

UNS Energy Corp  
Form DEFM14A  
February 18, 2014  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**SCHEDULE 14A**  
**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE**  
**SECURITIES EXCHANGE ACT OF 1934**

Filed by the Registrant ☒ x

Filed by a Party other than the Registrant ☐ ..

Check the appropriate box:

- ☐ .. Preliminary Proxy Statement
- ☐ .. **Confidential, For Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- ☒ x Definitive Proxy Statement
- ☐ .. Definitive Additional Materials
- ☐ .. Soliciting Material Pursuant to § 240.14a-12

**UNS ENERGY CORPORATION**

**(Name of Registrant as Specified in Its Charter)**

**(Name of Person(s) Filing Proxy Statement, if other than Registrant)**

Payment of Filing Fee (Check the appropriate box):

- .. No fee required.
- .. Fee computed below per Exchange Act Rules 14a-6(i)(1) and 0-11.
  - (1) Title of each class of securities to which transaction applies:
  - (2) Aggregate number of securities to which transaction applies:
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  - (4) Proposed maximum aggregate value of transaction:
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  - (1) Amount Previously Paid:
  - (2) Form, Schedule or Registration Statement No.:
  - (3) Filing Party:

(4) Date Filed:

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**88 E. Broadway Blvd., 85701**

**PO Box 711, Tucson, Arizona 85702-0711**

**www.UNS.com**

February 18, 2014

Paul J. Bonavia  
Board Chair  
Dear Shareholder,

(520) 571-4000

On December 11, 2013, UNS Energy Corporation, which we refer to as UNS Energy, entered into a merger agreement with FortisUS Inc., which we refer to as FortisUS, an indirect, wholly-owned subsidiary of Fortis Inc., which we refer to as Fortis. If the merger is completed, you will be entitled to receive \$60.25 in cash, without interest, for each share of our common stock that you own at the time of the merger.

I am pleased to invite you to a special meeting of shareholders of UNS Energy to vote on this transaction and related matters. The special meeting will be held at the offices of UNS Energy, 88 East Broadway Boulevard, Tucson, Arizona, on March 26, 2014, at 10:00 a.m. (Mountain Standard Time).

**A notice of the special meeting and the proxy statement for use in connection with the solicitation, by UNS Energy's board of directors, of proxies to be used at the special meeting are enclosed.**

At the special meeting, you will be asked to consider and vote upon a proposal to adopt the merger agreement under which UNS Energy would be acquired by an indirect wholly-owned subsidiary of Fortis, the largest investor-owned distribution utility in Canada, and certain related matters.

**After careful consideration, our board of directors has unanimously determined that the merger and the other transactions contemplated by the merger agreement are fair to and in the best interests of UNS Energy and its shareholders and unanimously recommends that you vote FOR the approval and adoption of the merger agreement and the related matters.** See The Merger Interests of UNS Energy's Directors and Executive Officers in the Merger beginning on page 48 of the proxy statement for a more detailed discussion of the interests of our directors and executive officers in the merger.

We believe that this transaction represents an outstanding opportunity for UNS Energy's shareholders. We have always believed strongly in UNS Energy and its business plan and had not considered UNS Energy to be for sale before Fortis approached us with its compelling offer. Once we looked at that offer, however, it became clear that there might never be a better time to consider a sale of the company.

The transaction with Fortis provides a unique opportunity for you, our shareholders, to obtain a very significant premium for your shares of UNS Energy.

## Edgar Filing: UNS Energy Corp - Form DEFM14A

The definitive merger agreement we have entered into with Fortis provides for a cash payment to you of \$60.25 per share. In addition, Fortis agreed that we are permitted to make dividend payments through the closing of the transaction. The \$60.25 per share merger consideration represents a 31.4% premium over the closing price of UNS Energy's common stock on the last trading session prior to the merger announcement and a 16.2% premium over the 52-week high closing price for UNS Energy's common stock as of the last trading session prior to the merger.

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announcement. This amount represents multiples of 9.0 times UNS Energy's then-projected 2014 EBITDA (earnings before interest, taxes, depreciation and amortization) and 18.5 times UNS Energy's 2014 diluted earnings per share.

In addition to these benefits to our shareholders, the transaction also provides benefits for our customers, community and employees. As a significant majority of UNS Energy's revenues are derived from its regulated utility subsidiaries, these types of benefits are equally important to a successful transaction. Fortis has agreed that our headquarters will remain in Tucson, maintaining our ties with the community that we serve. Fortis also has a federation-style model that permits the utilities it owns to operate largely independently, meaning that little will change in our day-to-day services and operations. On a broader scale, however, our customers will benefit from our ability to learn and adopt Fortis best practices to improve services and, through Fortis, obtain enhanced access to capital to fund investments and technology improvements. Our employees will have access to new opportunities within the Fortis family and the benefit of Fortis commitments to maintain wages and benefits. Fortis has also committed to continuing our charitable and community outreach efforts following the completion of the merger.

