UNS Energy Corp
Form DEF 14A
March 21, 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
(Amendment No.)

Filed by the Registrant ý 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))

ý 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 the Registrant)
Payment of Filing Fee (Check the appropriate box):

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ý No fee required.

¨ Fee computed on table 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:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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88 E. Broadway Boulevard
Tucson, Arizona 85701
March 21, 2014

Paul J. Bonavia (520) 571-4000
Board Chair

Dear Shareholders:

You are cordially invited to attend the UNS Energy Corporation ("UNS Energy") 2014 Annual Shareholders' Meeting (the "Meeting") to be held on Friday, May 2, 2014, at our offices, 88 East Broadway Boulevard, Tucson, Arizona. The Meeting will begin promptly at 10:00 a.m., Mountain Standard Time, so please plan to arrive before then. No admission tickets will be required for attendance at the Meeting.

A special meeting of shareholders of UNS Energy has been called to vote on the proposed merger of UNS Energy with FortisUS Inc., an indirect, wholly-owned subsidiary of Fortis Inc. The special meeting is scheduled to be held on March 26, 2014. 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 completion of the merger, and UNS Energy will continue as a wholly-owned subsidiary of Fortis Inc. Subject to the receipt of shareholder and required regulatory approvals and the satisfaction of the other conditions provided in the merger agreement, we expect the merger to close by the end of 2014.

Even though the merger is pending, it is still appropriate for UNS Energy to hold an annual meeting of shareholders in 2014. If the merger is completed in 2014, the Meeting will be the final annual meeting with our public shareholders. Directors and executive officers will be available before and after the Meeting to speak with you. During the Meeting, we will answer your questions regarding our business affairs, and we will consider the matters proposed in the enclosed Proxy Statement.

We have enclosed a proxy card that lists all matters that require your vote. Please complete, sign, date and mail the proxy card as soon as possible, whether or not you plan to attend the Meeting. You may also vote by telephone or the internet, as explained on the enclosed proxy card. If you attend the Meeting and wish to vote your shares personally, you may revoke your proxy at that time.

Please note that, pursuant to the New York Stock Exchange rules, brokers are not permitted to vote your shares on the election of directors or the proposal to approve executive compensation if you have not given your broker specific instructions on how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

Your interest in and continued support of UNS Energy are much appreciated.

Sincerely,

UNS ENERGY CORPORATION

Paul J. Bonavia
Board Chair and
Chief Executive Officer

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NOTICE OF ANNUAL SHAREHOLDERS' MEETING

To the Holders of Common Stock of
UNS Energy Corporation:

We will hold the 2014 Annual Shareholders' Meeting of UNS Energy at our offices, 88 East Broadway Boulevard, Tucson, Arizona, on Friday, May 2, 2014, at 10:00 a.m., Mountain Standard Time ("MST"). The purpose of the Meeting is to:

1. elect 11 directors to UNS Energy's Board of Directors for the ensuing year;
2. ratify the selection of the Independent Registered Public Accounting Firm for 2014;
3. hold an advisory vote to approve executive compensation; and
4. consider any other matters that properly come before the Meeting.

Only shareholders of record at the close of business on March 10, 2014, are entitled to vote at the Meeting.

Unless you elected to receive printed copies of the proxy materials in prior years, you will receive a Notice of Internet Availability of Proxy Materials by mail (the ''Notice''). The Notice will tell you how to access and review the proxy materials. If you received a Notice by mail and would like to receive a printed copy of the proxy materials, you should follow the instructions included in the Notice. The Notice is first being sent to shareholders on or about March 21, 2014. The Proxy Statement and other materials relating to the Annual Meeting are first being made available to shareholders on or about March 21, 2014.

