

TUCSON ELECTRIC POWER CO  
Form 10-K  
February 18, 2016

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2015

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_ .

Commission File Number 1-5924

TUCSON ELECTRIC POWER COMPANY

(Exact name of registrant as specified in its charter)

Arizona

(State or other jurisdiction of  
incorporation or organization)

86-0062700

(I.R.S. Employer Identification No.)

88 East Broadway Boulevard, Tucson, AZ 85701

(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (520) 571-4000

Securities registered pursuant to Section 12(b) of the Exchange Act: None

Securities registered pursuant to Section 12(g) of the Exchange Act:

Common Stock, without par value

(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act of 1933.

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Securities Exchange Act of 1934 (Exchange Act).

Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes

No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of each registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer       Accelerated Filer       Non-accelerated Filer       Smaller Reporting Company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes

No

State the aggregate market value of the voting and non-voting common equity held by non-affiliates: None  
As of February 17, 2016, Tucson Electric Power Company had 32,139,434 shares of common stock, no par value, outstanding, all of which were held by UNS Energy Corporation, an indirect wholly owned subsidiary of Fortis Inc.

Documents incorporated by reference: None

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## DEFINITIONS

The abbreviations and acronyms used in the 2015 Form 10-K are defined below:

2010 Credit Agreement	The 2010 Credit Agreement consisted of a \$200 million revolving credit and letter of credit facility together with an \$82 million LOC facility to support tax-exempt bonds; terminated in October 2015 when replaced by the 2015 Credit Agreement
2010 Reimbursement Agreement	Reimbursement Agreement, dated December 14, 2010, between TEP, as borrower, and a financial institution
2013 Covenants Agreement	A Lender Rate Mode Covenants Agreement between TEP and the purchaser of \$100 million of unsecured tax-exempt bonds that were issued on behalf of TEP in November 2013 and sold in a private placement
2013 TEP Rate Order	A rate order issued by the ACC resulting in a new rate structure for TEP, effective July 1, 2013
2014 Credit Agreement	The 2014 Credit Agreement consisted of a \$130 million term loan commitment and a \$70 million revolving credit commitment; terminated in June 2015
2015 Credit Agreement	The 2015 Credit Agreement provides for a \$250 million revolving credit and letter of credit facility with a sublimit of \$50 million; the credit agreement matures in 2020 and replaced the 2010 Credit Agreement
2015 TEP Rate Case	A pending general rate case filed with the ACC by TEP in November 2015 requesting new rates effective January 1, 2017
ACC	Arizona Corporation Commission
APS	Arizona Public Service Company
BART	Best Available Retrofit Technology
Base Rates	The portion of TEP's Retail Rates attributed to generation, transmission, distribution, and customer costs. Base Rates exclude authorized charges designed to recover specific costs that are passed through to customers including fuel and purchased power costs, energy efficiency program costs, certain environmental compliance costs, and a portion of renewable energy costs
Cooling Degree Days	An index used to measure the impact of weather on energy usage calculated by subtracting 75 from the average of the high and low daily temperatures
DSM	Demand Side Management
EE Standards	Energy Efficiency Standards
FERC	Federal Energy Regulatory Commission
Fortis	Fortis Inc., a corporation incorporated under the Corporations Act of Newfoundland and Labrador, Canada, whose principal executive offices are located at Fortis Place, Suite 1100, 5 Springdale Street, St. John's, NL A1E 0E4
Four Corners	Four Corners Generating Station
GAAP	Generally Accepted Accounting Principles in the United States
GBtu	Billion British thermal units
GWh	Gigawatt-hour(s)
Gila River Unit 3	Unit 3 of the Gila River Generating Station
Heating Degree Days	An index used to measure the impact of weather on energy usage calculated by subtracting the average of the high and low daily temperatures from 65
kV	Kilo-volt(s)
kWh	Kilowatt-hour(s)
LFCR	Lost Fixed Cost Recovery
LOC	Letter of Credit
MW	Megawatt(s)
MWh	Megawatt-hour(s)
Navajo	Navajo Generating Station

PNM	Public Service Company of New Mexico
PPA	Power Purchase Agreement
PPFAC	Purchased Power and Fuel Adjustment Clause
ppb	Parts per billion