Completion of the transaction is conditioned on, among other requirements, obtaining the approval of the Arizona Corporation Commission and the Federal Energy Regulatory Commission, neither of which will approve the transaction unless they believe it to be in the public interest. We will be working with both commissions over the coming months to obtain the necessary regulatory approvals. The completion of the transaction is also conditioned on the receipt of certain other governmental approvals.

Even with all of the above advantages, our board of directors worked to ensure that our merger agreement would not preclude an even better transaction partner from coming forward. As discussed in more detail in the attached proxy statement, after Fortis approached us, our board, with the help of its financial advisor, surveyed strategic alternatives and the possibility of alternative transaction partners. We concluded there were few, if any, other transaction partners that we believed would have interest in a transaction and the ability to consummate a transaction at an attractive price. Accordingly, under these circumstances, our board of directors determined to proceed with discussions with Fortis without putting UNS Energy up for sale, and thereby minimize the risk of premature leaks and potential disruption of our business. In any case, we ensured that the definitive merger agreement permits us to respond, prior to shareholder approval and with specified limitations, to unsolicited alternative proposals, and identifies procedures permitting us to terminate the Fortis merger agreement prior to shareholder approval and enter into an agreement for a superior proposal, subject to payment of a termination fee equal to 2.5% of the equity value of the Fortis transaction. Since December 11, 2013, when we announced the transaction, no party has approached us regarding an alternative transaction.

Based on the above factors and other factors described in the attached proxy statement, after careful consideration, our board of directors unanimously recommends that you vote **FOR** the approval and adoption of the merger agreement and the related matters.

*Your vote is very important, regardless of the number of shares of common stock you own.* We cannot consummate the merger unless the merger agreement is approved by holders of at least a majority of the outstanding shares of UNS Energy common stock entitled to vote on the merger proposal.

Only holders of record of shares of UNS Energy common stock at the close of business on February 14, 2014, the record date for the special meeting, are entitled to notice of, and to vote at, the special meeting and any adjournments or postponements thereof.

**Whether or not you plan to attend the special meeting, please complete, sign and date the enclosed proxy and return it promptly in the enclosed postage-paid return envelope, or give your proxy by telephone by calling the**

**toll-free number on your proxy card or by following the instructions on your proxy card to vote using the Internet. You may revoke the proxy at any time prior to its exercise at the special meeting in the manner described in the proxy statement accompanying this letter. Completing a proxy now will not prevent you from being able to vote at the special meeting by attending in person and casting a vote. Your vote in person at the special meeting will supersede any previously submitted proxy.**

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If your shares are held in the name of a bank, broker or other holder of record, you must obtain a legal proxy, executed in your favor, from the holder of record to be able to vote at the special meeting.

**If you fail to return your proxy or to attend the special meeting in person, your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote AGAINST the approval and adoption of the merger agreement.**

The attached proxy statement provides you with detailed information about the special meeting, the merger agreement and the merger. A copy of the merger agreement is attached as Annex A to this document. We encourage you to read this document and the merger agreement carefully and in their entirety. You may also obtain more information about UNS Energy from documents we have filed with the Securities and Exchange Commission.

Thank you in advance for your continued support and your consideration of this matter.

Sincerely,

/s/ Paul J. Bonavia

Paul J. Bonavia

Board Chair and Chief Executive Officer

**Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this proxy statement. Any representation to the contrary is a criminal offense.**

This proxy statement is dated February 18, 2014 and is first being mailed to shareholders on or about February 21, 2014.



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**P.O. Box 711, HQE901**

**Tucson, Arizona 85702**

**[www.UNS.com](http://www.UNS.com)**

**NOTICE OF SPECIAL MEETING OF SHAREHOLDERS**

**To Be Held on March 26, 2014**

To the Shareholders of UNS Energy Corporation:

A special meeting of shareholders of UNS Energy Corporation, an Arizona corporation, which we refer to as UNS Energy, will be held at the offices of UNS Energy, 88 East Broadway Boulevard, Tucson, Arizona 85701, on March 26, 2014, at 10:00 a.m. (Mountain Standard Time) for the following purposes:

1. To consider and vote on a proposal to approve and adopt the Agreement and Plan of Merger, dated as of December 11, 2013, by and among FortisUS Inc., a Delaware corporation, Color Acquisition Sub Inc., an Arizona corporation and a wholly-owned subsidiary of FortisUS Inc., which we refer to as Merger Sub, UNS Energy and, solely for the purposes of certain provisions thereof, Fortis Inc., a corporation existing under the Corporations Act of Newfoundland and Labrador, as it may be amended from time to time, pursuant to which Merger Sub will merge with and into UNS Energy, with UNS Energy continuing as the surviving corporation, which we refer to as the merger proposal.
2. To consider and cast an advisory, nonbinding vote to approve the compensation that may be paid or become payable to UNS Energy named executive officers that is based on or otherwise relates to the merger, discussed under the section entitled The Merger Interests of UNS Energy's Directors and Executive Officers in the Merger Quantification of Change of Control and Termination Payments and Benefits to the UNS Energy Named Executive Officers beginning on page 51, which we refer to as the advisory say-on-merger-pay proposal.
3. To consider and vote on a proposal to adjourn the special meeting to a later date or time, if necessary or appropriate, to solicit additional proxies in the event there are insufficient votes at the time of the special meeting or any adjournment or postponement thereof to adopt the merger agreement.
4. To act upon any other matters that may properly come before the special meeting.