Linda H. Kennedy
Corporate Secretary
Dated: March 21, 2014

YOUR VOTE IS IMPORTANT

EACH SHAREHOLDER IS URGED TO COMPLETE, SIGN, DATE AND RETURN PROMPTLY THE ENCLOSED PROXY CARD BY MAIL, OR TO VOTE BY TELEPHONE OR THE INTERNET, AS EXPLAINED ON THE ENCLOSED PROXY CARD. IF THE MAIL OPTION IS SELECTED, USE THE ENCLOSED ENVELOPE, WHICH DOES NOT REQUIRE POSTAGE IF MAILED IN THE UNITED STATES. RETURNING A SIGNED PROXY WILL NOT PROHIBIT YOU FROM ATTENDING THE MEETING AND VOTING IN PERSON IF YOU SO DESIRE.

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UNS ENERGY CORPORATION
88 E. Broadway Boulevard
Tucson, Arizona 85701
ANNUAL SHAREHOLDERS' MEETING
PROXY STATEMENT
ANNUAL MEETING:
May 2, 2014
10:00 a.m., MST
UNS Energy Corporation
88 E. Broadway Boulevard
Tucson, AZ 85701
RECORD DATE:
The record date is March 10, 2014 ("Record Date"). If you were a shareholder of record at the close of business on the Record Date, you may vote at the 2014 Annual Shareholders' Meeting ("Meeting") of UNS Energy Corporation ("UNS Energy," as well as references to the "Company," "we," "our" and "us"). At the close of business on the Record Date, UNS Energy had 41,701,718 shares of common stock outstanding.
AGENDA:
1. Proposal One: Elect 11 directors to UNS Energy's Board of Directors ("Board") for the ensuing year.
2. Proposal Two: Ratify the selection of the Independent Registered Public Accounting Firm for 2014.
3. Proposal Three: Advisory vote to approve executive compensation.

We will also consider any other matters that properly come before the Meeting and any adjournments.
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM:
Representatives of PricewaterhouseCoopers, LLP, are expected to be present at the Meeting with the opportunity to make a statement and respond to appropriate questions from the Company's shareholders.
PROXIES:
In accordance with rules and regulations adopted by the Securities and Exchange Commission (the "SEC"), UNS Energy is furnishing proxy materials to its shareholders on the internet. The Notice of Internet Availability of Proxy Materials you received by mail will instruct you on how you may access and review all of the important information contained in the proxy materials. If you would like to receive a printed copy of the Company's proxy materials, you should follow the instructions included in the Notice of Internet Availability of Proxy Materials.
It is anticipated that the Notice of Internet Availability of Proxy Materials is first being sent to shareholders on or about March 21, 2014. The proxy statement and the form of proxy relating to the Meeting are first being made available to shareholders on or about March 21, 2014.
PROXIES SOLICITED BY:
The Board.
REVOKING YOUR PROXY:
You may revoke your proxy before it is voted at the Meeting. To revoke, follow the procedures listed on page 1 under "Voting Procedures/Revoking Your Proxy."

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COMMENTS:

Your comments about any aspects of UNS Energy's business are welcome. You may use the space provided on the proxy card for this purpose, if desired. Although we may not respond on an individual basis, your comments help the Company to measure your satisfaction, and UNS Energy may benefit from your suggestions.

PLEASE VOTE – YOUR VOTE IS IMPORTANT

Prompt return of your proxy will help reduce the costs of re-solicitation.

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* UNS Energy expects to vote on these items at the Meeting.

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VOTING PROCEDURES/REVOKING YOUR PROXY

You can vote by telephone, internet, mail or in person.

You may vote in person or by a validly designated proxy, or, if you or your proxy will not be attending the Meeting, you may vote in one of three ways:

1. Vote by internet. The website address for internet voting is on your Notice of Internet Availability of Proxy Materials. Internet voting is available 24 hours a day;
2. Vote by telephone. The toll-free number for telephone voting is on your proxy card. Telephone voting is available 24 hours a day; or
3. Vote by mail. If you have requested and received a copy of UNS Energy's proxy materials, mark, date, sign and mail promptly a proxy card. A postage-paid envelope will be provided for mailing in the United States.

If you vote by telephone or internet, DO NOT mail a proxy card.

Under Arizona law, a majority of the shares entitled to vote on any single matter that may be brought before the Meeting will constitute a quorum. Business may be conducted once a quorum is represented at the Meeting. If a quorum exists, action on a matter other than the election of directors will be deemed approved if the votes cast in favor of the matter exceed the votes cast against the matter.

