one entity (i.e., Fortis, UNS Energy or the Regulated Utilities). If the position is at the Fortis or UNS Energy level, the position description will state whether the duties relate to corporate governance functions and whether the duties and responsibilities of the position benefit more than one subsidiary.
62. The Regulated Utilities will each disclose at the time of any rate case filing each service function (i.e., accounting, treasury, human resources, information technology, risk management, etc.) that it does not fully staff, or which it relies in whole or in part upon Fortis and/or UNS Energy.
63. All employees of UNS Energy or the Regulated Utilities below the Vice President level,


who work for more than one department or responsibility area or who may be called on to work for more than one of UNS Energy or the Regulated Utilities, shall keep detailed time sheets on a "positive" time sheet. The time sheets should provide weekly time reports with daily entries for time worked. Time would be broken out between the various entities for whom work was performed, and area of activity where relevant. Further, Vice Presidents, Senior Vice Presidents, and the Presidents of the Regulated Utilities should provide "exception" time reports.

64. All time that UNS Energy and the Regulated Utilities' employees spend on mergers, acquisitions ("M&A") and new business development will be tracked for below-the-line recording and/or assignment to a newly acquired or newly developed business. However, if the new business development or M&A activity is primarily and substantially for the benefit of the Regulated Utilities, the Regulated Utilities are permitted to record the item above-the-line, subject to disallowance in a future rate case proceeding.
65. UNS Energy and/or the Regulated Utilities will provide the following documents to Staff upon request. Any documents provided to Staff will also be provided to RUCO upon request:
 - All royalty agreements, licensing agreements or other agreements entered into between Fortis and any of its affiliates, on the one hand, and UNS Energy or the Regulated Utilities, on the other hand, for the purpose of compensating for the use of any tangible assets, including trademarks, trade names, software systems, etc.
 - All operating and service agreements entered into between Fortis and any of its affiliates, on the one hand, and UNS Energy or the Regulated Utilities on the other hand.
 - All new, revised and/or updated strategic business plans for UNS Energy or the Regulated Utilities.
 - Description of any and all marketing/promotional campaigns between Fortis, UNS Energy and the Regulated Utilities.
 - Examples of all joint marketing work products (i.e., newspaper ads, magazine ads, TV and radio ad transcripts, etc.) shared between Fortis, UNS Energy and/or the Regulated Utilities.
 - Narrative description of all joint or common services shared between Fortis, UNS Energy and/or the Regulated Utilities.
 - All logos, trademarks and trade names registered by Fortis, UNS Energy and/or the Regulated Utilities.
 - Narrative description of all products and services offered by UNS Energy and/or the Regulated Utilities.
 - Listing of the Board of Directors and executive officers of UNS Energy and the Regulated Utilities.
66. Except as otherwise provided herein, nothing shall preclude the Joint Applicants from seeking relief from the Commission from any of the conditions after five years from the date of the order in this Docket.


UNS Energy Corporation

By 
Title President + CEO
Date 5/16/14

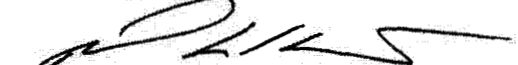
Tucson Electric Power Company

By 
Title President + CEO
Date 5/16/14

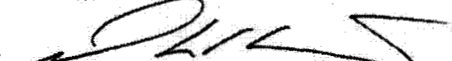
UniSource Energy Services, Inc.

By 
Title President + CEO
Date 5/16/14

UNS Electric, Inc.

By 
Title President + CEO
Date 5/16/14

UNS Gas, Inc.

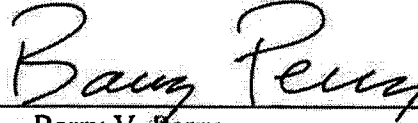
By 
Title President + CEO
Date 5/16/14

Fortis Inc.



