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NEW APPLICATION

BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission DOCKETED APR 6 2015

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TOM FORESE

IN THE MATTER OF THE APPLICATION OF TUCSON ELECTRIC POWER COMPANY FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

APPLICATION FOR FINANCING ORDER

ORIGINAL

E-01933A-15-0114

Tucson Electric Power Company ("TEP" or "Company"), through undersigned counsel, and pursuant to A.R.S. Sections 40-285, 40-301 and 40-302, hereby submits its Application for Financing Order ("Application") requesting that the Arizona Corporation Commission ("Commission") authorize TEP to enter into various financing transactions described more fully herein. TEP is seeking to increase and extend its financing authority at this time because the Company expects to exhaust most of its existing long-term debt issuance capacity in 2015.

The most significant aspects of the financing authority sought in this Application would allow TEP to: (1) extend most of the Company's existing financing authority granted in Commission Decision No. 73658 (February 6, 2013) by four years to December 31, 2020; (2) increase the cap on its long-term indebtedness from $1.7 billion to $2.2 billion; and (3) increase the cap on its variable-rate long-term indebtedness from $350 million to $450 million. In addition, due to ongoing improvements in TEP's financial condition, the Company is proposing that its equity to total capitalization ratio be at least 40% in order to issue new debt (except for refinancings and revolving credit facility borrowings.) TEP's current financing authority requires minimum equity ratios of 32% in 2014, 34% in 2015 and 39% in 2016. TEP requests that the financing authority granted in this docket extend through December 31, 2020.

As described more fully herein, TEP believes that all requested authorizations are necessary and in the public interest. TEP requests that the Commission approve its Application, without a hearing, by December 31, 2015.

I. BACKGROUND.

TEP is an Arizona public service corporation with its principal office and place of business in Tucson, Arizona. TEP owns and operates facilities for the generation, purchase, transmission, distribution, and sale of electricity in Tucson, the surrounding Pima County area, and to Fort Huachuca in Cochise County, Arizona. In addition, TEP owns interests in property in New Mexico in connection with the generation and transmission of electric power.

As of December 31, 2014, TEP had $1.37 billion of long-term debt outstanding. Following TEP's purchase of $130 million of long-term debt in January 2015, and the issuance of $300 million in new long-term notes in February 2015, the Company's balance of long-term debt has increased to $1.54 billion as of the date of this Application. Given the existing long-term debt cap of $1.7 billion, this leaves TEP with only $160 million of additional long-term debt capacity. As a public utility with over $3 billion in net plant investment, a continuing service obligation to over 415,000 retail customers, and projected capital expenditures of $1.5 billion over the next five years, TEP believes that a greater amount of debt issuance capacity is needed to maintain adequate financing flexibility in the years ahead.

II. TEP'S FINANCIAL CONDITION.

TEP's financial condition has improved significantly since the filing of its last financing application in May 2012. Since that time the Company's unsecured credit ratings have increased from Baa3 to A3 from Moody's Investors Service and from BBB- to BBB+ from Standard & Poor's Ratings Service. By moving two to three notches above the lowest investment grade credit rating (Baa3/BBB-), TEP is now able to achieve better terms on new debt financings. This ratings improvement also allows TEP better access to capital during adverse market conditions, as weaker rated companies tend to have greater difficulty raising capital during "flight to quality" events in the capital markets.

TEP has increased its equity-to-capital ratio gradually over time as a result of retained earnings and capital contributions from its parent company, UNS Energy. Following the merger of UNS Energy and Fortis Inc. ("Fortis") in August 2014, TEP received $225 million in equity contributions from Fortis (via UNS Energy). These contributions support management's goal of gradually increasing the Company's equity ratio over time.

III. REQUESTED FINANCING AUTHORITY.

TEP is requesting to extend most of its existing financing authority for four years and to increase the caps currently in effect for long-term indebtedness and variable-rate long-term debt. Specifically, TEP is seeking the following authorizations described below.

A. **Long-Term Debt.** TEP is requesting authority to issue long-term indebtedness (and indebtedness to refinance existing long-term indebtedness), so long as after giving effect to the issuance of such indebtedness and the application of the proceeds thereof, the amount of outstanding long-term indebtedness (including current maturities thereof) of TEP shall not exceed $2.2 billion (which limit does not include capital lease obligations or indebtedness arising under TEP's credit facilities described in paragraph D below);

B. **Variable Rate Debt.** Issue additional variable-rate long-term indebtedness subject to the $2.2 billion cap above, so long as the total amount of variable-rate long-term debt does not exceed $450 million;

C. **Equity Contributions.** Receive up to $400 million of equity contributions from its parent company, UNS Energy;

D. **Credit Agreements.** Enter into one or more credit or reimbursement agreements, and to enter into agreements to refinance any such credit or reimbursement agreements, which may consist of one or more revolving credit facilities, so long as after giving effect to the entry of such a facility, TEP's revolving credit facilities do not exceed $300 million in the aggregate, and to enter into one or more letter of credit facilities supporting variable-rate notes and bonds which have been or in the future will be issued pursuant to lawful authority.