If you hold shares through an account with a bank or broker, the bank or broker may vote your shares on some matters considered routine, even if you do not provide voting instructions. Brokerage firms have the authority under the New York Stock Exchange rules to vote shares on routine matters when their customers do not provide voting instructions. However, on other matters, when the brokerage firm has not received voting instructions from its customers, the brokerage firm cannot vote the shares on that matter and a "broker non-vote" occurs. Please note that under the New York Stock Exchange rules an uncontested election of directors and matters concerning executive compensation are not considered routine matters. This means that brokers are not permitted to vote your shares on the election of directors or the proposal to approve executive compensation if you have not given your broker specific instructions on how to vote. Please be sure to give specific voting instructions to your broker so that your vote can be counted.

Directors are elected by a plurality of votes.

Directors are elected by a plurality of the votes cast by the shares entitled to vote if a quorum is present. A plurality means receiving the largest number of votes, regardless of whether that is a majority. Withheld votes and broker non-votes will be counted as being represented at the Meeting for quorum purposes but will not have an effect on the vote for directors.

You may cumulate your votes for directors.

In the election of directors, each shareholder has the right to cumulate his votes by casting a total number of votes equal to the number of his shares of common stock multiplied by the number of directors to be elected. He may cast all of such votes for one nominee or distribute such votes among two or more nominees. For any other matter that may properly come before the Meeting, each share of common stock will be entitled to one vote.

You can revoke your proxy after sending it in by following these procedures.

Any shareholder giving a proxy has a right to revoke that proxy by giving notice to UNS Energy in writing directed to the Corporate Secretary, UNS Energy Corporation, 88 E. Broadway Boulevard, HQE901, Tucson, Arizona 85701, or in person at the Meeting at any time before the proxy is exercised. Those who fail to return a proxy or fail to attend the Meeting will not count towards determining any required plurality, majority or quorum.

The shares represented by an executed proxy will be voted for the election of directors or withheld in accordance with the specifications in the proxy. If no specification is made in an executed proxy, the proxy will be voted in favor of the nominees as set forth herein and "For" each of the Proposals Two and Three.

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Proxy Solicitation

The Company will bear the entire cost of the solicitation of proxies. Solicitations will be made primarily by mail. In addition, the Company may make additional solicitation of brokers, banks, nominees and institutional investors pursuant to a special engagement of DF King & Co. at a cost of approximately $11,000, plus reasonable out-of-pocket expenses. Solicitations may also be made by telephone, facsimile or personal interview, if necessary, to obtain reasonable representation of shareholders at the Meeting. UNS Energy's employees may solicit proxies, but they will not receive additional compensation for such services. UNS Energy will request brokers or other persons holding shares in their names, or in the names of their nominees, to forward proxy materials to the beneficial owners of such shares or request authority for the execution of the proxies. The Company will reimburse brokers and other persons for reasonable expenses they incur in sending these proxy materials to you if you are a beneficial holder of UNS Energy's shares.

UNS ENERGY SHARE OWNERSHIP

Security Ownership of Management

The following table sets forth the number and percentage of shares of UNS Energy common stock beneficially owned as of March 3, 2014, and the nature of such ownership by each of the Company's directors, Chief Executive Officer ("CEO" or "Mr. Bonavia"), Chief Financial Officer ("CFO" or "Mr. Larson"), the three other most highly compensated executive officers, and the former Senior Vice President, Operations (together, the "Named Executives") as of March 3, 2014, and all directors and executive officers as a group. Ownership includes direct and indirect (beneficial) ownership, as defined by the SEC rules.

