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BEFORE THE ARIZONA CORPORATION C

Arizona Corporation Commission

COMMISSIONERS
SUSAN BITTER SMITH - CHAIRMAN
BOB STUMP
BOB BURNS
DOUG LITTLE
TOM FORESE

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

DOCKET NO. E-01933A-15-0114
TUCSON ELECTRIC POWER
COMPANY'S COMMENTS TO
STAFF REPORT

Tucson Electric Power Company ("TEP" or "Company"), through undersigned counsel, hereby submits its comments to the Staff Report filed in this docket on November 6, 2015.

The Company agrees with nearly all of Staff's recommendations. However, TEP believes that certain clarifications to Staff's recommendations would make the requested financing authority in this docket more consistent with the existing authority granted in Decision No. 73658 (February 6, 2013). Therefore, on November 18, 2015, the Company met with Staff to discuss proposed clarifications to the Staff Report. As a result of the meeting, Staff has authorized the Company to represent that Staff does not object to TEP's proposed revisions to the Staff Report shown in **Exhibit 1** (TEP's revisions are shown in redline). The purpose of these changes is to clarify that the issuance of long-term debt (other than for the purpose of refinancing existing long-term debt) be conditioned upon the Company having at least 40% equity and a Cash Coverage Ratio of at least 1.75. These conditions are more consistent with TEP's existing financing authority.¹

Further, TEP has revised the ordering paragraphs requested in the Application to conform to the revised Staff Report recommendations. **Exhibit 2** sets forth the updated proposed ordering paragraphs requested by TEP (again, the revisions are shown in

¹ Decision No. 73658, page 29 lines 23-8, page 30 line 1.

1 redline).² Staff has authorized the Company to represent that Staff does not oppose the
2 proposed ordering paragraphs in **Exhibit 2**.

3 The Company requests that the Hearing Division issue a proposed order, including
4 the ordering paragraphs set forth in **Exhibit 2**, so that the Commission may consider this
5 matter at the Open Meeting scheduled for January 12, 2016.

6
7 RESPECTFULLY SUBMITTED this 18th day of December, 2015.

8 Tucson Electric Power Company

9
10 By  _____

11 Bradley S. Carroll
12 Tucson Electric Power Company
13 Legal Department – MS HQE 910
14 P.O. Box 711
15 Tucson, Arizona 85702

16 and

17 Michael W. Patten
18 SNELL & WILMER L.L.P.
19 One Arizona Center
20 400 East Van Buren Street, Suite 1900
21 Phoenix, Arizona 85004

22 Attorneys for Tucson Electric Power
23 Company

24 Original and thirteen copies of the foregoing
25 filed this 15th day of December, 2015, with:

26 Docket Control
27 Arizona Corporation Commission
28 1200 West Washington Street
Phoenix, Arizona 85007

² The original proposed ordering paragraphs were contained in Exhibit A to the Company's Application and provided a comparison of the proposed ordering paragraphs with the ordering paragraphs in Decision No. 73658.

1 Copy of the foregoing hand-delivered/mailed
this 18th day of December, 2015, to:

2
3 Jane Rodda,
4 Administrative Law Judge
5 Hearing Division
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007

6 Robin Mitchell
7 Legal Division
8 Arizona Corporation Commission
9 1200 West Washington Street
10 Phoenix, Arizona 85007

9 Thomas Broderick, Director
10 Utilities Division
11 Arizona Corporation Commission
12 1200 West Washington Street
13 Phoenix, Arizona 85007

12 Nicholas J. Enoch
13 Lubin & Enoch, PC
14 349 North Fourth Avenue
15 Phoenix, AZ 85003

14
15 By  _____

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EXHIBIT 1

Exhibit 1

Proposed Changes to the Staff Report as agreed to by TEP and Staff

(Changes apply to Executive Summary and Page 7 of Staff Report)

EXECUTIVE SUMMARY TUCSON ELECTRIC POWER COMPANY DOCKET NO. E-01933A-15-0114

On April 7, 2015, Tucson Electric Power Company ("TEP" or "Company"), a wholly owned subsidiary of UNS Energy Corporation ("UNS"), filed an application with the Arizona Corporation Commission ("Commission") requesting authorization for various financing transactions.

Staff recommends the following:

- (1) Extend 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;
- (3) Increase the cap on its variable-rate long-term indebtedness from \$350 million to \$450 million;
- (4) Authorize the Company to provide security for any such financing transactions;
- (5) The Commission cancel all previously authorized but unused borrowing authority (except indebtedness under revolving credit agreements);
- (6) Establish as a compliance item in this matter, a requirement for the Company to file with Docket Control, within 60 days of the execution of any financing transaction authorized herein, a notice confirming that such execution has occurred and a certification by an authorized officer that the terms of the financing fully comply with the authorizations granted;
- (7) Require the Company to make available to Staff, upon request, a copy of any loan documents executed pursuant to the authorization granted herein;

(8) That any authority to issue long-term debt granted herein (other than the refinancing of long-term debt) be conditioned upon the Company having at least 40 percent equity and that the Company is in full compliance with its debt covenants;

(9) That any authority to issue long-term debt granted herein (other than the refinancing of long-term debt) be conditioned upon the Company having a "Cash Coverage Ratio" of at least 1.75; and

(10) That in the event that the Company's equity percentage falls below 40 percent, the Company shall file an equity improvement plan with the Commission within 60 days.

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(8) That any authority to issue long-term debt granted herein (other than the refinancing of long-term debt) be conditioned upon the Company having at least 40 percent equity and that the Company is in full compliance with its debt covenants;

(9) That any authority to issued long-term debt granted herein (other than the refinancing of long-term debt) be conditioned upon the Company having a "Cash Coverage Ratio" of at least 1.75; and

EXHIBIT 2

Exhibit 2
Proposed Ordering Paragraphs
Redlined to Conform to Staff's Recommendations

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 billion, except as provided below, and limiting to \$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 support for variable-rate notes and/or 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 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 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 40 percent and a cash coverage ratio of at least 1.75.

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), and short-term debt, 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 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 \$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 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 of any interest rate hedging contracts, 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, enter 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, 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 ~~6090~~ 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, upon request, a copy of the relevant agreements.

IT IS FURTHER ORDERED that in the event Tucson Electric Power Company's equity ratio falls below 40 percent of total capitalization, the Company shall file an equity improvement plan with the Commission within 60 days.

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.