The Company also requests authority to enter into dedicated stand-by credit facilities that would support variable-rate notes and bonds which have been or in the future will be issued pursuant to lawful authority;

E. **Short-term Debt.** Continue to have the ability to secure short-term debt issued pursuant to A.R.S 40-302.D with new mortgage bonds or a lien on property owned by TEP;

F. **Hedging Activities.** Continue to have the ability to (i) enter into fixed-for-floating interest rate hedging agreements for the purpose of reducing interest rate risk on the Company's variable-rate debt obligations; and (ii) enter into forward-starting interest rate swap agreements or U.S. Treasury rate lock agreements for the purpose of hedging changes in interest rates up to 18 months in advance of planned issuances of fixed-rate long-term debt having a final maturity of five years or longer;

G. **Length of Authority.** Enter into any of the above transactions on or before December 31, 2020; and

H. **Other.** Permit any credit or reimbursement agreement, or any agreement to refinance any such credit or reimbursement agreement, entered into under lawful authority on or before December 31, 2020, to have a term of up to five years, and to permit borrowings thereunder through its final maturity date.

TEP also agrees to make compliance filings with the Commission in which TEP would provide copies of the relevant agreements and provide a description of the business rationale for such financing or refinancing, including a demonstration that the rates and terms received by TEP were fair and reasonable under prevailing market conditions, within 90 days of the completion of any financing transaction made pursuant to the requested Commission Order.

TEP has set forth proposed ordering paragraphs in **Exhibit A.**[1] TEP requests that the Commission approve its Application by December 31, 2015.

IV. LONG-TERM DEBT.

In Decision No. 73658, the Commission authorized TEP to issue long-term debt, provided that after issuance of such indebtedness, the aggregate principal amount of long-term indebtedness (including current maturities thereof) shall not exceed $1.7 billion (excluding existing capital lease obligations and indebtedness arising under credit and reimbursement agreements). As of the date of this Application, TEP has total outstanding long-term debt (excluding capital lease obligations and indebtedness arising under credit and reimbursement agreements) in an aggregate principal amount of $1.54 billion.

[1] **Exhibit A** provides a comparison of the requested ordering paragraphs with the ordering paragraphs set forth in TEP's last financing order, Decision No. 73658.

Attached to the Application as **Exhibit B** is a schedule showing the individual series of debt which comprise this total and the maturity dates for each series.

TEP anticipates making total capital expenditures of approximately $1.5 billion over the five-year period from 2015 through 2019. This estimate is conservative since it does not include any additional capital spending that could result from the adoption of greenhouse gas rules proposed in 2014 by the Environmental Protection Agency, or any revisions to those rules which may ultimately be adopted. Additionally, the anticipated level of capital spending is based on relatively modest assumptions for customer and sales growth in TEP's service territory. Should economic growth increase significantly relative to the current forecast, TEP's capital spending would have to increase as well.

Although TEP plans to fund most of its forecasted capital expenditures from operating cash flows, additional long-term debt may be required if future operating cash flows are lower than forecasted or if capital spending increases as a result of new environmental regulations, unanticipated growth in customer demands, or other factors not presently assumed in the Company's forecast. It is largely because of these forecast uncertainties, as well as TEP's obligation to provide reliable electric service within its service territory, that additional long-term debt authority is needed. Additionally, in order to maintain a balanced capital structure, and to make further progress toward reaching management's goal of a 50% equity-to-capital ratio, TEP needs renewed authority to accept additional contributions of equity capital from UNS Energy and its ultimate parent company, Fortis. The Commission acknowledged, in its decision approving the merger between UNS Energy and Fortis (Decision No. 74689, August 12, 2014), the importance of growing TEP's equity ratio over time. One condition of the merger precludes TEP from paying dividends to UNS Energy in an amount more than 60 percent of annual earnings for a period of five years, or until such time that TEP's equity ratio reaches 50 percent.

As shown in **Exhibit B**, TEP has various types of long-term debt currently outstanding. As a local furnishing utility, whose retail service area is confined to a contiguous two-county area, TEP has been able to finance a substantial portion of its utility plant assets with tax-exempt revenue bonds issued by government entities on TEP's behalf. The Company has also been able to finance certain pollution control facilities at its generating plants through similar tax-exempt revenue bonds issued by governmental entities. Depending on market conditions, tax-exempt bond financing can result in significant interest savings relative to the taxable corporate bond market. As a result, the Company requests a continuation of its authority to incur additional tax-exempt indebtedness either for the purpose of financing new utility plant or for the purpose of refinancing existing tax-exempt debt obligations.

TEP also has a large amount of taxable long-term debt outstanding. Since only a portion of TEP's capital spending may be eligible for tax-exempt financing, and new tax-exempt financing has become more costly due to changes in tax laws, continued access to the taxable corporate bond market and the bank loan term market is essential to the Company's financing needs. TEP is therefore requesting a continuation of its authority to issue new taxable long-term debt with proceeds to be used for financing new utility plant, refinancing existing long-term debt obligations, or repaying short-term debt and revolving credit loans.