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Name and Title of Beneficial Owner	Amount and Nature of Beneficial Ownership (1)					Other (2)		
	Directly Owned Shares	Shares Purchased Under the 401(k) Plan	Shares Subject to Options Exercisable Within 60 Days	Total Beneficial Ownership	Percent of Class	Restricted Stock Units	Deferred Shares Under Deferred Compensation Plan	Total
Paul J. Bonavia Board Chair and Chief Executive Officer	61,343	—	59,940	121,283	*	—	780	122,063
Lawrence J. Aldrich Director	1,599	—	—	1,599	*	14,669	—	16,268
Barbara M. Baumann Director	2,000	—	—	2,000	*	12,943	14,177	29,120
Larry W. Bickle Director	10,195	—	—	10,195	*	13,519	—	23,714
Robert A. Elliott Director	4,068	—	—	4,068	*	13,312	—	17,380
Daniel W. L. Fessler Director	2,511	—	—	2,511	*	19,222	—	21,733
Louise L. Francesconi Director	3,000	—	—	3,000	*	8,130	—	11,130
Ramiro G. Peru Director	4,000	—	—	4,000	*	10,091	—	14,091
Gregory A. Pivirotto Director	8,500	—	—	8,500	*	10,091	—	18,591
Joaquin Ruiz Director	300	—	—	300	*	12,943	—	13,243
David G. Hutchens Director, President and Chief Operating Officer	7,529	8,341	27,330	43,200	*	—	—	43,200
Kevin P. Larson Senior Vice President, Chief Financial Officer and Treasurer	50,520	3,228	100,420	154,168	*	—	2,225	156,393
Philip J. Dion Senior Vice President, Public Policy and Customer Solutions	4,282	1,137	4,240	9,659	*	—	—	9,659
Karen G. Kissinger Vice President, Chief Compliance Officer	63,922	—	54,900	118,822	*	—	2,457	121,279
Michael J. DeConcini Former Senior Vice President, Operations (3)	38,003	—	—	38,003	*	—	1,164	39,167
All directors and executive officers (including the Named Executives) as a group	277,359	29,247	267,040	573,646	1.4 %	114,920	20,888	709,454

* Represents less than 1% of the outstanding common stock of UNS Energy.

(1)Amounts include the following:

- Any shares held in the name of the spouse, minor children or other relatives sharing the home of the director or executive officer. Except as otherwise indicated below, the directors and executive officers have sole voting and investment power over the shares shown. Voting power includes the power to direct the voting of the shares held, and investment power includes the power to direct the disposition of the shares held.

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- Shares subject to options exercisable within 60 days, based on information from E*Trade, UNS Energy's stock plan administrator.

- Equivalent share amounts allocated to the individuals' 401(k) Plan, which has a UNS Energy Stock Fund investment option.

(2)While amounts in the "Other" column do not represent a right of the holder to receive stock within 60 days, those interests are also disclosed because management believes they accomplish similar objectives in that they also 1) encourage directors and executive officers to have a stake in the Company, and 2) align interests of directors and executive officers with those of shareholders. Under UNS Energy's non-employee director compensation program, non-employee directors receive an annual grant of restricted stock units that have an underlying value equal to one share of UNS Energy common stock per unit. The value of the restricted stock units fluctuates based on changes in the Company's stock price. All restricted stock unit grants to directors vest at the earlier of the next annual meeting following the grant date or the first anniversary of grant. The vested restricted stock units are distributed in actual shares of Company stock in January following termination of Board service. Similarly, the value of deferred stock units fluctuates based on changes in the Company's stock price. Under the terms of the deferred compensation plan, distributions of deferred shares will be made in cash, unless the participant elects to receive the deferred shares in Company stock on dates selected by the director or the executive officer following termination of service. In UNS Energy's view, vested restricted stock units and deferred stock units are tantamount to actual stock ownership because the non-employee director and executive officer (in the case of deferred stock units) bear the risk of ownership during the restricted and deferral periods.

(3)Mr. DeConcini left the employ of the Company and its subsidiaries on September 30, 2013.

Security Ownership of Certain Beneficial Owners

The following table shows the amount of UNS Energy common stock owned by those persons who beneficially own more than 5% of Company common stock based on reports filed by such persons with the SEC as of March 1, 2014. UNS Energy makes no representation as to the accuracy or completeness of the information. These are the only persons known to UNS Energy to be the beneficial owners of more than 5% of UNS Energy common stock as of March 1, 2014:

Title of Class	Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class	
Common	Black Rock, Inc. 40 East 52nd Street New York, NY 10022	6,638,409 (1)	16.0	%
Common	FMR LLC 245 Summer Street Boston, MA 02210	3,707,686 (2)	8.9	%
Common	The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	2,702,750 (3)	6.5	%

(1)In a statement (Schedule 13G) filed with the SEC on January 10, 2014, Black Rock, Inc., indicated that it has sole voting power over 6,507,236 shares of UNS Energy common stock and sole dispositive power over 6,638,409 shares of UNS Energy common stock.

