

UNS Gas, Inc.
Tax Adjustment
Plan of Administration

1. GENERAL DESCRIPTION

The purpose of the Tax Adjustment is to address changes in the Company's federal income tax rate until such changes are reflected in the Company's next general rate case. The savings will be returned through a combination of (i) a per therm bill credit for all customer classes and (ii) a regulatory liability that reflects the deferral of the return of a portion of the savings (which will be returned to customers in the Company's next rate case).

The initial Tax Adjustment shall go into effect for a 7-month period beginning with the June 2018 billing cycle. UNS Gas shall make an annual informational filing with Docket Control ("Informational Filing") no later than October 1st of each year that includes its Tax Adjustment for the next January to December 12-month period based on the federal income tax rate in effect for the calendar year and expected sales for the 12-month bill credit period.

The Tax Adjustment will also include a balancing account for estimates of (i) differences in actual therm sales versus forecasted sales from the preceding 12-month bill credit period, (ii) differences in the actual versus forecasted excess deferred income tax ("EDIT") amortization resulting from adjustments to accumulated deferred income taxes ("ADIT") related to the change in the income tax rate for the applicable calendar year, and (iii) changes, if any, in the effective federal income tax rate.

The Tax Adjustment shall be terminated on the effective date of new rates in the Company's next rate case. Upon termination of the Tax Adjustment, any remaining amounts that have not been returned to customers will be reflected in the regulatory liability to be returned to Customers in the Company's next rate case.

2. CALCULATION OF TAX ADJUSTMENT

The calculation of the Tax Adjustment is set forth in Table 1 below and in the attached schedules. The tax savings to be returned to customers starting in June 2018 will include the direct tax savings resulting from the tax rate change plus an estimate of the EDIT amortization resulting from adjustments to ADIT related to the change in the federal income tax rate. The per therm bill credit will be calculated based on these calendar year 2018 tax savings and the estimated therm sales for the initial 7-month bill credit period (Line 7 of Table 1).

For 2019 (and subsequent years), the tax savings to be returned to customers will be calculated as for 2018 and will reflect the effective federal income tax rate applicable for that tax year. In addition, a balancing account will be used to true up the actual EDIT impact and the difference between forecasted and actual therm sales for the preceding calendar year (Line 2 of Table 1).

The bill credit portion of the Tax Adjustment shall be 75% in 2019, 50% in 2020, and shall remain at 50% until the effective date of new rates in UNS Gas' next rate case (Line 4 of Table 1). In Years 2 and 3 (and until new rates become effective in the Company's next rate case), the portion of the Tax Adjustment not returned to customers as a bill credit will be deferred and returned to customers in the Company's next rate case (Lines 8 and 10 of Table 1). The deferred amounts shall accrue interest at an annual rate of 6.74% (Line 9 of Table 1).

TABLE 1

| Line No. | | June 1, 2018 - Dec. 31 - 2018 | <i>For Illustrative Purposes Only</i> | |
|----------|---|-------------------------------|---------------------------------------|------------------------------|
| | | | Jan 1, 2019 - Dec. 31, 2019 | Jan. 1, 2020 - Dec. 31, 2020 |
| 1 | Gross Tax Adjustment | \$ 2,891 | \$ 2,891 | \$ 2,891 |
| 2 | Total Balancing Account | N/A | - | - |
| 3 | Net Annual Tax Adjustment (Line 1 + 2) | \$ 2,891 | \$ 2,891 | \$ 2,891 |
| 4 | Bill Credit % | 100% | 75% | 50% |
| 5 | Total Annual Tax Adjustment | \$ 2,891 | \$ 2,168 | \$ 1,446 |
| 6 | Fcst. Credit Period Retail Sales (Therms 000) | 115,302 | 116,358 | 117,638 |
| 7 | Annual \$/therm Credit (Line 3 / 6) | \$ 0.0251 | \$ 0.0186 | \$ 0.0123 |
| 8 | Total Deferred Tax Adjustment (Line 3 – 5) | \$ - | \$ 723 | \$ 1,446 |
| 9 | Accrued Interest | | \$ - | \$ - |
| 10 | Accumulated Deferred Tax Adj. (Line 8 + 9) | \$ - | \$ 723 | \$ 2,168 |

3. FILING AND PROCEDURAL DEADLINES

UNS Gas will file the Informational Filing, which includes the Tax Adjustment for the coming 12-month period and all supporting data and documentation used in calculating the bill credit, with the Commission each year no later than October 1. The Informational Filing shall also include the current balance of the deferred tax savings that will be credited to customers in the Company's next rate case.

The Tax Adjustment proposed in the Informational Filing shall be effective in the first billing cycle in January.