TEP has a mix of fixed-rate and variable-rate debt in its long-term debt portfolio. As set forth in **Exhibit B**, $215 million of TEP's long-term debt was in a variable-rate mode as of December 31, 2014. Pursuant to Decision No. 73658, TEP is currently authorized to have up to $350 million of variable-rate long-term debt outstanding. Since access to the variable-rate debt market provides TEP with additional financing flexibility, and frequently results in savings relative to fixed-rate debt obligations, TEP seeks a continuation of its authority to issue variable-rate long-term debt for purposes of financing new utility plant, refinancing existing long-term debt obligations, or repaying short-term debt and revolving credit loans. The Company also seeks an increase in the cap on variable-rate debt in roughly the same proportion as the cap on total long-term indebtedness. Therefore, TEP requests that the cap on variable-rate debt be increased from the current authorized level of $350 million to a new level of $450 million. TEP further requests that, as specified in Decision No. 73658, any variable-rate long-term debt obligations that are hedged with fixed-for-floating interest rate swaps continue to be excluded from this cap.

In 2013, TEP retired the last of its mortgage bonds and terminated its 1992 mortgage indenture. Although all of TEP's long-term debt and credit facilities are now unsecured, and the Company has no plans of issuing new secured debt obligations, the Company requests that it have the flexibility to secure new issuances of long-term debt, and to potentially provide security to existing unsecured bondholders and credit facility lenders, if warranted by market conditions. This security could either take the form of new mortgage bonds or liens on property owned by TEP.

In TEP's last financing order, Decision No. 73658, the Commission conditioned the issuance of new long-term debt (other than for refinancing transactions or credit facility loans) on the ability of TEP to meet certain financial ratio tests. Specifically, in order to enter into such transactions, the Decision required TEP to maintain an equity-to-capital ratio of at least 34% in 2015 and 39% in 2016, and to maintain a cash coverage ratio ("CCR") of at least 1.75. The ordering language also included a reference to a possible requirement by the Commission to meet a 40% equity ratio in future financing approvals. Consistent with that language, TEP is proposing that a minimum 40% equity ratio and a minimum CCR of 1.75 be required for new issuances of long term debt (other than for refinancing transactions or revolving credit facility borrowings). For purposes of this Order, total capitalization shall continue to be defined as the sum of common stock equity, long-term debt (including current maturities thereof), and capital lease obligations (including current obligations under capital leases), less TEP's investments in capital lease debt. The equity ratio and CCR shall be calculated as described in **Exhibit A** to this Application.

V. CREDIT AND REIMBURSEMENT AGREEMENTS.

The Company requests that the existing authority granted in Decision No. 73658 to enter into credit and reimbursement agreements be extended by four years to December 31, 2020. Additionally, TEP requests the ability to enter into dedicated standby credit facilities as a potential alternative to providing letter of credit support for variable-rate notes and bonds.

Credit and Reimbursement Agreements

In Decision No. 73658, the Commission authorized TEP to enter into one or more credit or reimbursement agreements, and enter into agreements to refinance any such credit or reimbursement agreements, which may consist of one or more revolving credit facilities, so long as TEP's revolving credit facilities do not exceed $300 million in the aggregate. TEP also was authorized to enter into one or more letter of credit facilities which provide credit support for tax-exempt bonds which have been, or in the future will be, issued pursuant to lawful authority. As of December 31, 2014, TEP had two separate credit agreements and a reimbursement agreement providing a total of $270 million of revolving credit to TEP and a total of $119 million in letters of credit supporting tax-exempt bonds. A total of $85 million in revolving credit loans were outstanding as of December 31, 2014.

TEP's core credit facility, which provides the Company with $200 million of revolving credit and $81 million in letters of credit supporting tax-exempt bonds, expires in November 2016. TEP's supplemental credit facility, entered into in December 2014, provided the Company with $70 million of revolving credit and $130 million of term loan credit. The purpose of the supplemental credit facility was to provide short-term financing for the purchase of (i) a 75% ownership interest in Gila River Unit 3 in December 2014 and (ii) $130 million of tax-exempt bonds in January 2015. The term loan portion of the supplemental credit facility was repaid and terminated in March 2015, while the $70 million revolving credit portion remains available to TEP until it expires in November 2015. TEP relied on its authority under Decision No. 73658 in arranging the

$70 million revolving credit line, and relied on the short-term debt authority granted in A.R.S 40-302.D in arranging the $130 million term loan credit. A separate reimbursement agreement entered into in 2010 and amended in 2014 also provides TEP with a $37 million letter of credit supporting tax-exempt bonds and expires in 2019.

Although all of TEP's credit facilities are now unsecured, and the Company has no plans of arranging new secured facilities, the Company requests that it continue to have the flexibility to secure new credit facilities, and to provide security to existing credit facility lenders, if warranted by market conditions.