(2)In a statement (Schedule 13G) filed with the SEC on February 14, 2014, FMR LLC indicated that it has sole voting power over 2,627,870 shares of UNS Energy common stock and sole dispositive power over 3,707,686 shares of UNS Energy common stock.

(3)In a statement (Schedule 13G) filed with the SEC on February 12, 2014, The Vanguard Group, Inc., indicated that it has sole voting power over 67,174 shares of UNS Energy common stock, sole dispositive power over 2,643,576 shares of UNS Energy common stock and shared dispositive power over 59,174 shares of UNS Energy common stock.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934, as amended, and regulations of the SEC require the Company's executive officers, directors and persons who beneficially own more than 10% of UNS Energy common stock, as well as certain affiliates

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of those persons, to file initial reports of ownership and transaction reports covering any changes in ownership with the SEC and the New York Stock Exchange (“NYSE”). SEC regulations require these persons to furnish the Company with copies of all reports they file pursuant to Section 16(a).

A Form 4 reporting the sale of shares of stock on March 5, 2013, by Thomas A. McKenna, the Company's Vice President of Energy Delivery, was filed late.

PROPOSAL ONE: ELECTION OF DIRECTORS

General Information

At the Meeting, UNS Energy’s shareholders of record will elect 11 directors to serve on the Board for the ensuing year and until their successors are elected and qualified, or until the director’s earlier death, resignation or removal. The shares represented by executed proxies in the form provided, unless withheld, will be voted for the 11 nominees listed below or, in the discretion of the persons acting as proxies, will be voted cumulatively for one or more of such nominees. All of the current nominees are present members of the Board. All of the nominees have consented to serve if elected. If any nominee becomes unavailable to serve for any reason, or a vacancy should occur before the election, it is the intention of the persons designated as proxies to vote, in their discretion, for other nominees.

BOARD NOMINEES

Directors – UNS Energy

Name	Age	Board Committee*	Director Since
Paul J. Bonavia	62	None	2009
Lawrence J. Aldrich	61	1,2,3	2000
Barbara M. Baumann	58	1,2,4	2005
Larry W. Bickle	68	4,5	1998
Robert A. Elliott	58	1,2,3,4,5	2003
Daniel W.L. Fessler	72	2,3	2005
Louise L. Francesconi	61	1,2,3	2008
David G. Hutchens	48	None	2013
Ramiro G. Peru	58	1,4,5	2008
Gregory A. Pivirotto	61	1,2,4	2008
Joaquin Ruiz	61	3,5	2005

* Board Committees:

(1) Audit
(2) Compensation
(3) Corporate Governance and Nominating
(4) Finance
(5) Environmental, Safety and Security