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REC	Renewable Energy Credit
RES	Renewable Energy Standard
Retail Rates	Rates designed to allow a regulated utility an opportunity to recover its reasonable operating and capital costs and earn a return on its utility plant in service
San Juan	San Juan Generating Station
SCR	Selective Catalytic Reduction
SJCC	San Juan Coal Company
SNCR	Selective Non-Catalytic Reduction
Springerville	Springerville Generating Station
Springerville Coal Handling Facilities	Coal handling facilities at Springerville used by all four Springerville units
Springerville Coal Handling Facilities Leases	Leases for coal handling facilities at Springerville used in common by all four Springerville units
Springerville Common Facilities	Facilities at Springerville used in common by Springerville Units 1 and 2
Springerville Common Facilities Leases	Leveraged lease arrangements relating to an undivided one-half interest in Springerville Common Facilities
Springerville Unit 1	Unit 1 of the Springerville Generating Station
Springerville Unit 1 Leases	Leveraged lease arrangement relating to Springerville Unit 1 and an undivided one-half interest in certain Springerville Common Facilities
Springerville Unit 2	Unit 2 of the Springerville Generating Station
Springerville Unit 3	Unit 3 of the Springerville Generating Station
Springerville Unit 4	Unit 4 of the Springerville Generating Station
SRP	Salt River Project Agricultural Improvement and Power District
Sundt	H. Wilson Sundt Generating Station
Sundt Unit 4	Unit 4 of the H. Wilson Sundt Generating Station
TEP	Tucson Electric Power Company, the principal subsidiary of UNS Energy Corporation Wilmington Trust Company and William J. Wade, as Owner Trustee and Co-trustee under a separate trust agreement with each of the remaining two owner participants, Alterna Springerville LLC (Alterna) and LDVF1 TEP LLC (LDVF1) (Alterna and LDVF1, together with the Owner Trustees and Co-trustees, the Third-Party Owners)
Third-Party Owners	
Tri-State	Tri-State Generation and Transmission Association, Inc.
UNS Electric	UNS Electric, Inc., an indirect wholly-owned subsidiary of UNS Energy
UNS Energy	UNS Energy Corporation, the parent company of TEP, whose principal executive offices are located at 88 East Broadway Boulevard, Tucson, Arizona 85701
UNS Gas	UNS Gas, Inc., an indirect wholly-owned subsidiary of UNS Energy



## FORWARD-LOOKING INFORMATION

This Annual Report on Form 10-K contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. Tucson Electric Power Company (TEP) is including the following cautionary statements to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by or for TEP in this Annual Report on Form 10-K. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions, and other statements that are not statements of historical facts. Forward-looking statements may be identified by the use of words such as anticipates, believes, estimates, expects, intends, may, plans, predicts, projects, would, and similar expressions. From time to time, we may publish or otherwise make available forward-looking statements of this nature. All such forward-looking statements, whether written or oral, and whether made by or on behalf of TEP, are expressly qualified by these cautionary statements and any other cautionary statements which may accompany the forward-looking statements. In addition, TEP disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report, except as may otherwise be required by the federal securities laws.

Forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed therein. We express our expectations, beliefs, and projections in good faith and believe them to have a reasonable basis. However, we make no assurances that management's expectations, beliefs or projections will be achieved or accomplished. We have identified the following important factors that could cause actual results to differ materially from those discussed in our forward-looking statements. These may be in addition to other factors and matters discussed in: Part I, Item 1A. Risk Factors; Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations; and other parts of this report. These factors include: state and federal regulatory and legislative decisions and actions; changes in, and compliance with, environmental laws, regulations, decisions and policies that could increase operating and capital costs, reduce generating facility output or accelerate generating facility retirements; regional economic and market conditions which could affect customer growth and energy usage; changes in energy consumption by retail customers; weather variations affecting energy usage; the cost of debt and equity capital and access to capital markets; the performance of the stock market and changing interest rate environment, which affect the value of our pension and other retiree benefit plan assets and the related contribution requirements and expense; the inability to make additions to our existing high voltage transmission system; unexpected increases in O&M expense; resolution of pending litigation matters; changes in accounting standards; changes in critical accounting estimates; the ongoing impact of mandated energy efficiency and distributed generation initiatives; changes to long-term contracts; the cost of fuel and power supplies; the ability to obtain coal from our suppliers; cyber attacks or challenges to our information security; and the performance of TEP's generating plants.