Amounts borrowed under revolving credit agreements are typically not required to be repaid until the date that the facility expires. For credit agreements with a term of more than one year, this results in such borrowings being a form of long-term debt. Under Generally Accepted Accounting Principles ("GAAP"), however, borrowings for short-term liquidity needs are typically treated as short-term debt rather than long-term debt since the borrower usually prepays such debt within 12 months rather than upon the expiration of the facility. For purposes of analyzing TEP's request, amounts borrowed under revolving credit agreements may be considered as short-term debt, notwithstanding the fact that such amounts may usually be due more than 12 months after they are borrowed. Even though borrowings under revolving credit facilities with a term more than one year are a form of long-term debt, for purposes of this application and the authorization requested herein, and consistent with prior Commission orders, the requested authorization is treated separately from TEP's authorization to issue other forms of long-term debt and from the authority to issue short-term debt pursuant to A.R.S. 40-302.D.

<u>Stand-by Credit Facility</u>

Of TEP's currently outstanding variable-rate bonds, $115 million principal amount of bonds have provisions that permit investors to tender their bonds for purchase and require that supporting letters of credit be in place to provide immediate liquidity to purchase such bonds. These provisions provide investors with additional assurance that they will be repaid in the event the tendered bonds cannot be remarketed to new investors. The remaining $100 million of variable rate bonds at TEP are subject to purchase and remarketing at the end of the initial five year period and do not require letter or credit support. As a result of TEP credit rating improvements, it may be possible for the Company to market variable-rate notes and bonds to a wider group of investors without the support of a direct pay letter of credit. Instead, the Company could enter into a dedicated stand-by credit facility that TEP would draw against to purchase variable rate bonds in the event the bonds cannot be remarketed. With a stand-by facility, the bond investor is paid by TEP for the bonds that cannot be remarketed whereas with a letter of credit structure the bank directly pays the investor. Using a stand-by credit facility instead of letters of credit could reduce overall financing costs related to the issuance variable rate bonds. The Company is requesting authority to enter into a stand-by facility for the purpose of supporting variable rate bonds; and if authorized, the Company requests the stand-by facility be treated in the same manner as letter of credit facilities and not count toward the $300 million cap on revolving credit facilities.

VI. CONTRIBUTIONS OF EQUITY CAPITAL.

The Company's last financing order, Decision No. 73658, authorized TEP to receive additional equity contributions from its parent company, UNS Energy, of up to $400 million. In 2014, TEP received a total of $225 million in equity contributions from UNS Energy, of which $50 million was contributed pursuant to Decision No. 73658 and $175 million was contributed pursuant to the order authorizing the merger of UNS Energy with Fortis (Decision No. 74689).

TEP is requesting authorization to receive additional equity contributions of up to $400 million for the term of the new financing order, or through December 31, 2020. Such authorization would (i) provide TEP with the ability to maintain a balanced capital structure, (ii) support management's ongoing goal to grow TEP's equity ratio over time and (iii) meet the equity ratio condition set forth in Decision No. 74689.

VII. SHORT-TERM DEBT ISSUED PURSUANT TO A.R.S. 40-302.D.

A.R.S. Section 40-302.D allows TEP to issue short-term debt in an amount not to exceed 7% of its capitalization without Commission approval. In TEP's current financing order, the Commission acknowledged this short term debt authority and authorized TEP to pledge assets by issuing mortgage bonds in support of its statutory short term debt authority. See Decision No. 73658 at 11, 22 and 29.

As of December 31, 2014, TEP had no such debt outstanding, but the Company did have a supplemental credit facility under which $130 million of term loan credit was available to TEP. On January 12, 2015 TEP drew $130 million on this credit facility in order to purchase $130 million principal amount of 5.75% tax-exempt bonds at par. This loan was entered into pursuant to the short-term borrowing authority granted by A.R.S. Section 40-302.D. This short-term loan was repaid in March 2015, and fell within the limit prescribed by statute (7% of TEP's capitalization.)

Consistent with TEP's request to retain its ability to secure long-term debt and its credit facilities, if warranted by market conditions, and consistent with the authority granted in TEP's last financing order, the Company requests a continuation of its authority to provide security for short-term debt issued pursuant to A.R.S. Section 40-302.D, similar to what was authorized in Decision No. 73658. Although TEP has no intent to issue secured short-term debt, it believes it is prudent to retain this ability should adverse debt market conditions arise. The form of security provided would either be new mortgage bonds or liens on property owned by TEP.

VIII. REQUEST FOR EXTENSTION OF TIME PERIOD.

TEP requests that its financing authority be extended by four years, from the current expiration date of December 31, 2016 to December 31, 2020. TEP also requests that the Commission continue to permit any credit or reimbursement agreement or any refinancing of such agreement entered into on or before the expiration date of TEP's financing authority to have a maturity date up to five years from the date such agreement was entered into or refinanced. In no case would the maturity date of such agreement extend beyond December 31, 2025.

