PP-16-1
Rescinds PP-16

UNITED STATES OF AMERICA
BEFORE THE
DEPARTMENT OF ENERGY
OFFICE OF FOSSIL ENERGY

U.S. Department Of Energy
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Office Of Fossil Energy

Citizens Communications Company	)	
and	)	Docket No. PP-16-1
UniSource Energy Company	)	

JOINT APPLICATION OF CITIZENS COMMUNICATIONS COMPANY AND UNISOURCE ENERGY CORPORATION TO RESCIND PRESIDENTIAL PERMITS 16 AND 40 AND SIMULTANEOUSLY REISSUE PERMITS TO A NEW ENTITY

Pursuant to Executive Order No. 10485, as amended by Executive Order No. 12038, Section 202(e) of the Federal Power Act ("FPA"), 16 U.S.C. § 824a(e) (2000), and Section 320, *et seq.*, of the Rules of Administrative Procedure of the Department of Energy ("DOE" or "Department"), 10 C.F.R. § 205.320 *et seq.* (2002), Citizens Communications Company ("Citizens") and UniSource Energy Corporation ("UniSource Energy") (collectively "Applicants") jointly tender for filing the instant Application and respectfully request that the Department rescind Presidential Permits 16 and 40 ("PP-16" and "PP-40", respectively) held by Citizens covering certain transmission facilities described, *infra*, that currently interconnect Citizens' electrical system in Arizona with Mexico (collectively, the "Interconnection Facilities") and to coincidently reissue Presidential Permits to NewCo,[1] a subsidiary of UniSource Energy, covering these same Interconnection Facilities to become effective upon the financial closing of the transfer of ownership of Citizens' Arizona electrical system to NewCo.

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[1] As of the date of this application, the name of UniSource Energy's subsidiary has not yet been determined. Accordingly, for purposes of this application, UniSource Energy's subsidiary is designated "NewCo." The Applicants will promptly notify the Department in writing of the official name of this entity when a final determination is made.

The transmission facility covered by PP-16 interconnects the electrical facilities in Nogales, Sonora, Mexico with Citizens' Grand Avenue Plant in Santa Cruz County, Arizona. The transmission facility covered by PP-40 interconnects with the electrical facilities in Santa Cruz, Sonora, Mexico with Citizens' electrical facilities in Lochiel, Arizona.

The change in ownership of the existing transmission facilities will have no associated environmental impacts. In addition, Applicants seek to ensure that the provisions contained in Presidential Permits 16 and 40 remain in effect during the voluntary transfer of these facilities.

I. INFORMATION REGARDING APPLICANTS.

A. Citizens Communications Company.

The exact legal name of the applicant is Citizens Communications Company.[2] Citizens is a Delaware corporation and has its principal offices at 3 High Ridge Park, Stamford, Connecticut 06905. Citizens provides communications services via approximately 2.5 million access lines in 24 states, and provides public utility services to approximately 286,000 electric and gas customers in Vermont, Hawaii and Arizona.

In Arizona, Citizens operates as an electric and gas utility through two operating divisions. Through its Mohave Electric Division ("MED") and Santa Cruz Electric Division ("SCED"), Citizens is certificated to provide retail electric service to approximately 77,500 customers in Mohave County in northwest Arizona and in Santa Cruz County in southeast Arizona. These customers have a historical maximum peak demand of approximately 320 megawatts. Through its Northern Arizona Gas Division and Santa Cruz Gas Division, Citizens provides retail natural gas service in most of northern Arizona, including portions of Mohave,

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[2] Citizens was formerly known as "Citizens Utilities Company". The name was changed to "Citizens Communications Company" in May, 2000.

Yavapai, Coconino, Navajo, and Apache Counties, as well as Santa Cruz County in southeast Arizona. Citizens currently serves approximately 125,000 retail natural gas customers in Arizona. Substantially all of Citizens' electric and gas customers are in the residential and commercial classifications.