## PART I

### ITEM 1. BUSINESS

#### GENERAL

Tucson Electric Power Company (TEP) and its predecessor companies have served the greater Tucson metropolitan area for over 100 years. TEP was incorporated in the State of Arizona in 1963. TEP is a regulated electric utility company serving approximately 417,000 retail customers. TEP's service territory covers 1,155 square miles and includes a population of approximately one million people in Pima County, as well as parts of Cochise County. TEP's principal business operations include generating, transmitting, and distributing electricity to its retail customers. In addition to retail sales, TEP sells electricity, transmission, and ancillary services to other utilities, municipalities, and energy marketing companies on a wholesale basis. TEP is subject to comprehensive state and federal regulation. The regulated electric utility operation is TEP's only segment.

TEP is a wholly owned subsidiary of UNS Energy Corporation (UNS Energy), a utility services holding company. In August 2014, UNS Energy was acquired by Fortis Inc. (Fortis) and became an indirect wholly owned subsidiary of Fortis, which is a leader in the North American electric and gas utility business.

#### REGULATED UTILITY OPERATIONS

TEP delivers electricity to retail customers in southern Arizona. TEP owns or has contracts for coal, natural gas, wind, solar, and landfill gas generation resources to provide electricity. This electricity, together with electricity purchased on the wholesale market, is delivered over transmission lines which are part of the Western Interconnection, a regional grid in the United States. The electricity is then transformed to lower voltages and delivered to customers through TEP's distribution system.

TEP operates under a certificate of public convenience and necessity as regulated by the Arizona Corporation Commission (ACC), under which TEP is obligated to provide electricity service to customers within its service territory. The ACC establishes retail rates on a cost-of-service basis, which are designed to allow TEP to recover its costs of providing services and an opportunity to earn a reasonable return on its investment.

## CUSTOMERS

Electricity sold to retail and wholesale customers by class of customer and the average number of retail customers over the last three years were as follows:

	2015		2014		2013			
Electric Sales - GWh								
Residential	3,724	28	% 3,727	29	% 3,867	30	%	
Commercial	2,124	15	% 2,170	17	% 2,187	17	%	
Industrial (Non-mining)	2,063	15	% 2,098	16	% 2,114	17	%	
Mining	1,109	8	% 1,137	9	% 1,079	9	%	
Other	33	—	% 33	—	% 32	—	%	
Total Electric Retail Sales	9,053	66	% 9,165	71	% 9,279	73	%	
Electric Wholesale Sales - Long-Term	750	5	% 618	5	% 605	5	%	
Electric Wholesale Sales - Short-Term	3,928	29	% 3,082	24	% 2,859	22	%	
Total Electric Sales	13,731	100	% 12,865	100	% 12,743	100	%	
Average Number of Retail Customers:								
Residential	376,439	90	% 374,204	90	% 370,925	90	%	
Commercial	38,253	9	% 38,079	9	% 37,783	9	%	
Industrial (Non-mining)	588	—	% 604	—	% 622	—	%	
Mining	4	—	% 4	—	% 4	—	%	
Other	1,857	1	% 1,858	1	% 1,843	1	%	
Total Retail Customers	417,141	100	% 414,749	100	% 411,177	100	%	

## Retail Customers

TEP provides electric utility service to a diverse group of residential, commercial, industrial, and public sector customers. Major industries served include copper mining, cement manufacturing, defense, health care, education, military bases, and other governmental entities. TEP's retail sales are influenced by several factors, including economic conditions, seasonal weather patterns, Demand Side Management (DSM) initiatives and the increasing use of energy efficient products, and customer owned distributed generation.

Local, regional, and national economic factors impact the growth in the number of customers in TEP's service territory. In each of the past five years, TEP's average number of retail customers increased by less than 1%. TEP expects the number of retail customers to increase at a rate of approximately 1% in 2016 based on estimated population growth in its service territory.

TEP's retail sales volume in 2015 was approximately 9,053 gigawatt-hours (GWh), which is a decrease of 3% from 2011 levels. During the past five years, local economic conditions combined with state requirements to reduce retail sales through energy efficiency and distributed generation have resulted in lower sales volumes and lower use per customer.

Two of TEP's largest retail customers are in the copper mining industry. TEP's GWh sales to mining customers depend on a variety of factors including commodity prices, the electricity rate paid by mining customers, and the mines' development of their own electric generation resources. TEP's GWh sales to mining customers decreased by 2% in 2015 as a result of mining curtailments due to declining commodity prices. In 2016, TEP expects additional curtailments to certain mining customers based on announced plans and current commodity prices. TEP cannot predict how long the commodity prices will remain low or the impact prices will have on mining production.