IX. USE OF PROCEEDS.

TEP may use the proceeds from the issuance of new long-term debt for the following purposes: (i) refinance long-term indebtedness; (ii) finance a portion of TEP's capital expenditures; and (iii) pay-off short-term debt and borrowings under TEP's revolving credit facilities. TEP intends to use its revolving credit facility for the following purposes: (i) as a source of liquidity for working capital purposes; (ii) to issue letters of credit to provide credit enhancement to counterparties for TEP's energy procurement and hedging activities; and (iii) for other lawful purposes.

Letter of credit facilities supporting variable-rate bonds do not result in proceeds to TEP. Such facilities are for the purpose of providing credit support for the bonds in order to obtain a more favorable interest rate. Likewise, dedicated standby credit facilities supporting variable-rate notes or bonds would not result in any net cash proceeds to TEP. Instead, such facilities would provide a source of cash that could only be used to purchase variable-rate notes or bonds should they fail to be remarketed to investors on reasonable terms.

X. INTEREST RATE HEDGE AGREEMENTS.

In TEP's last financing order, Decision No. 73658, the Company was authorized to use two different types of interest rate hedging agreements in order to manage interest rate risk. Although the Company does not believe that such hedging agreements represent an issuance of securities requiring Commission approval, the Company is requesting a four year extension of the authority granted in that order.

One form of interest rate hedging authorized by the Commission in Decision No. 73658 is the use of fixed-for-floating interest rate swaps. These agreements, under which the Company pays a fixed rate of interest in return for a floating rate, have the economic effect of converting variable-rate debt into fixed-rate debt in an amount equal to the notional amount of the swap. TEP has used such agreements in the past to help reduce the Company's exposure to variable interest rate risk.

The other form of interest rate hedging approved by the Commission in Decision No. 73658 involves the use of either forward starting interest swaps or U.S. Treasury rate-lock agreements to hedge a portion of the interest rate risk on planned issuances of fixed-rate long-term debt. These agreements allow the Company to lock-in a portion of the fixed rate ahead of the planned issuance date, thereby reducing TEP's exposure to potential increases in long-term rates before the issuance is completed. Specifically, TEP requests an extension of Commission authority to enter into interest rate hedges for issuances of fixed-rate long-term debt having a final maturity of five years or longer, up to 18 months in advance of the planned issuance date of the long-term debt, using one or more forward-starting swap agreements, U.S. Treasury rate-lock agreements, or other similar derivative interest rate contracts. Although TEP has not previously entered into these types of hedging transactions, the Company believes they are a potentially valuable tool for managing interest rate risk on planned fixed-rate issuances.

Since the settlement of a forward starting interest rate swap or U.S. Treasury rate lock agreement requires a one-time cash payment between the parties to the agreement, and since such payments can be quite large for hedges covering a ten or thirty year bond maturity, the accounting for hedge settlement payments is very important to companies employing these interest rate management tools. Under GAAP, as long as the hedge is properly suited to the debt being issued and meets certain tests for hedge effectiveness, then the settlement amount received or paid may be amortized over the life of the debt that is issued. By doing so, the settlement proceeds paid or received by the debt issuer are effectively treated as a cost of issuance (either positive or negative). Unless the Commission was to find that a hedge was entered into in an unreasonable or imprudent manner by the Company, TEP would propose using the GAAP accounting methodology described above for purposes of calculating the cost of debt in future rate proceedings.

XI. PUBLICATION OF NOTICE.

TEP will publish such notice of this Application as the Commission may require pursuant to A.R.S.Section 40-302.A. The notice will be substantially in the form attached hereto as **Exhibit C**. Proof of publication will be filed with the Commission once the notice is published.

XII. NOTICE TO TEP.

All communications and correspondence regarding this Application, as well as communications and pleadings with respect to hereto filed by other parties, should be served on the following.

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XIII. CONCLUSION.

TEP is filing this Application in order to maintain a level of financing flexibility needed to meet its ongoing public service obligations. Specifically, TEP believes that Commission approval of this Application would provide TEP with the required flexibility to (i) access the capital markets in a timely and efficient manner, (ii) take advantage of selective opportunities to reduce TEP's financing costs, (iii) manage the mix of fixed-rate and variable-rate debt in TEP's capital structure, (iv) select the appropriate financing options to match the purpose of the debt, and (v) receive additional equity contributions from its parent to maintain a balanced capital structure. TEP believes that the financing authority requested herein is consistent with sound financial practices and its duties as a public service corporation, and is in the public interest.

WHEREFORE, TEP respectfully requests that the Commission issue its Order in accordance with A.R.S. Sections 40-285, 40-301 and 40-302 as follows:

1. Finding and concluding that the approval of this Application is in the public interest;
2. Authorizing the financing transactions described herein, along with appropriate conditions to such authority as described in **Exhibit A** to this Application; and
3. Granting any other relief or authority that is necessary and in the public interest.

RESPECTFULLY SUBMITTED this 6th day of April, 2015.