Citizens is subject to regulation in Arizona by the Arizona Corporation Commission ("ACC") with respect to retail electric and gas rates, the issuance of securities, affiliate transactions, the maintenance of books and records, and other matters. Citizens is also a "public utility," as defined under Section 201(e) of the FPA, 16 U.S.C. § 824(e) (2000), and, therefore, is subject to the jurisdiction of the Federal Energy Regulatory Commission ("FERC").

Citizens' transmission and distribution system consists of approximately 56 circuit-miles of 115 kV transmission lines, 229 circuit-miles of 69 kV transmission lines, and 3,116 circuit-miles of underground and overhead distribution lines. Citizens also owns 43 substations having a total installed transformer capacity of 966,000 kVA.

Citizens currently owns and operates the transmission facilities within the State of Arizona that cross the international border between Arizona and Sonora, Mexico. Citizens is not a party to a partnership agreement with an entity with relation to the transmission facilities.

B. UniSource Energy Company.

UniSource Energy, an Arizona corporation, is an exempt holding company pursuant to Section 3(a)(1) of the *Public Utility Holding Company Act of 1935*, as amended ("PUHCA"), 15 U.S.C. §79C(a)(1) (1994).[3] UniSource Energy owns 99.9% of the issued and outstanding

[3] *See Tucson Elec. Power Co.*, 80 FERC ¶ 62,275 (1997) (order authorizing the formation of holding company as consistent with the public interest under FPA § 203).

common stock of Tucson Electric Company ("Tucson Electric"),[4] and all of the issued and outstanding common stock of two direct non-utility subsidiaries, Millennium Energy Holdings, Inc. ("Millennium")[5] and UniSource Energy Development Company ("UED").[6] UniSource Energy itself does not engage in any business activities or have any material assets, other than the stock of its subsidiaries.

II. COMMUNICATIONS.

All correspondence concerning this Application should be directed to the following persons:

Citizens Communications Company

L. Russell Mitten, Esq.
Vice President, General Counsel
Citizens Communications Company
3 High Ridge Park
Stamford, CT 06905
(203) 614-5047
rmitten@czn.com

UniSource Energy/NewCo

Vincent Nitido, Jr., Esq.
Vice President, General Counsel
UniSource Energy Corporation
One South Church Ave., Suite 100
Tucson, AZ 85701
(520) 884-3670
vnitido@tucsonelectric.com

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[4] Tucson Electric is an Arizona public service corporation with its principal place of business at One South Church Avenue, Tucson, Arizona 85701. Tucson Electric is a vertically-integrated utility that provides regulated electric service to over 350,000 retail customers in its retail service territory. This service territory consists of a 1,155 square mile area of southeastern Arizona with a population of approximately 871,000. This area includes the City of Tucson and adjoining areas in Pima County; Tucson Electric also supplies the power requirements of a military base located in the adjoining Cochise County. Tucson Electric holds a franchise to provide electric distribution service to customers in the City of Tucson.

[5] Millennium, which serves as the holding company for most of UniSource Energy's non-utility operations, invests in various unregulated ventures related primarily to the energy business, including investments in a developer of thin-film batteries, a developer of small-scale commercial satellites, and a developer and manufacturer of thin-film photovoltaic cells. Neither Millennium, nor any of its subsidiaries, own or control facilities, or provide services, subject to the Commission's jurisdiction.

[6] UED engages in developing generating resources and other project development activities. UED was formed to facilitate the expansion of the Springerville generating station through construction of Springerville Unit Nos. 3 and 4. These units are not expected to be in service prior to 2006. UED does not engage in any other activities, and does not own or control facilities, or provide services, subject to the Commission's jurisdiction.

A copy of all such correspondence and other communication should be sent to:

Bonnie A. Suchman, Esq.
Amie V. Colby, Esq.
Troutman Sanders LLP
401 9th Street, NW, Suite 1000
Washington, D.C. 20004
(202) 274-2906
bonnie.suchman@troutmansanders.com
amie.colby@troutmansanders.com

III. BACKGROUND AND STATEMENT OF REASONS FOR THE TRANSFER OF THE EXISTING CROSS BORDER TRANSMISSION FACILITIES.

Citizens and UniSource Energy entered into an asset purchase agreement, dated October 29, 2002, whereby Citizens has agreed to sell, and UniSource Energy has agreed to purchase, all of the assets (subject to certain stated exceptions) used by Citizens in connection with or otherwise necessary for the conduct of Citizens' electric utility business in Arizona. UniSource Energy will form NewCo as its subsidiary to hold and operate such electric assets that it acquires from Citizens. On February 7, 2003, Citizens and UniSource Energy filed with FERC a Joint Application for Approval of the Disposition of Jurisdictional Facilities under Section 203 of the FPA, seeking approval for the sale of Citizens' electric utility business to NewCo in Docket No. EC03-54-000 which is currently pending before FERC.