See Part II, Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, Factors Affecting Results of Operations for additional information regarding mining customers.

### Wholesale Sales

TEP's electric utility operations include the wholesale marketing of electricity to other utilities and power marketers. Wholesale sales transactions are made on both a firm and interruptible basis. A firm contract requires TEP to supply power on demand (except under limited emergency circumstances), while an interruptible contract allows TEP to stop supplying power under defined conditions.

Generally, TEP commits to future sales based on expected generating capability, forward prices, and generation costs, using a diversified portfolio approach to provide a balance between long-term, mid-term, and spot energy sales. TEP's wholesale sales consist primarily of two types:

#### Long-Term Wholesale Sales

Long-term wholesale contracts cover periods of one year or greater. TEP typically uses its own generation to serve the requirements of its long-term wholesale customers. In 2015, TEP's primary long-term contracts were with Salt River Project Agriculture Improvement and Power District (SRP), Shell Energy North America (Shell), the Navajo Tribal Utility Authority (NTUA), and TRICO Electric Cooperative (TRICO). The SRP contract expires in May 2016, the Shell contract expires in December 2017, the NTUA contract expires in December 2022, and the TRICO contract expires in December 2024.

In November 2015, TEP entered into a long-term wholesale sales contract with Navopache Electric Cooperative (Navopache). Delivery of power begins January 1, 2017 and expires in December 2041.

#### Short-Term Wholesale Sales

Forward contracts commit TEP to sell a specified amount of capacity or energy at a specified price over a given period of time, typically for one-month or three-month periods. TEP also engages in short-term sales by selling energy in the daily or hourly markets at fluctuating spot market prices and making other non-firm energy sales. The majority of our revenues from short-term wholesale sales offset fuel and purchased power costs and are passed through to TEP's retail customers. TEP uses short-term wholesale sales as part of its hedging strategy to reduce customer exposure to fluctuating power prices.

### Competition

#### Retail Customers

TEP is the primary electric service provider to retail customers within its service territory and operates under a certificate of public convenience and necessity as regulated by the ACC. TEP is subject to competition from customer-sited distributed generation, energy efficiency, and other emerging technologies. TEP is experiencing increases in the levels of customer-sited solar arrays and the use of net energy metering, which allows self-generating retail customers to use their excess generation to offset a portion of their future electricity consumption at the full retail rate.

#### Wholesale Sales

The Federal Energy Regulatory Commission (FERC) regulates rates for wholesale power sales and transmission services. TEP's wholesale activity primarily consists of Short-Term Wholesale Sales to manage fuel and purchased power supplies to serve retail customer energy requirements and Long-Term Wholesale Sales to optimize generation capacity. As a result of its wholesale activity, TEP competes with other utilities, power marketers and independent power producers in the wholesale markets.

## GENERATING FACILITIES

As of December 31, 2015 TEP owned 2,501 megawatts (MW) of nominal generating capacity, as set forth in the following table. Nominal capacity is based on unit design net output.

Generating Source	Unit		Date	Resource	Capacity	Operating	TEP's Share	
	No.	Location	In Service	Type	MW	Agent	%	MW (1)
Springerville Station	1	Springerville, AZ	1985	Coal	387	TEP	49.5	192
Springerville Station	2	Springerville, AZ	1990	Coal	406	TEP	100	406
San Juan Station	1	Farmington, NM	1976	Coal	340	PNM	50.0	170
San Juan Station	2	Farmington, NM	1973	Coal	340	PNM	50.0	170
Navajo Station	1	Page, AZ	1974	Coal	750	SRP	7.5	56
Navajo Station	2	Page, AZ	1975	Coal	750	SRP	7.5	56
Navajo Station	3	Page, AZ	1976	Coal	750	SRP	7.5	56
Four Corners Station	4	Farmington, NM	1969	Coal	785	APS	7.0	55
Four Corners Station	5	Farmington, NM	1970	Coal	785	APS	7.0	55
Gila River Power Station	3	Gila Bend, AZ	2003	Gas	550	Ethos Energy	75.0	413
Luna Generating Station	1	Deming, NM	2006	Gas	555	PNM	33.3	185
Sundt Station	1	Tucson, AZ	1958	Gas/Oil	81	TEP	100	81
Sundt Station	2	Tucson, AZ	1960	Gas/Oil	81	TEP	100	81