Tucson Electric Power Company

By ____________________

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and

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Attorneys for Tucson Electric Power Company

Original and thirteen copies of the foregoing filed this 6th day of April, 2015, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
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Copy of the foregoing hand-delivered/mailed this 6th day of April, 2015, to:

Lyn A. Farmer, Chief Administrative Law Judge
Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Janice M. Alward, Chief Counsel
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By Jaclyn Howard

Exhibit A

EXHIBIT A

SUMMARY OF PROPOSED CHANGES TO FINANCING AUTHORITY

(Marked for Changes from Decision No. 73658)

IT IS THEREFORE ORDERED that Tucson Electric Power Company is authorized through December 31, 2020, to issue long-term indebtedness provided that, after giving effect of the issuance of such indebtedness, the aggregate outstanding principal amount of long-term indebtedness (including current maturities thereof), shall not exceed $2.2~~1.7~~ billion ~~(including up to $250 million of which is available for TEP to exercise its option to acquire SGS Unit 1 and the SGS coal handling facilities or other similar generation and/or transmission facilities and the remainder available for other purposes including for generation and transmission purposes other than SGS)~~, except as provided below, and limiting to $~~3~~450 million the aggregate portion thereof authorized as floating/variable cost rate debt. The general authorization threshold does not include existing capital lease obligations or indebtedness arising under Tucson Electric Power Company's credit and reimbursement agreements.

IT IS FURTHER ORDERED that Tucson Electric Power Company is authorized to enter into any refinancings, refundings, renewals, reissuances and rollovers of any outstanding indebtedness, as well as the incurrence or issuance of any additional long-term indebtedness, and the amendment or revision of any terms or provisions of or relating to any long-term indebtedness, so long as total long-term indebtedness outstanding after giving effect to such issuance, does not exceed the levels set forth above and such financings are in compliance with other provisions of this Order.

IT IS FURTHER ORDERED that Tucson Electric Power Company is authorized through December 31, 2020, to enter into one or more credit or reimbursement agreements with terms of up to five years, and to enter into agreements to refinance any such credit or reimbursement agreements, which may consist of one or more revolving credit facilities as long as, after giving effect to the entry of such a facility, Tucson Electric Power Company's revolving credit facilities do not exceed $300 million in the aggregate; and is authorized to enter into one or more letter of credit facilities or dedicated standby credit facilities which would provide ~~letters of credit to~~ support for variable-rate notes and/or~~tax-exempt~~ bonds which have been, or in the future will be, issued pursuant to lawful authority.

IT IS FURTHER ORDERED that the authority to incur debt authorized hereunder is in addition to the authority to issue short-term debt pursuant to A.R.S. §40-302(D).

IT IS FURTHER ORDERED that Tucson Electric Power Company is authorized to provide security for any financing transactions authorized in this proceeding and for short-term debt issued pursuant to A.R.S. §40-302(D) by the issuance of mortgage bonds ~~under its Mortgage and Deed of Trust~~or the pledging of property or other collateral for the benefit of debt holders.

IT IS FURTHER ORDERED that Tucson Electric Power Company is authorized to receive subsequent to the effective date of the Decision in this case, additional equity contributions of up to $400 million from ~~UniSource~~ UNS Energy Corporation or other affiliates to maintain and augment its equity ratio.

IT IS FURTHER ORDERED that Tucson Electric Power Company is authorized to exceed the long-term debt threshold level and the limitation on long-term variable rate debt, set forth above for a period not to exceed 90 days in circumstances where that threshold is exceeded due to the effect of recognizing both the issuance of refinancing debt and the existing debt to be refinanced.

IT IS FURTHER ORDERED that the issuance of long-term indebtedness under the authority set forth above (other than in the case of refinancing long-term indebtedness) is conditioned upon: (i) Tucson Electric Power Company having equity equal to at least ~~the following percentages of its total capital by year: 2013, 30 percent; 2014, 32 percent; 2015, 34 percent; and 2016, 39~~ 40 percent and a cash coverage ratio of at least 1.75. ~~In future financing approvals for Tucson Electric Power Company, the Commission may require Tucson Electric Power Company's equity to be 40 percent or greater.~~

IT IS FURTHER ORDERED that for purposes of this Order, the equity ratio and the CCR shall be determined on a pro forma basis after giving effect to the issuance of the long-term debt to be issued pursuant to the authority and the discharge of any long-term debt being refunded or refinanced thereby; the equity ratio shall be the ratio of (a) common shareholders equity to (b) total capitalization, using the most recently audited financial statements as adjusted for capital contributions, distributions, and issuances, repayment or purchases of debt or equity occurring after the most recently audited financial statements; total capitalization shall be defined as the sum of common shareholders equity, preferred stock, long-term debt (including current maturities thereof), capital lease obligations (including current obligations under capital leases), less TEP's investments in capital lease debt; the CCR shall be the ratio of (a) the sum of operating income, depreciation and amortization expense for the twelve-month period ending on the last day of the period covered by the most recently audited financial statements, to (b) interest expense for the twelve-month period ending on the last day of such period minus interest expense for such period for any indebtedness being or having been refinanced or refunded with the proceeds for the long-term debt being or having been issued subsequent to such period plus interest expense for twelve months on the indebtedness being or having been issued subsequent to such period (calculated, in the case of indebtedness bearing a floating rate of interest, at the rate initially in effect on the date of the issuance thereof) and where interest expense is adjusted to reflect the effects of any derivative financial securities or similar instruments; future changes in GAAP that have the effect of lowering Tucson Electric Power Company's equity will be exempted from the equity and cash coverage ratios tests until the Commission makes a determination only if Tucson Electric Power Company makes a filing with the Commission requesting such a determination within 30 days after it files its quarterly report on Form 10-Q or its annual report on Form 10-K with the Securities and Exchange Commission following the end of the fiscal quarter in which the GAAP change occurs; and incurring obligations under authorized credit or reimbursement agreements is not considered to be the incurrence of long-term indebtedness which is subject to the conditions set forth in this Order.

