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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

DOUG LITTLE – Interim Chairman
BOB STUMP
BOB BURNS
TOM FORESE
VACANT

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 DECISION NO. 75414 **ORDER**

Open Meeting
January 12, 2016
Phoenix, Arizona

Arizona Corporation Commission
DOCKETED
JAN 19 2016
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BY THE COMMISSION:

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Having considered the entire record herein and being fully advised in the premises, the Arizona Corporation Commission ("Commission") finds, concludes, and orders that:

FINDINGS OF FACT

1. On April 7, 2015, Tucson Electric Power Company ("TEP" or "Company") filed an application with the Commission requesting authorization for various financing transactions ("Finance Application").

2. On May 19, 2015, TEP filed an Affidavit of Publication verifying that public notice of the financing application was published in *The Arizona Daily Star* on May 11, 2015, and was posted on site at the Joel D. Valdez Main Library located at 101 North Stone Avenue, Tucson, Arizona, with a complete copy of the application available at the third floor information desk at the library.

3. Local Union 1116, International Brotherhood of Electrical Workers, AFL-CIO ("IBEW Local 1116") was granted intervention.

4. On November 6, 2015, the Commission's Utilities Division ("Staff") filed a Staff Report, recommending approval of the Finance Application with conditions.

5. On November 12, 2015, TEP filed a notice that it had scheduled a meeting with Staff to discuss Staff's recommendations, and intended to file comments to the Staff Report as soon as practicable after the November 18, 2015 meeting with Staff.

6. On December 18, 2015, TEP filed its Comments to the Staff Report, which included TEP's requested clarifications to Staff's recommendations. TEP states that it met with Staff on November 18, 2015 to discuss the Company's concerns and the parties reached agreement concerning TEP's proposed clarifications to Staff's recommendations. TEP attached the revised recommendations to its Comments.

7. TEP is a for-profit Class "A" Arizona public service corporation with its principal offices located in Tucson, Arizona. It is a vertically integrated electric utility serving approximately 417,000 retail customers in Tucson, the surrounding Pima County area, and Fort Huachuca in Cochise County. TEP also owns interests in property in New Mexico in connection with the generation and transmission of electric power.

8. TEP's current financing authority was granted in Decision No. 73658 (February 6, 2013).

9. TEP states that its financial condition has improved significantly since May 2012, when TEP filed its last financing application. The unsecured credit ratings for TEP have improved from Baa3 to A3 from Moody's Investors Service, and from BBB- to BBB+ from Standard & Poor's Rating Service.

10. In the Finance Application, TEP requests:

(a) 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 requests authority to issue long-term debt (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 (not including capital lease obligations or indebtedness arising under TEP's credit facilities described herein).[1]

(b) To 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.[2]

(c) To receive up to $400 million of equity contributions from its parent company, UNS Energy.

(d) Authority to enter into one or more credit or reimbursement agreements, and to enter into agreements to refinance any such credit or reimbursement agreement, 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. Its request relating to credit agreements includes 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) 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) 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) Enter into any of the above transactions on or before December 31, 2020; and

(h) 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.

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[1] An increase from $1.7 billion.
[2] An increase from $350 million.

Long-Term Debt

11. In Decision No. 73658, the Commission authorized TEP to issue long-term debt, not to exceed aggregate long-term indebtedness of $1.7 billion (excluding existing capital leases obligations and indebtedness arising under credit and reimbursement agreements). At the date of the Finance Application, TEP had total outstanding long-term debt of $1.54 billion.[3] TEP states that based on conservative estimates, it anticipates making total capital expenditures of approximately $1.5 billion over the five years from 2015 through 2019. TEP states further that it plans to fund most of its forecasted capital expenditures from operating cash flows, but recognizes that 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 demand, or other factors. TEP asserts that additional long-term debt authority is needed because of the uncertainties inherent in forecasts as well as its obligation to provide reliable electric service within its service territory.

12. In addition, in order to maintain a balanced capital structure, and to make further progress toward reaching management's goal of a 50 percent equity-to-capital structure, the Company needs renewed authority to accept additional contributions of equity capital from UNS Energy and its ultimate parent, Fortis.[4]

13. TEP's long-term debt includes a mixture of tax-exempt and taxable bonds, and fixed- and variable-rate debt. TEP requests a continuation of its authority to incur additional tax-exempt indebtedness, new taxable long-term debt, an increase of the cap on variable rate debt from $350 million to $450 million, and that any variable-rate long-term debt obligations that are hedged with fixed-for-floating interest rate swaps be excluded from the variable-rate cap.[5]

14. TEP states that it has retired the last of its mortgage bonds and terminated its 1992 mortgage indenture, and that all of its long-term debt and credit facilities are now unsecured. Although the Company asserts that it has no plans to issue new secured debt, it requests that it have the flexibility

[3] Application at 5-6.

