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**BEFORE THE ARIZONA CORPORATION COMMISSION**

COMMISSIONERS

BOB STUMP, Chairman  
GARY PIERCE  
BRENDA BURNS  
BOB BURNS  
SUSAN BITTER SMITH

ORIGINAL

Arizona Corporation Commission

DOCKETED

JUN 02 2014

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IN THE MATTER OF THE REORGANIZATION  
OF UNS ENERGY CORPORATION.

Docket Nos. E-04230A-14-0011  
E-01933A-14-0011

**NOTICE OF FILING  
SETTLEMENT AGREEMENT  
TESTIMONY OF AIC**

Pursuant to the requirements of the Procedural Orders dated January 28, 2014 and April 18, 2014 in this matter, attached is the Settlement Agreement Testimony of Gary Yaquinto on behalf of the Arizona Investment Council. Your assistance is appreciated.

RESPECTFULLY SUBMITTED this 2<sup>nd</sup> day of June, 2014.

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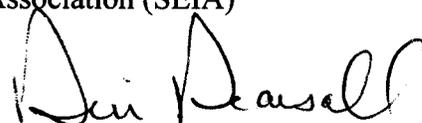
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**BOB STUMP, Chairman  
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**IN THE MATTER OF THE REORGANIZATION  
OF UNS ENERGY CORPORATION.**

**Docket Nos. E-04230A-14-0011  
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**GALLAGHER & KENNEDY, P.A.  
2575 E. CAMELBACK ROAD  
PHOENIX, ARIZONA 85016-9225  
(602) 530-8000**

**Settlement Agreement Testimony**

**of Gary Yaquinto**

**on Behalf of**

**Arizona Investment Council**

**June 2, 2014**

GALLAGHER & KENNEDY, P.A.  
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**TABLE OF CONTENTS**

**Page**

I. INTRODUCTION..... 1  
II. TESTIMONY PURPOSE..... 2  
III. THE SETTLEMENT AGREEMENT ..... 2

1 **I. INTRODUCTION**

2 **Q. Please state your name, position and business address.**

3 A. Gary M. Yaquinto. I am the President and CEO of the Arizona Investment Council  
4 (“AIC”). Our offices are located at 2100 North Central Avenue, Phoenix, Arizona  
5 85004.

6  
7 **Q. Please restate for the Commission the Arizona Investment Council’s interest in this  
8 docket.**

9 A. UNS Energy and its Regulated Utilities must be positioned to attract capital on  
10 reasonable terms so that it can provide safe, reliable and adequate utility service to  
11 customers while also maintaining financial integrity. As the company indicated in its  
12 Direct Testimony filed with the Commission on January 10, 2014, UNS Energy  
13 anticipates needing \$2 billion for new capital investments over the next five years. Its  
14 acquisition by Fortis, Canada’s largest investor-owned utility, with its strong financial  
15 metrics combined with Fortis’ commitment to infuse \$220 million of equity capital into  
16 UNS Energy as agreed to in the Settlement Agreement provides UNS Energy and the  
17 Regulated Utilities with an improved financial base upon which to make these  
18 investments.

19  
20 **Q. Have you previously filed testimony in this docket?**

21 A. Yes. My Direct Testimony was filed on April 30, 2014.  
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**II. TESTIMONY PURPOSE**

**Q. What is the purpose of your testimony today?**

The purpose of my testimony today is to support the Settlement Agreement reached among the parties.

**Q. Is AIC a signatory to the Settlement Agreement dated May 16, 2014 (the “Settlement Agreement”)?**

A. Yes. We participated with the other signatories in the discussions and negotiations which led to the execution of the Settlement Agreement.

**III. THE SETTLEMENT AGREEMENT**

**Q. Mr. Yaquinto, from AIC’s perspective, please outline the Settlement Agreement’s most positive aspects.**

A. First, the Settlement Agreement commits Fortis’ infusion of \$220 million of equity capital through UNS Energy into the Regulated Utilities. That new capital will comprise a major part, for example, of the financing needed to complete the purchase of the Gila River Power Plant Unit 3 by TEP and UNS Electric. However, if the merger transaction closes after September 30, 2014, the equity infusion may be made into UNS Energy for the purpose of retiring of debt which, of course, strengthens its balance sheet. This equity infusion is \$20 million more than originally proposed by Fortis. It will further improve the financial and credit metrics of UNS Energy and its Regulated Utilities.