IT IS FURTHER ORDERED that Tucson Electric Power Company shall not enter into any agreement/contract for any financial derivative security or similar instrument other than those authorized by the Commission, and the execution by Tucson Electric Power Company of any such transaction may be grounds for summary revocation by the Commission of the general authorization to issue long-term indebtedness authorized in this proceeding. (This provision is not intended to place any restriction on hedging activities pertaining to energy procurement).

~~IT IS FURTHER ORDERED that Tucson Electric Power Company shall not enter into the interest hedging program as proposed by Tucson Electric Power Company in its Financing Application.~~

~~IT IS FURTHER ORDERED that Tucson Electric Power Company shall not enter into any floating-for-fixed interest rate swap agreements (i.e., pay floating rate and receive fixed rate) that have the economic effect of converting fixed cost long-term debt to floating/variable cost debt.~~

~~IT IS FURTHER ORDERED that for purposes of calculating the $350 million aggregate limit on the outstanding balance of floating/variable cost rate long-term debt authorized above, in the event that the Commission authorizes the use of floating-for-fixed interest rate swap~~

~~agreements, the amount of floating/variable cost rate debt shall be deemed to have been increased by the notional amount of any such swap agreements in effect on the date of such determination.~~

IT IS FURTHER ORDERED that Tucson Electric Power Company may enter into fixed-for-floating interest rate swap agreements (i.e. pay fixed rate and receive floating rate) for the purpose of reducing interest rate risk on its floating/variable cost rate debt, and that for purposes of calculating the $~~3~~450 million aggregate limit on the outstanding balance of floating/variable cost rate debt above, the amount of floating/variable cost rate debt shall be deemed to have been reduced by (i) the notional amount of any fixed-for-floating interest rate swap agreements in effect on the date of such determination and (ii) the principal amount of any floating/variable cost rate debt owned by Tucson Electric Power Company.

IT IS FURTHER ORDERED that it is in the public interest for the Commission to exercise oversight of the use by Tucson Electric Power Company of interest rate swap agreements, U.S. Treasury rate-lock agreements, and other interest rate derivatives through December 31, 2020.

~~IT IS FURTHER ORDERED that Tucson Electric Power Company shall file confirmationwith the Commission's Docket Control within 90 days of the effective date of this Order certifying that it has established an appropriate management policy/system of internal controls formally approved by Tucson Electric Power Company's Board of Directors designed to govern the use of interest rate derivatives or other similar contracts to manage interest rate risk and/or exposure.~~

IT IS FURTHER ORDERED that any authorization granted Tucson Electric Power Company to engage in financial derivative securities or similar contracts to manage interest rate risk and/or exposure should specifically exclude use of such authorization for speculative purposes.

IT IS FURTHER ORDERED that Tucson Electric Power Company is authorized to issue forward-starting swaps based on LIBOR or U.S. Treasuries and U.S. Treasury rate-locks for the purpose of hedging changes in interest rates up to 18 months in advance of planned issuances of fixed-rate taxable long-term debt having final maturity of five years or longer.

IT IS FURTHER ORDERED that this Order does not establish the prudence or reasonableness~~ratemaking treatment for the cash settlement~~ of any interest rate hedging contracts, ~~as requested by Tucson Electric Power Company in this docket,~~ on the basis that such determination is better made in the context of a rate case.

IT IS FURTHER ORDERED that Tucson Electric Power Company is authorized to execute, deliver and perform all contracts, agreements, and other instruments which are incidental to any or all of the foregoing authorizations or otherwise deemed by Tucson Electric Power Company to be necessary, desirable or appropriate in connection therewith.

IT IS FURTHER ORDERED that the authorization to issue long-term debt into one or more credit agreements for the revolving credit facilities and receive additional equity contributions shall replace the existing authorizations of Decision No. 73658~~1788~~, that those authorizations expire upon the effective date of the Order, and that all existing obligations incurred under lawful authorizations shall remain valid.

IT IS FURTHER ORDERED that this Decision is be deemed effective upon issuance and that Tucson Electric Power Company may enter into the transactions authorized under the Order through December 31, 2020, and that all existing letter of credit facilities and all existing revolving credit facilities that expire before January 1, 2025, incurred under lawful authorization shall remain valid and Tucson Electric Power Company may continue to borrow thereunder through their maturity dates.