[4] In Decision No. 74689 (August 12, 2014) which approved the merger of UNS Energy and Fortis, the Commission precluded 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 TEP's equity ratio reaches 50 percent.

[5] Application at 7-8.

to secure new issuances of long-term debt, and to potentially provide security (as either new mortgage bonds or liens on TEP property) to existing unsecured bondholders and credit facility lenders, if warranted by market conditions.

15. TEP proposes that a minimum 40 percent equity ratio and minimum Cash Coverage Ratio ("CCR") 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 thereon), and capital lease obligations (including current obligations under capital leases), less TEP's investments in capital lease debt.

16. For purposes of this Order, TEP proposes that the equity ratio and 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.

Credit and Reimbursement Agreements

17. TEP 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, and for 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.

18. 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, so long as TEP's revolving credit facilities do not exceed $300 million in the aggregate. TEP was also 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.[6]

19. 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.

20. 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 (1) a 75 percent ownership interest in Gila River Unit 3 in December 2014, and (2) $130 million of tax-exempt bonds

[6] Application at 9.

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.[7] A separate reimbursement agreement entered into in 2010 and amended in 2014 provides TEP with a $37 million letter of credit supporting tax-exempt bonds and expires in 2019.

21. TEP's credit facilities are currently unsecured, and the Company has no plans to arrange secured facilities. The Company requests, however, 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.

Stand-by Credit Facility

22. Of TEP's outstanding variable-rate bonds at the time it filed the Finance Application, bonds with an aggregate principal amount of $115 million have provisions that permit investors to tender the bonds for purchase, and require that supporting letters of credit be in place to provide immediate liquidity to purchase these bonds. The remaining $100 million of variable rate bonds are subject to purchase and remarketing at the end of the initial five year period and do not require letter of credit support. With a stand-by facility, the bondholder is paid by TEP for bonds that cannot be remarketed, whereas with a letter of credit structure, the bank pays the investor directly. TEP states that using a stand-by credit facility instead of letters of credit could reduce overall financing costs related to the issuance of variable rate bonds. TEP requests authority to enter into a stand-by facility for the purpose of supporting variable rate bonds, and that 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.

Contributions of Equity Capital

23. Decision No. 73658 authorized TEP to receive additional equity contributions up to $400 million from its parent company, UNS Energy. In 2014, TEP received a total of $225 million in equity contributions from UNS Energy.[8]

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[7] Application at 9-10. TEP states that it 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.

[8] Application at 11. TEP states that $50 million was contributed pursuant to the authority in Decision No. 73658, and $175 million was contributed pursuant to Decision No. 74689 which approved the merger of UNS Energy and Fortis.

24. TEP requests authority to receive additional equity contributions of up to $400 million for the term of the new financing order, or through December 31, 2020. TEP states that such authorization would: (1) provide TEP with the ability to maintain a balanced capital structure; (2) support management's ongoing goal to grow TEP's equity ratio over time; and (3) meet the equity ratio condition set forth in December No. 74689.

Short-term Debt Issued Pursuant to A.R.S. §40-302.D

25. A.R.S. §40-302.D allows TEP to issue short-term debt in an amount not to exceed 7 percent of its capitalization without Commission approval. In TEP's current financing order, the Commission authorized TEP to pledge assets by issuing mortgage bonds in support of its statutory short term debt authority.[9]

26. As of December 31, 2104, TEP had no such debt outstanding, but did have a supplemental credit facility under which $130 million of term loan credit was available. On January 12, 2015, TEP drew $130 million on this credit facility in order to purchase $130 million principal amount of 5.75 percent tax-exempt bonds at par. This loan was entered into pursuant to the short-term borrowing authority granted by A.R.S. §40-302.D. TEP states that this short-term loan was repaid in March 2015, and fell within the limit prescribed by statute.

27. Consistent with its request concerning its long-term debt and credit facilities, TEP requests authority to continue to be able to provide security for short-term debt issued pursuant to A.R.S. §40-302.D, if market conditions warrant. TEP states that the form of security provided would either be new mortgage bonds or liens on property owned by TEP.