The close of business on February 14, 2014 is the record date for the purpose of determining the shareholders who are entitled to receive notice of, and to vote at, the special meeting and any adjournments or postponements thereof. Each shareholder is entitled to one vote for each share of UNS Energy common stock held on the record date.

**THE UNS ENERGY BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE APPROVAL AND ADOPTION OF THE MERGER AGREEMENT.** UNS Energy cannot consummate the merger unless the merger agreement is approved by holders of at least a majority of the outstanding shares of UNS Energy common stock entitled to vote on the merger proposal.

In considering the recommendation of the UNS Energy board with respect to the proposal to approve and adopt the merger agreement, you should be aware that our directors and executive officers may have interests in the merger that are different from, or in addition to, the interests of our shareholders generally. Our board of directors was aware of, and considered, these differing interests, to the extent such interests existed at the time, in evaluating and negotiating the merger agreement and the merger, and in unanimously recommending that the merger agreement be

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adopted by the shareholders of UNS Energy. See The Merger Interests of UNS Energy's Directors and Executive Officers in the Merger beginning on page 48 of this proxy statement for a more detailed discussion of these interests.

**THE BOARD OF DIRECTORS ALSO UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE APPROVAL OF THE ADVISORY SAY-ON-MERGER-PAY PROPOSAL AND FOR THE PROPOSAL TO ADJOURN THE SPECIAL MEETING, IF NECESSARY OR APPROPRIATE, TO SOLICIT ADDITIONAL PROXIES.**

The attached proxy statement describes the proposed merger, the actions to be taken in connection with the merger and the merger-related compensation that may be provided to our named executive officers. A proxy for use at the meeting in the form accompanying this Notice is hereby solicited on behalf of the UNS Energy board of directors from holders of UNS Energy common stock.

Regardless of whether you plan to attend the special meeting in person, we request that you complete, sign, date and return the enclosed proxy or submit your proxy by telephone or the Internet prior to the special meeting to ensure that your shares will be represented at the special meeting. If you have Internet access, we encourage you to submit your proxy via the Internet. Properly executed proxy cards with no instructions indicated on the proxy card will be voted

**FOR** the approval and adoption of the merger agreement, **FOR** the approval of the advisory say-on-merger-pay proposal and **FOR** the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies. If you attend the special meeting, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy card. If your shares are held in the name of a bank, broker or other holder of record, you must obtain a legal proxy, executed in your favor, from the holder of record to be able to vote at the special meeting. Your prompt attention is greatly appreciated.

**If you fail to return your proxy or to attend the special meeting in person, your shares will not be counted for purposes of determining whether a quorum is present at the special meeting and will have the same effect as a vote AGAINST the approval and adoption of the merger agreement.**

By Order of the Board of Directors,

/s/ Linda H. Kennedy

Linda H. Kennedy

Corporate Secretary

February 18, 2014

Tucson, Arizona

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**ADDITIONAL INFORMATION**

This document incorporates important business and financial information about UNS Energy from documents that are not included in or delivered with this document. See **Where You Can Find More Information** on page 81. You can obtain documents incorporated by reference in this document by writing or telephoning us at:

UNS Energy Corporation

88 E. Broadway Boulevard

Tucson, Arizona 85701

Attention: Investor Relations

Telephone: (520) 884-3621

You will not be charged for any of these documents that you request. If you wish to request documents, you should do so by March 19, 2014 in order to receive them before the special meeting. You may also obtain UNS Energy's SEC filings through the Internet at [www.sec.gov](http://www.sec.gov) or [www.UNS.com](http://www.UNS.com). **This proxy statement and UNS Energy's Annual Report on Form 10-K for the fiscal year ended December 31, 2012, along with UNS Energy's other SEC filings, are available at [www.UNS.com](http://www.UNS.com) by selecting Investors and then selecting SEC Filings and Financial Data.**

**For additional questions about the merger, assistance in submitting proxies or voting shares of UNS Energy common stock, or additional copies of the proxy statement or the enclosed proxy card, please contact our proxy solicitor:**

D.F. King & Co., Inc.