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Paul J. Bonavia	Board Chair and Chief Executive Officer of UNS Energy Corporation (UNS), Tucson Electric Power Company (TEP), and UniSource Energy Services, Inc. (UES) since January 1, 2009; President of UNS, TEP and UES from January 2009 to December 2011; Chief Executive Officer of Millennium Energy Holdings, Inc. (Millennium) since January 1, 2009. TEP, UES and Millennium are wholly-owned subsidiaries of UNS. Prior to joining the Company, Mr. Bonavia served as President of the Utilities Group of Xcel Energy. Mr Bonavia previously served as President of Xcel Energy's Commercial Enterprises business unit and President of the company's Energy Markets unit. Mr. Bonavia's extensive experience in both the electric and gas utility businesses and his position as Chief Executive Officer of the Company provide him with intimate knowledge of the Company's operations and contribute to the diverse knowledge, skills and qualifications of the Board.
Lawrence J. Aldrich	Chairman and Executive Director, Arizona Business Coalition on Health, since October 2011; President and Chief Executive Officer of University Physicians Healthcare (UPH), a healthcare organization, from 2009 to 2010; Senior Vice President/Corporate Operations and General Counsel for UPH from 2007 to 2008; President of Aldrich Capital Company, an acquisition, management and consulting firm, since January 2007; Chief Operating Officer of The Critical Path Institute, a non-profit medical research company focusing in drug development, from 2005 to 2007. Mr. Aldrich's extensive experience in the areas of public relations/advertising, finance, legal, human resources, marketing, engineering, operations, government/regulatory, information technology, insurance/health care, and his significant community involvement in Arizona and Tucson contribute to the diverse knowledge, skills and qualifications of the Board.
Barbara M. Baumann	President and Owner of Cross Creek Energy Corporation, a management consultant and investor company for oil and gas, since 2003; Director of SM Energy Company (formerly St. Mary Land & Exploration), an oil and gas production company, from 2002 to 2014; Member of the Board of Trustees of The Putnam Funds since 2010; Director of Cody Resources, a privately held energy, ranching and commercial real estate company, since 2010. Director of Devon Energy Corporation, an oil and gas production company, since 2014. Ms. Baumann's extensive experience in the areas of accounting, finance, legal, human resources, engineering, operations, audit, government/regulatory, corporate tax, information technology, insurance/healthcare and gas operations contributes to the diverse knowledge, skills and qualifications of the Board.
Larry W. Bickle	Director of SM Energy Company (formerly St. Mary Land & Exploration), an oil and gas production company, since 1994; Retired private equity investor since 2007; Managing Director of Haddington Ventures, LLC, a private equity fund, from 1997 to 2007; Non-executive Chairman of Quantum Natural Gas Storage, LLC, a natural gas storage company, since 2008; Co-founder, Chairman and CEO of TPC Corp (NYSE: TPC), a natural gas company, until sold to PacifiCorp in 1997. Mr. Bickle's specific expertise in finance, engineering, operations, and fuel supply issues combined with his 40+ years of general business experience contributes to the diverse

knowledge, skills and qualifications of the Board.

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Robert A. Elliott	President and owner of Elliott Accounting, an accounting, tax, management and investment advisory services firm, since 1983; Vice Chairman of AAA of Arizona, a regional automotive and travel club, since 2012 and Director since 2007; Director and Corporate Secretary of Southern Arizona Community Bank, a banking institution, from 1998 to 2010; Television Analyst/Pre-game Show Co-host for Fox Sports Arizona from 1998 to 2009; Chairman of the Board of the Tucson Airport Authority, an airport operator/manager, from January 2006 to January 2007; President and Chairman of the Board of the National Basketball Retired Players Association from 2011 to 2013; Director of University of Arizona Foundation, a philanthropic organization, since 2011. Mr. Elliott's extensive experience in the areas of accounting, audit, banking and corporate tax, and his significant community involvement in Arizona and Tucson contribute to the diverse knowledge, skills and qualifications of the Board.
Daniel W.L. Fessler	President of the California Public Utility Commission, a public utility regulatory agency, from 1991 to 1996; Professor Emeritus of the University of California, an educational institution, since 1994; Of Counsel for the law firm of Holland & Knight from 2003 to 2007; Partner in the law firm of LeBoeuf, Lamb, Greene & MacRae LLP from 1997 to 2003; previously served on the UNS Energy and TEP boards of directors from 1998 to 2003; Managing Principal of Clear Energy Solutions, LLC, a company that advocates coal-to-synthetic fuels, since December 2004. Mr. Fessler's experience as a former member of the California Public Utility Commission and in the areas of public relations/advertising, legal, marketing and government/regulatory contribute to the diverse knowledge, skills and qualifications of the Board.
Louise L. Francesconi	President of Raytheon Missile Systems, a defense electronics corporation, from 1997 to 2008; Director of Stryker Corporation, a medical technology company, since July 2006; Chairman of the Board of Trustees for TMC Healthcare, a hospital, since 1999; Director of Global Solar Energy, Inc., a manufacturer of solar panels and other solar-related products, from 2008 to 2011. Ms. Francesconi's extensive experience in the areas of accounting, public relations/advertising, finance, legal, human resources/benefits, marketing, engineering, operations, audit, government/regulatory, information technology and insurance/healthcare, and her significant community involvement in Arizona and Tucson contribute to the diverse knowledge, skills and qualifications of the Board.
David G. Hutchens	President and Chief Operating Officer of UNS Energy Corporation (UNS), Tucson Electric Power Company (TEP), and UniSource Energy Services (UES) since 2013; President of UNS, TEP, and UES from 2011 to 2013; Executive Vice President of UNS, TEP, and UES in 2011; Vice President of UNS, TEP, and UES from 2007-2011. TEP and UES are wholly-owned subsidiaries of UNS. Mr. Hutchens's extensive experience in the electric and gas utility business and his position as President and Chief Operating Officer provide him with intimate knowledge of the Company's operations and contribute to the diverse knowledge, skills and qualifications of the Board.