Request for Extension of Time Period

28. 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 of such agreement was entered into or refinanced. TEP states that in no case would

[9] Decision No. 73658 at 11, 22 and 29.

the maturity date of such agreement extend beyond December 31, 2025.

Use of Proceeds

29. TEP states that it may use the proceeds from the issuance of new long-term debt for the following purposes: (1) refinance long-term indebtedness; (2) finance a portion of TEP's capital expenditures; and (3) pay-off short-term debt and borrowings under TEP's revolving credit facilities. TEP states that it intends to use its revolving credit facility as follows: (1) a source of liquidity for working capital; (2) to issue letters of credit to provide credit enhancement to counterparties for TEP's energy procurement and hedging activities; and (3) for other lawful purposes.[10]

Interest Rate Hedge Agreements

30. In Decision No. 73658 TEP was authorized to use two different types of interest rate hedging agreements in order to manage interest rate risk. TEP states that it does not believe that such hedging agreements constitute an issuance of securities that requires Commission approval, however, the Company requests a four year extension of the authority granted in Decision No. 73658.

31. Decision No. 73658 authorized the use of fixed-for-floating interest rate swaps under which the Company pays a fixed rate of interest in return for a floating rate, which has the effect of converting variable-rate debt into fixed-rate debt in an amount equal to the notional amount of the swap. TEP states that it has used such agreements in the past to help reduce its exposure to variable interest rate risk.

32. Decision No. 73658 also approved 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 TEP to lock-in a portion of the fixed rate ahead of the planned issuance date, which reduces its exposure to potential increases in long-term rates before the issuance is completed. TEP requests an extension of authority to enter into interest rate hedges for issuances of fixed-rate long-term debt having a 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

[10] Application at 13. Letter of credit facilities supporting variable-rate bonds do not result in proceeds to TEP, but are for the purposes of providing credit support for the bonds in order to obtain a more favorable interest rate. Dedicated standby credit facilities supporting variable-rate notes or bonds also do not result in net cash proceeds to TEP, but 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.

agreements, U.S. Treasury rate-lock agreements, or other similar derivative interest rate contracts. TEP states that it has not previously entered into these types of hedging transactions, but believes that they are a potentially valuable tool for managing interest rate risk on planned fixed-rate issuances.[11]

Staff's Recommendations

33. Staff's review of the Commission's Utilities Division Compliance database indicates that as of October 23, 2015, TEP was not delinquent on any compliance item.

34. According to Staff, TEP's total number of customers has increased slightly over the past five years, from 403,514 in 2010, to 414,749 in 2014, or a growth rate of .7 percent per year. TEP's system's annual peak demand has declined from 2,333MW in 2010 to 2,218 MW in 2014. Annual system energy delivered (less losses) increased from 13,216,132 MWh in 2010 to 13,325,074 MWh in 2014, or an average increase of .2 percent per year over the five years.

35. TEP's annual historic system losses averaged 6.14 percent of total system energy per year for the period 2010-2014. Staff states that these losses are within reasonable limits specified in the guideline provided by the American Public Power Association's Distribution System Loss Evaluation Manual given TEP's urban electrical systems. Staff states that the typical distribution system loss values indicated in the Manual range between 6 percent for urban systems to 10 percent for rural systems.

36. Staff reports that TEP's system reliability, as measured by the System Average Interruption Duration Index ("SAIDI"), which measures the average outage minutes per customer on an annual basis, improved from 2010 to 2014. Staff asserts that the SAIDI numbers for TEP are comparable to industry standards.[12]

37. Based on Staff's engineering review of TEP's capital budget and related information

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[11] According to TEP, because 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 because such payments can be quite large for hedges covering a ten or thirty year bond maturity, the accounting for hedge settlement payments is important to companies that sue them. TEP asserts that 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, and 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 for purposes of calculating the cost of debt in future rate proceedings. Application at 14.

[12] Staff Report, Engineering Report at 4.

provided to Staff by TEP, Staff concludes that:[13]

(a) TEP's proposed use of long-term debt issuances and equity infusion as set forth in the Finance Application are appropriate to fund the proposed capital projects;

(b) TEP's system losses and reliability indices are within acceptable limits; and

(c) Based on the review performed by the Compliance Section, TEP is currently meeting all of its compliance requirements.