IT IS FURTHER ORDERED that within 90 days of the completion of any financing transaction under the authority set forth herein, Tucson Electric Power Company shall make a compliance filing with the Commission's Docket Control in which Tucson Electric Power Company shall provide copies of a summary of the transaction and provide a description of the business rationale for such financing or refinancing, including a demonstration that the rates and terms received by Tucson Electric Power Company were fair and reasonable under prevailing market conditions and provide to the Commission's Utilities Division Compliance Section a copy of the relevant agreements.

IT IS FURTHER ORDERED that approval of the financing set forth hereinabove does not constitute or imply approval or disapproval by the Commission of any particular expenditure of the proceeds derived thereby for purposes of establishing just and reasonable rates.

Exhibit B

Tucson Electric Power Company
Long-Term Debt at March 31, 2015

Debt Issue	Interest Rate	Current Balance (in millions)	Maturity Date	First Call Date at Par
Fixed-Rate				
2015 Notes	3.050%	$ 300.0	Mar-25	Dec-24
2014 Notes	5.000%	150.0	Mar-44	Sep-43
2012 Notes	3.850%	150.0	Mar-23	Dec-22
2011 Notes	5.150%	250.0	Nov-21	Aug-21
2013 Pima A	4.000%	90.7	Sep-29	Mar-23
2012 Apache A	4.500%	177.0	Mar-30	Mar-22
2012 Pima A	4.500%	16.5	Jun-30	Jun-22
2010 Pima A	5.250%	100.0	Oct-40	Oct-20
2009 Coconino A	5.125%	14.7	Oct-32	Oct-19
2009 Pima A	4.950%	80.4	Oct-20	N/C
Subtotal		**$ 1,329.3**		
Variable-Rate				
2010 Coconino A *	0.915%	36.7	Oct-32	Anytime
1982 Pima A - Irvington *	1.330%	38.7	Oct-22	
1982 Pima A *	1.330%	39.9	Dec-22	
2013 Apache A	0.785%	100.0	Apr-29	
Subtotal		**$ 215.3**		
Total		**$ 1,544.6**		

* Cost of TEP variable-rate debt includes letter of credit and remarketing costs.

Exhibit C

PUBLIC NOTICE OF AN APPLICATION BY TUCSON ELECTRIC POWER COMPANY FOR A FINANCING ORDER AUTHORIZING VARIOUS FINANCING TRANSACTIONS

DOCKET NO. E-01933A-15-XXXX

On April 6, 2015, Tucson Electric Power Company ("TEP" or the "Company") filed an Application with the Arizona Corporation Commission ("Commission"), Docket No. E-01933A-15-XXXX for an order authorizing the Company to enter into various financing transactions to issue new long-term indebtedness, refinance existing long-term indebtedness and credit facilities, and to receive equity contributions from its parent company. The requested order would allow TEP to: (1) increase the cap on its long-term indebtedness from $1.7 billion to $2.2 billion; (2) increase the cap on its variable-rate long-term indebtedness from $350 million to $450 million; (3) continue to enter into revolving credit facilities that do not exceed $300 million; (4) receive up to $400 million in authorized equity contributions from its parent companies; (5) secure short-term debt issued pursuant to A.R.S. §40-302.D; (6) continue its existing authority to use certain types of interest rate hedging and (7) enter into these authorized transactions through December 31, 2020.

Copies of the Application are available on the Internet via the Company's website (www.tep.com), at the Joel D. Valdez Main Library at 101 N. Stone, Tucson, Arizona, 85701, at the Commission's offices at 1200 West Washington, Phoenix, Arizona, 85007 for public inspection during regular business hours, and on the Internet via the Commission's website (www.azcc.gov) using the eDocket function.

Intervention in the Commission's proceedings on the application shall be permitted to any person entitled by law to intervene and having a direct substantial interest in this matter. Persons desiring to intervene must file a Motion to Intervene with the Commission which must be served upon applicant and which, at a minimum shall contain the following information:

(1) The name, address and telephone number of the proposed intervenor and of any person upon whom service of documents is to be made if different than the intervenor;

(2) A short statement of the proposed intervenor's interest in the proceeding;

(3) Whether the proposed intervenor desires a formal evidentiary hearing on the application and the reasons for such a hearing;

(4) A statement certifying that a copy of the Motion to Intervene has been mailed to Applicant. Intervention shall be in accordance with A.A.C. R14-3-105, except that all Motions to Intervene must be filed on, or before, the 15th day after this notice.

If you have questions about this Application, you may contact the Company at (520) 884-3742. If you wish to file written comments on the Application or want further information on intervention, you may contact the Consumer Services Section of the Commission at 1200 West Washington, Phoenix, Arizona 85007 or call 1-800-222-7000.

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, at SBernal@azcc.gov, phone number (602) 542-3931. Requests should be made as early as possible to allow time to arrange the accommodation.