48 Wall Street 2<sup>nd</sup> Floor

New York, New York 10005

Banks and Brokers call collect: (212) 269-5550

All others call toll-free: (800) 207-3158

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**SUMMARY**

*The following summary highlights information in this proxy statement and may not contain all of the information that is important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to in this proxy statement. In addition, this proxy statement incorporates by reference important business and financial information about UNS Energy Corporation. You may obtain the information incorporated by reference into this proxy statement without charge by following the instructions in *Where You Can Find More Information* on page 81. We sometimes make reference to UNS Energy Corporation and its subsidiaries in this proxy statement by using the terms *UNS Energy*, *the Company*, *we*, *our* or *us*. Each item in this summary includes a page reference directing you to a more complete description of the item in this proxy statement.*

**The Companies (Page 24)**

**UNS Energy Corporation.** UNS Energy Corporation, an Arizona corporation that was organized in 1995 as UniSource Energy Corporation and subsequently changed its name to UNS Energy Corporation in 2012, is a utility services holding company headquartered in Tucson, Arizona and engaged, through its subsidiaries, in the electric generation and energy delivery business. Our common stock is listed on the New York Stock Exchange, which we refer to as the NYSE, under the symbol *UNS*. Our principal executive offices are located at 88 E. Broadway Boulevard, Tucson, Arizona 85701. Our telephone number is (520) 571-4000. UNS Energy's home page on the Internet is [www.UNS.com](http://www.UNS.com). The information provided on UNS Energy's website is not part of this proxy statement and is not incorporated herein by reference.

**Fortis Inc.** Fortis Inc., which we refer to as Fortis, is a corporation existing under the Corporations Act of Newfoundland and Labrador. Fortis is the largest investor-owned gas and electric distribution utility in Canada, with assets totaling approximately \$16.8 billion as of December 31, 2013 (based on an exchange rate of 0.9401 US Dollars per Canadian Dollar as of December 31, 2013) and revenue totaling approximately \$3.9 billion for the fiscal year ended December 31, 2013 (based on an average exchange rate of 0.9709 US Dollars per Canadian Dollar for such fiscal year). Fortis serves more than 2.4 million gas and electricity customers. Its regulated holdings include electric utilities in five Canadian provinces and two Caribbean countries, a natural gas utility in British Columbia, Canada and an electric and gas utility in one U.S. state. Fortis owns non-regulated generation assets, primarily hydroelectric, across Canada and in Belize and Upper New York State, a petroleum supply operation in the Mid-Atlantic Region of the United States and hotels and commercial office and retail space in Canada. Fortis common stock is listed on the Toronto Stock Exchange under the symbol *FTS*. Fortis executive offices are located at The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2, Canada, and its telephone number is (709) 737-2800.

**FortisUS Inc.** FortisUS Inc., which we refer to as FortisUS, is a Delaware corporation and an indirect wholly-owned subsidiary of Fortis. FortisUS's executive offices are located at The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2, Canada, and its telephone number is (709) 737-2800.

**Color Acquisition Sub Inc.,** which we refer to as Merger Sub, is an Arizona corporation and a wholly-owned subsidiary of FortisUS, which was formed solely for the purpose of facilitating FortisUS's acquisition of UNS Energy. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with its acquisition of UNS Energy. Upon consummation of the proposed merger, Merger Sub will merge with and into UNS Energy and will cease to exist. Merger Sub's principal executive office's address is c/o The Fortis Building, Suite 1201, 139 Water Street, St. John's, Newfoundland and Labrador A1B 3T2, Canada, and its telephone number is (709) 737-2800.



**The Merger (Page 26)**

The Agreement and Plan of Merger, dated as of December 11, 2013, which we refer to as the merger agreement, by and among FortisUS, Merger Sub, UNS Energy and, solely for the purposes of certain provisions thereof, Fortis, provides that subject to the terms and conditions of the merger agreement, Merger Sub will merge with and into UNS Energy, with UNS Energy continuing as the surviving corporation, which we refer to as the merger. As a result of the merger, UNS Energy will become an indirect wholly-owned subsidiary of Fortis. Upon completion of the proposed

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merger, shares of UNS Energy common stock will no longer be listed on any stock exchange or quotation system. If the merger agreement is adopted and the merger is completed, each outstanding share of UNS Energy common stock (other than shares of UNS Energy common stock held by UNS Energy or its subsidiaries or by FortisUS, Fortis or Merger Sub, or any of their respective wholly-owned subsidiaries) will be converted into the right to receive \$60.25 in cash, without interest, less any applicable withholding taxes. The merger agreement is attached to this proxy statement as Annex A. We urge you to read carefully the merger agreement in its entirety as it is the legal document governing the merger.

### **The Special Meeting (Page 18)**

*Date, Time and Place.* The special meeting will be held at the offices of UNS Energy Corporation, 88 East Broadway Boulevard, Tucson, Arizona 85701, on March 26, 2014, at 10:00 a.m. (Mountain Standard Time).