1 Second, as I indicated in my Direct Testimony, two of three major credit rating agencies  
2 issued positive outlooks following the announcement of the transaction. The analysts  
3 referenced improved access to capital by UNS and its Regulated Utilities resulting from  
4 the merger. The Settlement Agreement will further strengthen this positive assessment.

5  
6 Third, the Settlement Agreement reinforces Fortis' commitment to continued local  
7 management, control and security of operations of the UNS Regulated Utilities.  
8 Experienced management familiar and in-tune with managing utilities within Arizona's  
9 regulatory and community environments benefits investor and customer interests alike.  
10 Relevant conditions are set forth in Section E, "Corporate Governance" and include,  
11 among others:

- 12 - Establishing a "golden share" to be held by an individual residing in Arizona  
13 whose consent is needed for UNS Energy to file for voluntary bankruptcy  
14 protection (Condition 38);
- 15 - A majority of directors appointed to the UNS Board must be permanent residents  
16 in Arizona for at least 3 years prior to appointment and be independent  
17 (Condition 37);
- 18 - The UNS Energy corporate headquarters will remain in Tucson (Condition 40);
- 19 - The Regulated Utilities' Board will be responsible for management and oversight  
20 generally, including approval of annual capital and operating budgets  
21 (Condition 41.i);

- 1           - Local management will continue to make decisions regarding staffing levels,  
2           negotiate collective bargaining agreements and represent the Regulated Utilities  
3           in future regulatory matters (Condition 41.ii); and  
4           - UNS Energy and its subsidiaries will continue their support of charitable and  
5           community-related programs (Condition 41.iii).

6  
7           These provisions are very consistent with Fortis’ overall approach of utility ownership –  
8           allowing its local utility subsidiaries to manage operations without interference from the  
9           holding company. This is the same model currently in place and operating well for  
10          Fortis’ utility holdings in Canada, New York and the Caribbean islands.

11  
12          Finally, the Settlement Agreement provides appropriate ring-fencing mechanisms to  
13          protect the Regulated Utilities and their customers from financial problems that might  
14          arise elsewhere in Fortis holdings. These mechanisms are specified in Section B, “Credit  
15          Quality and Capital Requirements” and include:

- 16           - Restrictions on up-streaming dividends from the Regulated Utilities  
17           (Condition 16);  
18           - UNS Energy to maintain a capital structure separate from Fortis (Condition 17);  
19           - UNS Energy and its Regulated Utilities will not pledge or encumber assets for the  
20           benefit of Fortis or its other affiliates and won’t guarantee any indebtedness of  
21           Fortis (Condition 18);  
22  
23

- 1           - The Regulated Utilities will maintain banking committed credit facilities and cash  
2           management arrangements that are separate from UNS Energy, FortisUS, Fortis  
3           and other affiliates (Condition 24); and  
4           - There is also a prohibition of any cross default provisions that affect the  
5           Regulated Utilities (Condition 25).

6  
7 **Q. Mr. Yaquinto, do you have any other comments on the Settlement Agreement's**  
8 **provisions?**

9 A. Yes. Condition 31 requires TEP and UNS Electric to propose a pilot program for a “buy  
10 through” tariff available to Large Light and Power Service and Large Power Service  
11 customers. While AIC supports the Settlement Agreement, including this requirement  
12 that such a tariff be proposed as a pilot program by TEP and UNS electric in their next  
13 rate case filings, we will take a close look at the details of this pilot proposal and state  
14 any concerns should it appear investors could be adversely affected.

15  
16 **Q. Do you have any additional comments to make?**

17 A. Yes. With few exceptions, credit and equity analysts have recognized and commented on  
18 the improved regulatory climate at the ACC. This is due, in part, to shorter case  
19 processing times for major cases and the Commission’s willingness to consider  
20 Settlement Agreements reached among parties. The Commission’s actions to reduce  
21 regulatory lag and improve certainty in processing cases has contributed greatly to  
22 improved debt and equity ratings of many of Arizona’s utilities. That, of course, has the  
23 very positive impacts for utility customers as well.

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These efforts in this matter, including the relatively rapid pace outlined for reaching a decision in this case, have continued this very positive course.

**Q. Do you have a recommendation for the Commission?**

A. Yes. I recommend the Commission approve the proposed Settlement Agreement.

**Q. Does this conclude your testimony?**

A. Yes, it does.