Mechanically, the asset purchase agreements call for UniSource Energy or the "UniSource Designee" – which will be NewCo – to purchase the assets. While the expectation is that NewCo will be the entity that will purchase Citizens' respective assets, alternatively, it is possible that UniSource would purchase Citizens' assets and then transfer them to NewCo.

Upon consummation of the transaction, NewCo will acquire 100 percent ownership interest in the Citizens' Arizona electric assets.[7] As a part of this transaction, NewCo will acquire 100 percent ownership interest in the transmission facilities located within the State of Arizona and that cross the United States-Mexico international border.

In the event of a voluntary transfer of facilities, 10 C.F.R. § 205.323(b) requires that a joint application be filed with DOE, together with a statement of reasons for the transfer. As explained above, the voluntary transfer will occur as a result of the sale of Citizens' relevant assets to NewCo. Accordingly, to allow for the transfer of such assets to NewCo, Citizens and UniSource Energy hereby request the rescission of the Citizens' Presidential Permits and simultaneous reissuance of Presidential Permits to NewCo to become effective upon the financial closing of the transfer of ownership of Citizens' Arizona electrical system to NewCo. In the alternative, if UniSource Energy purchases Citizens' relevant assets and then transfers the assets to NewCo, the Applicants request that the Department rescind PP-16 and PP-40, coincidentally issue permits to UniSource Energy, and subsequently reissue to NewCo the presidential permits to ensure that that the presidential permits remain in effect during the voluntary transfer of these facilities.

IV. DESCRIPTION OF TRANSMISSION FACILITIES.

PP-16 was the result of an application that Citizens submitted on May 26, 1952, requesting the authorization for the construction, operation, and maintenance of an electric transmission facility crossing the international border between the United States and Mexico. The Federal Power Commission ("FPC") issued Presidential Permit PP-16 for the cross-border

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[7] As explained above, UniSource Energy could purchase Citizens' Arizona electric assets and then transfer them to NewCo.

connection on August 8, 1952, and an Amendatory Permit on September 16, 1955. FPC Docket No. E-6432.

PP-16 initially covered the electrical systems of Citizens that were interconnected at two points on the border between the State of Arizona and Sonora, Mexico. Specifically, the facilities covered in PP-16, as amended, consist of:

1. A three-phase transmission line operating nominally at 2.3 kV, 60 cycles, located at the international boundary between the State of Arizona and the State of Sonora, Mexico, at Nogales, Arizona; and

2. A three-phase transmission line operating nominally at 13 kV, 60 cycle, located at the international boundary between the State of Arizona and the State of Sonora, Mexico, 1700' east of the 2.3 kV circuit crossing the international boundary at the intersection of Sondita Avenue and the international boundary in Nogales, Arizona.

However, in the mid-1970s, Citizens standardized the voltages on its system and eliminated the 2.3 kV voltage level from its system, including the 2.3 kV line referenced in PP-16.[8] In addition, the 13 kV line is currently maintained only for contingencies and does not serve any load. The line is operated with the switch between the U.S. and Mexico normally open, but could be closed to supply Mexico with electricity on an as available basis. The line is maintained to provide backup to load on either side of the border should a contingency occur in either the U.S. or Mexico system. The line has a capacity of 20 MW.

PP-40 was the result of an application Citizens submitted on October 16, 1967, requesting authorization for the construction, operation, and maintenance of an electric transmission facility crossing the international border between the United States and Mexico. The FPC issued Presidential Permit PP-40 on December 29, 1967. FPC Docket No. E-7371.