*Purpose.* You will be asked to consider and vote upon (1) the approval and adoption of the merger agreement, (2) on an advisory, non-binding basis, the compensation that may be paid or become payable to UNS Energy's named executive officers that is based on or otherwise relates to the merger, which we refer to as the advisory say-on-merger-pay proposal, (3) the adjournment of the special meeting to a later date, if necessary or appropriate, to solicit additional proxies if there are insufficient votes at the time of the special meeting to adopt the merger agreement and (4) such other business as may properly come before the special meeting.

*Record Date and Quorum.* You are entitled to vote at the special meeting if you owned shares of UNS Energy common stock at the close of business on February 14, 2014, the record date for the special meeting. You will have one vote for each share of UNS Energy common stock that you owned on the record date. As of the record date, there were 41,633,535 shares of UNS Energy common stock issued and outstanding and entitled to vote at the special meeting. The presence at the special meeting, in person or by proxy, of the holders of 20,816,768 shares of UNS Energy common stock (a majority of UNS Energy outstanding common stock entitled to vote at the special meeting) constitutes a quorum for the purpose of considering the proposals. If you submit a properly executed proxy card, even if you abstain from voting, your shares of UNS Energy common stock will be counted for the purposes of determining whether a quorum is present at the special meeting.

*Vote Required.* The approval and adoption of the merger agreement requires the affirmative vote of the holders of a majority of the outstanding shares of UNS Energy common stock entitled to vote on the merger proposal. The approval of the advisory say-on-merger-pay proposal requires the affirmative vote of a majority of the votes cast by holders of shares of UNS Energy common stock present or represented by proxy at the special meeting and entitled to vote thereon. If there are insufficient votes at the time of the special meeting, or any adjournment or postponement thereof, to adopt the merger agreement, then UNS Energy may seek to adjourn or postpone the special meeting one or more times (provided that the special meeting is not postponed or adjourned to a date that is later than 30 calendar days after the date for the originally scheduled special meeting). The approval of a proposal to adjourn the special meeting, if necessary or appropriate, for the purpose of soliciting additional proxies, whether or not a quorum is present, would require the affirmative vote of the holders of at least a majority of the shares of UNS Energy common stock present in person or represented by proxy at the special meeting and entitled to vote on the matter.

*Effect of Abstentions and Broker Non-Votes on Voting.* Abstentions and shares not represented at the special meeting and not voted in person or by proxy will have the same effect as a vote **AGAINST** the proposal to approve and adopt the merger agreement. Abstentions and shares not represented at the special meeting and not voted in person or by proxy will have no effect on the advisory say-on-merger-pay proposal. Abstentions will have the same effect as a vote **AGAINST** the proposal to adjourn the special meeting, if necessary or appropriate, but shares not represented at the special meeting and not voted in person or by proxy will have no effect on the proposal to adjourn the special meeting,

if necessary or appropriate. Because brokers or banks holding shares of UNS Energy common stock in street name may vote your shares of UNS Energy common stock on the adoption of the merger agreement, the advisory say-on-merger-pay proposal, or adjournments of the special meeting, if necessary or appropriate, only if you provide instructions on how to vote, your failure to provide instructions will result in your shares not being present at the meeting and not being voted on those proposals. It is very important that ALL of our shareholders vote their shares of UNS

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Energy common stock, so please promptly complete and return the enclosed proxy card or submit your proxy by telephone or via the Internet.

*How to Vote.* After carefully reading and considering the information contained in this proxy statement, we urge you to vote your shares as soon as possible so that your shares are represented at the special meeting. You have a choice of voting by proxy over the Internet, by using a toll-free telephone number or by completing a proxy card and mailing it in the postage-paid envelope provided. Please refer to your proxy card or the information forwarded by your bank, broker or other holder of record to see which options are available to you. Please be aware that if you vote over the Internet, you may incur costs such as telephone and Internet access charges for which you will be responsible. The Internet and telephone voting facilities for shareholders of record will close at 11:59 p.m. Eastern Time on March 25, 2014. You can also vote in person at the meeting, but we encourage you to submit your proxy card promptly in any event. If a bank or broker holds your shares, you may be able to vote by telephone or via the Internet if the bank or broker offers these options. Please follow the instructions you receive from your bank or broker. Unless you specify to the contrary on your proxy card, all of your shares represented by valid proxies will be voted **FOR** the merger proposal, the say-on-merger-pay proposal and the proposal to permit the proxies to vote, in their discretion, on the postponement or adjournment of the special meeting, if necessary. The persons named as proxies will not have the discretion to vote in favor of any postponement or adjournment as to any shares of our common stock that have been voted against the merger proposal.

**IF YOU HOLD YOUR SHARES IN CERTIFICATED FORM, PLEASE DO NOT SEND IN YOUR STOCK CERTIFICATES WITH YOUR PROXY CARD.** If the merger is completed, a separate letter of transmittal will be mailed to you that will enable you to exchange your stock certificates or surrender your book-entry shares for the merger consideration.