Ramiro G. Peru	Executive Vice President and Chief Financial Officer of Swift Corporation, a trucking company, from June 2007 to December 2007; Executive Vice President and Chief Financial Officer of Phelps Dodge Corporation, a mining corporation, from 2004 to 2007; Senior Vice President and Chief Financial Officer of Phelps Dodge Corporation from 1999 to 2004; Director of WellPoint, Inc., a health benefits company, since 2004. Mr. Peru’s extensive experience in the areas of accounting, corporate communications, finance, legal, human resource/benefits, audit, government/regulatory, corporate tax, information technology, insurance/health care and environmental contributes to the diverse knowledge, skills and qualifications of the Board.

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Gregory A. Pivirotto	Adjunct Professor at the University of Arizona College of Law since 2013; President, Chief Executive Officer and Director of University Medical Center Corporation, in Tucson, from 1994 to 2010; certified public accountant since 1978; Director of Arizona Hospital & Healthcare Association, a trade association providing advocacy, education and service to hospitals and other healthcare organizations, from 1997 to 2005; Director of Tucson Airport Authority, an airport operator/manager, from 2008 to January 2014; Member of the Advisory Board of Harris Bank from 2010 to 2013; Director of the Arizona Donor Network Association from 1993 to 2006 and since 2012. Mr. Pivirotto's extensive experience in the areas of accounting, public relations/advertising, finance, legal, human resources/benefits, marketing, operations, audit, government/regulatory, banking, corporate tax, information technology and insurance/healthcare, and his significant community involvement in Arizona and Tucson contribute to the diverse knowledge, skills and qualifications of the Board.
Joaquin Ruiz	Professor of Geosciences, University of Arizona, an educational institution, since 1983; Dean, College of Science, University of Arizona, since 2000; Executive Dean of the University of Arizona College of Letters, Arts and Science since 2009 and Vice President for Strategy and Innovation since 2012. Mr. Ruiz's extensive experience in the areas of renewables and environmental, public relations/advertising, human resources/benefits, operations, government/regulatory, information technology, and his significant community involvement in Arizona and Tucson contribute to the diverse knowledge, skills and qualifications of the Board.

The Board recommends that you vote "FOR" these nominees.

PROPOSAL TWO: RATIFICATION OF SELECTION OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee has selected PricewaterhouseCoopers, LLP ("PwC") as the Company's Independent Registered Public Accounting Firm for the fiscal year 2014, and the Board is asking the shareholders to ratify that selection. Although current law, rules, and regulations, as well as the charter of the Audit Committee, require the Audit Committee to engage, retain, and supervise the Company's Independent Registered Public Accounting Firm, the Board considers the selection of the Independent Registered Public Accounting Firm to be an important matter of shareholder concern and, as a matter of good corporate practice, is therefore submitting the selection of PwC for ratification by shareholders.

Under Arizona law, if a quorum of shareholders is present at the Meeting, the ratification of the selection of PwC as Independent Registered Public Accounting Firm for 2014 will require that the votes cast in favor of its ratification exceed the votes cast against its ratification. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the Meeting but are not counted and have no effect on the results of the vote for Independent Registered Public Accounting Firm.