38. The following chart illustrates TEP's capital structure as of December 31, 2014:

TEP's Capital Structure as of December 31, 2014 (in 000's)		
Short-term Debt	$85,000	2.9%
Long-term Debt	$1,372,414	47.1%
Capital Lease Obligations	$243,260	8.3%
Common Equity	$1,215,779	41.7%
Total Capital	$4,916,453	100.0%

39. According to Staff's financial analysis of the Finance Application, if TEP were to borrow all requested amounts, its short-term debt would increase from $85 million to $300 million, its long-term debt would increase from approximately $1,372.4 million to $1,700 million, and equity would increase from approximately $1,215.80 million to $1,615.8 million, which results in the following pro forma capital structure:[14]

TEP's Pro Forma Capital Structure with issuance of recommended debt/equity (in 000's)		
Short-term Debt	$300,000	8.1%
Long-term Debt	$1,700,000	46.1%
Capital Lease Obligations[15]	$69,438	1.9%

[13] Staff Report, Engineering Report at 4.
[14] December 31, 2014 actual financial information is adjusted to reflect issuance of additional $327.6 million of long-term debt, the issuance of additional $215 million available under the revolving credit facility, less the current portion of obligations under capital leases as of December 31, 2014, expected to be paid during 2015.
[15] Staff's review of the Company's recent 10-K indicates that approximately $173.8 million of debt associated with capital lease obligations is considered to be due currently and would not be owing on prospective basis and is removed from the pro forma amounts due under capital lease obligations to reduce that amount to approximately $69.4 million.

Common Equity	$1,615,779	43.8%
Total Capital	$3,685,217	100.0%

40. Staff recommends that the Commission:[16]

(1) extend the Company's existing financing authority granted in Decision No. 73658 (including the authority to enter into hedging agreements) by four years to December 31, 2020;

(2) increase the cap on TEP's long-term indebtedness from $1.7 billion to $2.2 billion;

(3) increase the cap on TEP's variable-rate long-term indebtedness from $350 million to $450 million;

(4) Authorize the Company to provide security for any such financing transactions;

(5) Cancel all previously authorized but unused borrowing authority (except indebtedness under revolving credit agreements);

(6) Establish as a compliance item in this matter, that the Company 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 that TEP make available to Staff, upon request, a copy of any loan documents executed pursuant to the authorization granted herein;

(8) 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 hits debt covenants;

(9) Any authority to issue long-term debt granted herein (other than the refinancing of long-term debt) be conditioned upon the Company having a CCR of at least 1.75;

(10) 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; and

[16] TEP's Comments, Exhibit 1.

(11) Authorize additional equity contributions of up to $400 million from its parent company, in addition to the $400 million that was authorized in Decision No. 73658 and the $175 million equity infusion as required by Decision No. 74689.[17]

41. Staff's recommendations as modified and described in TEP's Comments to the Staff Report, and as set forth herein, are reasonable and should be adopted.

CONCLUSIONS OF LAW

1. TEP is a public service corporation within the meaning of Article XV of the Arizona Constitution and A.R.S. §§40-301, 40-302, and 40-303.

2. The Commission has jurisdiction over TEP and of the subject matter of the Finance Application.

3. Notice of the Finance Application was given in accordance with the law.

4. The financing as approved herein is for lawful purposes within TEP's corporate powers, is compatible with the public interest, with sound financial practices, and with the proper performance by TEP of service as a public service corporation, and will not impair TEP's ability to perform the service.

5. The financing approved herein is for the purposes stated in the Finance Application, is reasonably necessary for those purposes and such purposes are not reasonably chargeable to operating expenses or to income.

ORDER

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

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[17] The revised recommendations, as set forth in TEP's Comments to the Staff Report, do not include a reference to the request to permit additional equity contributions as needed from TEP's parent company, which recommendation was included in the Staff Report. See Staff Report at the Cover Page. TEP has not withdrawn its request for authority to receive additional equity, and the request is reasonable in order to maintain an appropriate capital structure.

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 of 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, 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 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 date 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 this 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 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 60 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 the 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.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN | COMMISSIONER

COMMISSIONER | Vacant COMMISSIONER | COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 19th day of January 2016.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT ____________________

DISSENT ____________________
JLR:tv(ru)

SERVICE LIST FOR: TUCSON ELECTRIC POWER COMPANY

DOCKET NO.: E-01933A-15-0114

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