*Revocation of Proxies.* Any proxy given by a UNS Energy shareholder may be revoked at any time before it is voted at the special meeting by doing any of the following:

if a proxy was submitted by telephone or the Internet, by submitting another proxy by telephone or the Internet in accordance with the instructions on the proxy card;

by delivering to UNS Energy's Corporate Secretary a signed written notice of revocation bearing a date later than the date of the proxy, stating that the proxy is revoked;

by submitting a later-dated proxy card relating to the same shares of UNS Energy common stock; or

by attending the special meeting and voting in person (a UNS Energy shareholder's attendance at the meeting will not, by itself, revoke your proxy; the shareholder must vote in person at the meeting).

Street name holders of UNS Energy common stock should contact their brokerage firm, bank, trust or other nominee to obtain instructions as to how to change or revoke their proxies.

## **Recommendation of the UNS Energy Board (Page 35)**

The UNS Energy board of directors, which we refer to as the UNS Energy board, unanimously determined that the merger and the other transactions contemplated by the merger agreement are fair to and in the best interests of UNS Energy and its shareholders. The UNS Energy board unanimously recommends that UNS Energy shareholders vote

**FOR** the approval and adoption of the merger agreement, **FOR** the approval of the advisory say-on-merger-pay proposal and **FOR** the adjournment of the special meeting, if necessary or appropriate, to solicit additional proxies.

You should read The Merger Reasons for the Merger; Recommendation of the UNS Energy Board, beginning on page 35, for a more detailed discussion of the factors that the UNS Energy board considered in deciding to recommend the approval and adoption of the merger agreement and approval of the merger. See The Merger

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Interests of UNS Energy's Directors and Executive Officers in the Merger beginning on page 48 of the proxy statement for a more detailed discussion of the interests of our directors and executive officers in the merger.

### **Opinion of Lazard Frères & Co. LLC (Page 37)**

On December 11, 2013, our financial advisor, Lazard Frères & Co. LLC, which we refer to in this proxy statement as Lazard, rendered its written opinion, consistent with its oral opinion rendered on the same date, to our board of directors that, as of such date, and based upon and subject to the assumptions, procedures, factors, qualifications and limitations set forth therein, the merger consideration of \$60.25 in cash per share of outstanding UNS Energy common stock to be paid to holders of such UNS Energy common stock (other than to (i) UNS Energy (as the holder of treasury shares) or any of the subsidiaries of UNS Energy and (ii) Fortis, FortisUS, Merger Sub or any of their respective wholly-owned subsidiaries, which are collectively referred to in this discussion as "excluded holders") in the merger was fair, from a financial point of view, to such holders.

The full text of Lazard's written opinion, dated December 11, 2013, which sets forth the assumptions made, procedures followed, factors considered and qualifications and limitations on the review undertaken by Lazard in connection with its opinion, is attached to this proxy statement as Annex B and is incorporated by reference herein in its entirety. The foregoing summary of Lazard's opinion is qualified in its entirety by reference to the full text of the opinion. You are encouraged to read Lazard's opinion, this section and the summary of Lazard's opinion below carefully and in their entirety. Lazard's engagement and its opinion were for the benefit of our board of directors (in its capacity as such), and Lazard's opinion was rendered to our board of directors in connection with its evaluation of the merger and addressed only the fairness as of the date of the opinion, from a financial point of view, to holders of UNS Energy common stock (other than the excluded holders) of the consideration to be paid to such holders in the merger. Lazard's opinion was not intended to, and does not, constitute a recommendation to any shareholder as to how such shareholder should vote or act with respect to the merger or any matter relating thereto.

For a further discussion of Lazard's opinion, see "The Merger" Opinion of Lazard Frères & Co. LLC beginning on page 37.

### **Treatment of Options, Restricted Shares and Other Equity Awards (Page 62)**

*Stock Options.* Immediately prior to the closing of the merger, each outstanding option to acquire UNS Energy common stock that remains outstanding as of the closing of the merger will be cancelled in exchange for the right to receive a cash payment equal to the number of shares of UNS Energy common stock underlying the option multiplied by the amount by which the per share merger consideration exceeds the applicable exercise price of the option, less any applicable withholding taxes.

*Equity-Based Awards Other than Options.* Immediately prior to the closing of the merger, each restricted share, restricted stock unit, performance share and other share-based award (all of which we refer to as other equity-based awards) that is not subject to performance criteria will vest in full and be cancelled and converted into a right to receive a cash payment equal to the number of shares of UNS Energy common stock subject to the award multiplied by the per share merger consideration less any applicable withholding taxes. Other equity-based awards subject to performance criteria will vest based on target or actual performance levels (with any expenses or costs arising in connection with the merger or any non-recurring charges that would not reasonably be expected to have been incurred had the merger not occurred excluded in determining the level of attainment), whichever results in a higher number of shares, and be cancelled for a cash payment equal to the number of shares of UNS Energy common stock that vest in respect of such other equity-based award multiplied by the per share merger consideration.