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[8] In this application, the Applicants request that the permit be amended to reflect the elimination of the 2.3 kV line.

PP-40 covers the electrical systems of Citizens that are interconnected at one point on the border between the State of Arizona and Sonora, Mexico. The facilities covered by PP-40 serve isolated load in Mexico that has no other avenue of service. Specifically, the facilities consist of:

> A single circuit, three phase, 60 cycle, 13.2 kV electrical transmission line crossing the International Boundary 1,540 feet east of Boundary Monument No. 112, Section 21, Township 24 South, Range 17 East in Lochiel, Arizona. The line has a capacity of 4 MW.

NewCo does not propose to make any physical changes to the existing overhead conductors, shield wires, supporting structures, or rights of way currently covered by PP-16 and PP-40.

To ensure the reliability of service provided over the transmission facilities and over the transmission systems located in regions adjacent to the transmission facilities, NewCo commits that the operation of the transmission facilities will comply with all applicable criteria, standards, and guidelines established by the North American Electric Reliability Council and the Western Electricity Coordinating Council.

A signed opinion of counsel, stating that the ownership, operation, and maintenance of the existing transmission facilities will be within the corporate powers of NewCo and that NewCo and Citizens have complied with or will comply with all pertinent federal and state laws is attached hereto as Exhibit A.

V. ENVIRONMENTAL IMPACT INFORMATION.

The application for rescission and reissuance of Presidential Permits 16 and 40 will have no effect on any of the subject facilities. Accordingly, the Applicants anticipate no environmental impacts whatsoever as a result of the requested actions.

VI. SERVICE AND FEE.

In accordance with the requirements of 10 C.F.R. § 205.326, copies of this application will be provided to the following:

Honorable Magalie Roman Salas
Secretary
Federal Energy Regulatory Commission
888 First Street, N.E.
Washington, D.C. 20426

Arizona Corporation Commission
1200 W. Washington Street
Phoenix, Arizona 85007

A check in the amount of $150.00 made payable to the Treasurer of the United States is enclosed in payment of the fee specified in 10 C.F.R. § 205.326.

VII. VERIFICATION.

Verifications executed by officers of the Applicants having knowledge of the matters set forth above in accordance with 10 C.F.R. § 205.322(e) are enclosed with this application.

VIII. CONCLUSION.

WHEREFORE, Citizens and UniSource Energy respectfully request that this application for the rescission and simultaneous reissuance of Presidential Permits be considered and approved to become effective upon the financial closing of the transfer of ownership of Citizens' Arizona electrical system to NewCo.

Respectfully Submitted,

Bonnie A. Suchman, Esq.
Amie V. Colby, Esq.
Troutman Sanders LLP
401 9th Street, N.W., Suite 1000
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(202) 274-2950
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Attorneys for
UniSource Energy Corporation and NewCo

L. Russell Mitten, Esq.
Deborah Scott, Esq.
Citizens Communications Company
3 High Ridge Park
Stamford, CT 06905

Attorneys for
Citizens Communications Company

Dated: April 18, 2003

VERIFICATIONS

VERIFICATION

I, Vincent Nitido, Jr., Vice President and General Counsel of UniSource Energy Corporation, having knowledge of the matters set forth in the above Joint Application of Citizens Communications Company and UniSource Energy Corporation to Rescind Presidential Permits 16 and 40 and Simultaneously Reissue Permits to a New Entity, hereby verify that the contents thereof are true and correct to the best of my knowledge and belief.

Vincent Nitido, Jr.

SUBSCRIBED AND SWORN before me, a notary public this ___ day of April, 2003.

OFFICIAL SEAL
MELISSA R. MARTINEZ
NOTARY PUBLIC - ARIZONA
PIMA COUNTY
My Commission Expires July 31, 2003

My Commission Expires: 7/31/03

VERIFICATION

I, L. Russell Mitten, Vice President, General Counsel and Corporate Secretary of Citizens Communications Company, having knowledge of the matters set forth in the above Joint Application of Citizens Communications Company and UniSource Energy Corporation to Rescind Presidential Permits 16 and 40 and Simultaneously Reissue Permits to a New Entity, hereby verify that the contents thereof are true and correct to the best of my knowledge and belief.