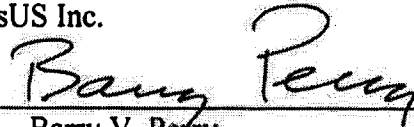
By: Barry V. Perry
Vice President, Finance & CFO
May 16, 2014

FortisUS Holdings Nova Scotia Limited



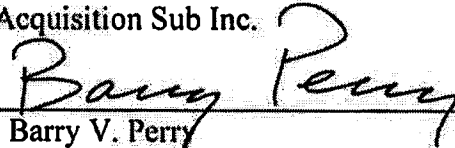
By: Barry V. Perry
Vice President, Finance & CFO
May 16, 2014

FortisUS Inc.



By: Barry V. Perry
Vice President, Finance & CFO
May 16, 2014

Color Acquisition Sub Inc.



By: Barry V. Perry
Vice President, Finance & CFO
May 16, 2014

Signatory to May 16, 2014, UNS Energy Corporation/Fortis Settlement Agreement
Docket No. E-04230A-14-0011

Commission Utilities Division Staff

By 

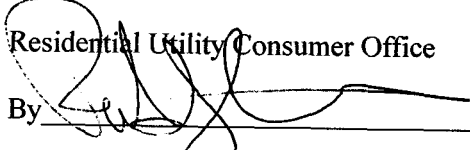
Title

Utilities Division Director

Date

5-16-14

Signatory to May 16, 2014, UNS Energy Corporation/Fortis Settlement Agreement
Docket No. E-04230A-14-0011

Residential Utility Consumer Office
By 
Title DIRECTOR RUCO
Date 5/16/2014

Signatory to May 16, 2014, UNS Energy Corporation/Fortis Settlement Agreement
Docket No. E-04230A-14-0011

By 

C. Webb Crockett
Patrick J. Black
Fennemore Craig, P.C.
Attorneys for Freeport-McMoRan Copper & Gold
Inc.

Date May 16, 2014

Signatory to May 16, 2014, UNS Energy Corporation/Fortis Settlement Agreement
Docket No. E-04230A-14-0011

By 

C. Webb Crockett
Patrick J. Black
Fennemore Craig, P.C.
Attorneys for Arizonans for Electric Choice
and Competition

Date May 16, 2014

Signatory to May 16, 2014, UNS Energy Corporation/Fortis Settlement Agreement
Docket No. E-04230A-14-0011

IBEW, Local Unions 387, 769 and 1116

By  _____

Title Attorney for IBEW Locals 387, 769
1116

Date May 16, 2014

Signatory to May 16, 2014, UNS Energy Corporation/Fortis Settlement Agreement
Docket Nos. E-04230A-14-0011 and E-01933A-14-0011

Southern Arizona Homebuilders Association

By  _____

Title David Godlewski _____

Date President _____

Date 5/15/14 _____

Signatory to May 16, 2014, UNS Energy Corporation/Fortis Settlement Agreement
Docket No. E-04230A-14-0011

Arizona Community Action Association

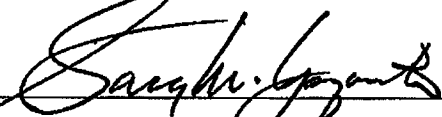
By 

Title Executive Director

Date May 16, 2014

Signatory to May 16, 2014, UNS Energy Corporation/Fortis Settlement Agreement
Docket No. E-04230A-14-0011

Arizona Investment Council

By 

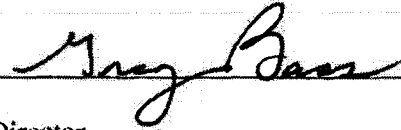
Printed Name Cary M. Yaguito

Title President & CEO

Date 5/15/2014

Signatory to May 16, 2014, UNS Energy Corporation/Fortis Settlement Agreement
Docket Nos. E-04230A-14-0011 and E-01933A-14-0011

Noble Americas Energy Solutions LLC

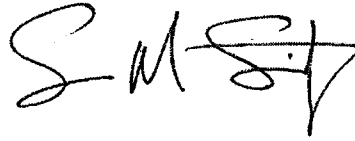
By 

Title Director

Date May 15th, 2014

Signatory to May 16, 2014, UNS Energy Corporation/Fortis Settlement Agreement
Docket No. E-04230A-14-0011

Arizona Solar Development Alliance

A handwritten signature in black ink, appearing to read "S. M. Smith". The signature is stylized and written in a cursive-like font.

By _____

Title PRESIDENT

Date 15-May-2014