**Material U.S. Federal Income Tax Consequences of the Merger (Page 53)**

In general, the receipt of cash in exchange for shares of UNS Energy common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. Holders of UNS Energy common stock should consult their tax advisors about the tax consequences to them of the exchange of shares of UNS Energy common stock for cash pursuant to the merger in light of their particular circumstances.

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**Interests of UNS Energy's Directors and Executive Officers in the Merger (Page 48)**

When considering the recommendation of the UNS Energy board with respect to the proposed transactions, you should be aware that UNS Energy's executive officers and directors may have interests in the proposed transactions that are different from, or in addition to, those of UNS Energy's shareholders more generally. These interests may present such executive officers and directors with actual or potential conflicts of interest. The UNS Energy board was aware of these interests during its deliberations on the merits of the proposed transactions and in deciding to recommend that you vote for the adoption of the merger agreement and approval of the transactions contemplated by the merger agreement at the special meeting. These interests include:

The automatic vesting and conversion upon the consummation of the merger of outstanding options to purchase shares of UNS Energy common stock and other equity-based awards into the right to receive (i) in the case of each option, an amount in cash equal to the product of (x) the number of shares of UNS Energy common stock subject to the option and (y) the amount by which the per share merger consideration exceeds the exercise price per share of such option, and (ii) in the case of each other equity-based award, an amount in cash equal to the product of the number of shares of UNS Energy common stock subject to such award and the per share merger consideration, with the number of shares earned in respect of performance-vesting awards determined assuming target level of attainment or based on actual attainment of the applicable performance conditions as of the end of the quarter immediately preceding the consummation of the merger, whichever results in a greater number of shares, without proration (with any expenses or costs arising in connection with the merger or any non-recurring charges that would not reasonably be expected to have been incurred had the merger not occurred excluded in determining the level of attainment).

All of our current executive officers, including those who are our named executive officers (except for one of our named executive officers who would have been one of our three other most highly compensated executive officers, but left the Company in September 2013), have change of control agreements with us that, in the event of a termination of such executive officer's employment without cause or a resignation of such executive officer for good reason, in each case within two years following (or, under certain circumstances, in anticipation of) the merger, provide such executive officers with, subject to their execution of a release of claims against us and compliance with certain restrictive covenants set forth in their respective agreements, certain compensation and benefits, including (i) cash severance, (ii) payment of an amount in cash equal to the average annual payment granted to the executive pursuant to the short-term incentive compensation plan for the three years prior to the calendar year in which the executive's termination occurs, (iii) payment of a pro-rated amount in respect of the bonus granted to the executive for the year in which the termination occurs, (iv) continuation of healthcare and welfare benefits, and (v) any unpaid amounts due to the executive pursuant to the short-term incentive compensation plan. No excise tax gross-ups are provided; rather, severance payments and other benefits to named executive officers in excess of the safe harbor amount would be cut back to the safe harbor amount if the executive would, on an after-tax basis, receive greater payments and benefits after such cutback than if such executive's payments and benefits had not been reduced and had been subject to the excise tax under Section 4999 of the Internal Revenue Code, which we refer to as the Code.



Four of the eleven members of UNS Energy's board of directors designated by UNS Energy and acceptable to FortisUS, including our Chief Executive Officer, may remain on the board of directors of UNS Energy following the merger and will not be removed, except for cause, until at least the second anniversary of the closing date of the merger. It is also expected that UNS Energy's executive officers will remain executive officers of UNS Energy following the merger.

For a more detailed discussion of these interests, see "The Merger - Interests of UNS Energy's Directors and Executive Officers in the Merger" beginning on page 48.

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**Beneficial Ownership (Page 78)**

As of February 14, 2014, the directors and executive officers of UNS Energy beneficially owned in the aggregate 308,909 shares of UNS Energy common stock (excluding options not exercised as of February 14, 2014) or approximately 0.7% of UNS Energy's outstanding common stock. We currently expect that each of these individuals will vote all of his or her shares of UNS Energy common stock entitled to vote at the special meeting in favor of each of the proposals.