L. Russell Mitten

SUBSCRIBED AND SWORN before me, a notary public this 17th day of April, 2003.

Lisa M. Lombardo

My Commission Expires: 10/31/06

EXHIBIT A

OPINION OF COUNSEL

UniSource Energy

UniSource Energy Tower
Suite 1820
One South Church
Tucson, AZ 85701

Vincent Nitido, Jr.
Vice President, General Counsel and
Chief Administrative Officer

520/884-3670
FAX 520/884-3612

April 14, 2003

U.S. Department of Energy
Office of Fossil Energy
1000 Independence Ave., SW
Washington, D.C. 20585

Dear Ladies & Gentlemen:

This opinion is rendered in connection with the joint application ("Application") of Citizens Communication Company ("Citizens") and UniSource Energy Company ("UniSource Energy") to rescind Presidential Permits authorizing Citizens to construct, operate and maintain an electric power transmission facilities crossing the international border between the United States and Mexico, and simultaneously issue such permits to NewCo, a subsidiary of UniSource Energy, to own, operate and maintain the completed electric power transmission facilities, pursuant to Executive Order ("EO") No. 10485, as amended by EO 12038, and 10 C.F.R. § 205.320 *et seq.* (2002).

Based on my understanding of Citizens' and UniSource Energy's proposal and my examination of such documents, records and matters of laws as I have considered to be relevant in the premises, it is my opinion that:

1. The operation and maintenance of the facilities, as contemplated by the Application, are within the corporate power of NewCo.

2. Based on information provided by representatives of UniSource Energy, NewCo will comply with all pertinent Federal and State laws.

I am opining herein only as to federal laws of the United States, the internal laws and the general corporate laws of the State of Arizona, and I express no opinion as the laws of any other jurisdiction or as to any matters of municipal law or the laws, rules or regulations of any local agency in any state. I am not assuming any obligation to review or update this opinion should the law or existing facts or circumstances change. This opinion is provided by me as counsel for UniSource Energy and NewCo solely to you for your exclusive use and is not to be made available to or relied upon by any other person or entity without my prior written consent.

Respectfully Submitted,

Vincent Nitido, Jr.

Attorney for UniSource Energy Company and NewCo

April 17, 2003

U.S. Department of Energy
Office of Fossil Energy
1000 Independence Ave., SW
Washington, D.C. 20585

Dear Ladies & Gentlemen:

This opinion is rendered in connection with the joint application ("Application") of Citizens Communication Company ("Citizens") and UniSource Energy Company ("UniSource Energy") to rescind Presidential Permits authorizing Citizens to construct, operate and maintain an electric power transmission facilities crossing the international border between the United States and Mexico, and simultaneously issue such permits to NewCo, a subsidiary of UniSource Energy, to own, operate and maintain the completed electric power transmission facilities, pursuant to Executive Order ("EO") No. 10485, as amended by EO 12038, and 10 C.F.R. § 205.320 *et seq.* (2002).

Based on my understanding of Citizens' and UniSource Energy's proposal and my examination of such documents, records and matters of laws as I have considered to be relevant in the premises, it is my opinion that:

1. Based on information provided by representatives of Citizens, Citizens will comply with all pertinent Federal and State laws.

I am opining herein only as to federal laws of the United States, the internal laws and the general corporate laws of the State of Arizona, and I express no opinion as the laws of any other jurisdiction or as to any matters of municipal law or the laws, rules or regulations of any local agency in any state. I am not assuming any obligation to review or update this opinion should the law or existing facts or circumstances change. This opinion is provided by me as counsel for UniSource Energy and NewCo solely to you for your exclusive use and is not to be made available to or relied upon by any other person or entity without my prior written consent.

Respectfully Submitted,

L. Russell Mitten

Attorney for Citizens Communication Company

CERTIFICATE OF SERVICE

I hereby certify that on April 18, 2003, I served the foregoing document upon the appropriate state and federal agencies regarding this proceeding.

Amie V. Colby

Amie V. Colby