**Financing Arrangement (Page 58)**

Fortis has committed to provide the capital to fund the entire purchase price of UNS Energy, including the payment of UNS Energy's merger related fees and expenses. Fortis expects to fund the acquisition of UNS Energy using the Cdn\$2.0 billion (\$1.89 billion) non-revolving term acquisition credit facilities obtained on December 11, 2013 pursuant to a commitment letter from The Bank of Nova Scotia, an affiliate of Scotia Capital (USA) Inc., which we refer to as Scotiabank, financial advisor to Fortis in connection with the merger. Such credit facilities consist of a Cdn\$1.7 billion (\$1.6 billion) short-term bridge facility and a Cdn\$300 million (\$283 million) medium-term bridge facility. Such US Dollar values are based on an exchange rate of 0.9430 US Dollars per Canadian Dollar as of December 11, 2013. Fortis also expects to use its existing Cdn\$1.0 billion (\$940 million) committed revolving corporate credit facility (under which it has agreed to maintain availability of not less than Cdn\$600 million (\$564 million)). Such US Dollar values are based on an exchange rate of 0.9401 US Dollars per Canadian Dollar as of December 31, 2013. In connection with the acquisition, Fortis issued and sold on January 9, 2014 an aggregate Cdn\$1.8 billion (\$1.66 billion) principal amount of convertible unsecured subordinated debentures represented by instalment receipts. Fortis will apply the net proceeds of the final instalment, expected to be an aggregate of Cdn\$1.1646 billion (\$1.0734 billion), to repay amounts borrowed under the acquisition credit facilities and for other acquisition-related expenses. The acquisition will be financed on a long-term basis consistent with the commitment of Fortis to maintain its A- credit rating. The merger is not conditioned on Fortis obtaining financing on any particular terms or at all. Such US Dollar values are based on an exchange rate of 0.9217 US Dollars per Canadian Dollar as of January 9, 2014.

**No Dissenters' Rights (Page 75)**

Pursuant to Section 10-1302(D) of the Arizona Business Corporation Act, which we refer to as the ABCA, UNS Energy's shareholders will not be entitled to exercise dissenters' rights if the merger is adopted and consummated because our common stock was listed on the NYSE on the record date.

**Conditions to the Merger (Page 73)**

*Conditions to Each Party's Obligations.* Each party's obligation to consummate the merger is subject to the satisfaction or waiver of the following mutual conditions:

adoption of the merger agreement by the shareholders of UNS Energy;

absence of any order, decree, judgment, injunction or other ruling by any governmental entity that prevents or prohibits the consummation of the merger;

the obtaining of required governmental approvals, including that of the Federal Energy Regulatory Commission and the Arizona Corporation Commission, without any conditions that would reasonably be expected to have, individually or in the aggregate, a regulatory burdensome effect, which means (x) any divestiture or other undertaking or (y) proposing, accepting or entering into any consent decree, hold separate order or operational restriction, in each case, that would reasonably be expected to have a material adverse effect on the business, assets, liabilities, financial condition or results of operations of (a) the surviving corporation and its subsidiaries, taken as a whole, or (b) Fortis and its subsidiaries, taken as a whole, following the merger, provided that Fortis and its subsidiaries, taken as a whole, shall be deemed to be 100% of the size and scale of the surviving corporation and its subsidiaries, taken as a whole; and

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the receipt of written confirmation from the Committee on Foreign Investment in the United States that there are no unresolved national security concerns with respect to the merger.

*Conditions to UNS Energy's Obligations.* The obligation of UNS Energy to consummate the merger is subject to the satisfaction or waiver of further conditions, including:

the representations and warranties of FortisUS and Merger Sub must be true and correct, subject to specified materiality qualifications;

FortisUS's and Merger Sub's performance in all material respects of and compliance in all material respects with all of their agreements and covenants under the merger agreement; and

the approval of the Arizona Corporation Commission shall have been obtained on terms and conditions that do not have the effect of reducing the merger consideration to be received by UNS Energy's shareholders.

*Conditions to FortisUS's and Merger Sub's Obligations.* The obligation of FortisUS and Merger Sub to consummate the merger is subject to the satisfaction or waiver of further conditions, including:

the representations and warranties of UNS Energy must be true and correct, subject to specified materiality qualifications;

UNS Energy's performance in all material respects of and compliance in all material respects with all of its obligations and covenants under the merger agreement; and

there not having occurred since the date of the merger agreement any material adverse effect or any undisclosed changes, events or occurrences that have had or would reasonably be expected to have, individually or in the aggregate, a material adverse effect on UNS Energy.

**Termination of the Merger Agreement (Page 74)**

UNS Energy and FortisUS may terminate the merger agreement by mutual written consent at any time before the consummation of the merger. In addition, with certain exceptions, either FortisUS or UNS Energy may terminate the merger agreement at any time before the consummation of the merger if:

the merger has not been completed on or before December 11, 2014 (which we refer to as the outside date), which may be extended to June 11, 2015, or beyond in certain cases related to governmental approvals;

the approval of the merger shall not have been obtained at the special meeting;

any court of competent jurisdiction or other governmental entity shall have issued a final and non-appealable order or injunction or otherwise permanently enjoined, restrained or prohibited the merger; or

the other party has breached or failed to perform its representations, warranties, covenants or agreements contained in the merger agreement, subject to certain materiality standards and cure periods.

UNS Energy may also terminate the merger agreement prior to obtaining shareholder approval to enter into a transaction with respect to a superior proposal after following the procedures set forth in the merger agreement as described in more detail in *The Merger Agreement Termination of the Merger Agreement* beginning on page 74 and payment of a termination fee of \$63.9 million.

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