The Board recommends that you vote "FOR" the ratification of the selection of the Independent Registered Public Accounting Firm.

PROPOSAL THREE: ADVISORY VOTE TO APPROVE EXECUTIVE COMPENSATION

Section 14A of the Securities Exchange Act of 1934, as amended, requires that the Company provide its shareholders with the opportunity to vote to approve, on a nonbinding, advisory basis, the compensation of its Named Executives as disclosed in this proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission.

As described in detail under the heading “Compensation Discussion and Analysis,” the Company seeks to closely align the interests of its Named Executives with the interests of the Company’s stakeholders. UNS Energy's officer compensation

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program is designed to link compensation to financial, operational and strategic business outcomes, while at the same time balancing risk and reward in the context of Company business strategies.

The vote on this resolution is not intended to address any specific element of compensation; rather, it relates to the compensation of the Company's Named Executives, as described in this proxy statement in accordance with the compensation disclosure rules of the Securities and Exchange Commission. The vote is advisory, which means that the vote is not binding on the Company, the Board or the Compensation Committee.

Accordingly, the Company asks its shareholders to vote on the following resolution at the Annual Shareholders' Meeting:

"RESOLVED, that the Company's shareholders approve, on an advisory basis, the compensation of the Named Executives as disclosed in the Company's Proxy Statement for the 2014 Annual Shareholders' Meeting pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the 2013 Summary Compensation Table and the other related tables and disclosure."

Under Arizona law, if a quorum of shareholders is present at the Meeting, the resolution to approve the compensation of the Company's Named Executives will be adopted if the votes cast in favor of the resolution exceed the votes cast against the resolution. Abstentions and broker non-votes are counted for purposes of determining whether a quorum exists at the Meeting but are not counted and have no effect on the results of the vote to approve the compensation of the Company's Named Executives.

The Company currently intends to provide its shareholders with the opportunity to vote to approve the compensation of its Named Executives on an annual basis. The next such shareholder advisory vote will occur at the 2015 annual meeting of shareholders.

The Board recommends that you vote "FOR" the approval of the compensation
of the Company's Named Executives, as disclosed in this proxy statement.

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MINIMIZING COMPENSATION RISK

The Compensation Committee engages in a thorough compensation risk assessment process, which was conducted by Frederic W. Cook & Co., Inc., an independent executive compensation consultant retained by the Committee in conjunction with management, in order to review UNS Energy's compensation policies and practices to determine whether any risks could have a material adverse impact on the Company. On the basis of that review, the Committee has determined that UNS Energy's compensation policies and practices do not create any risks that are reasonably likely to have a material adverse impact on the Company.

The Company compensation program includes the following features, which help reduce the likelihood of behaviors that could create material risk for UNS Energy:

- Appropriate pay philosophy, peer group and market positioning to support business objectives
- Effective balance of:
- Cash and equity
- Short- and longer-term performance
- Performance objectives with a reasonable probability of achievement
- Use of multiple performance metrics in the annual and longer-term incentive programs
- Focus on profitability, operational efficiency, and other non-financial metrics, as well as absolute and relative stock price appreciation
- Ability for the Compensation Committee to use its discretion to reduce amounts earned based on its subjective evaluation of quality of earnings, individual performance, etc.
- Meaningful risk mitigators, including stock ownership guidelines, claw-back provisions, anti-hedging/pledging policies and independent Compensation Committee oversight

The Compensation Committee believes that these features adequately and appropriately deter behaviors that could create material risk for the Company.

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COMPENSATION DISCUSSION AND ANALYSIS

The following Compensation Discussion and Analysis contains statements regarding future individual and Company performance targets and goals. These targets and goals are disclosed in the limited context of UNS Energy's compensation programs and should not be understood to be statements of management's estimates of results or other guidance. UNS Energy specifically cautions investors not to apply these statements to other contexts.

This Compensation Discussion and Analysis describes the Company's overall executive compensation policies and practices and specifically analyzes the total compensation for the following executive officers, referred to as the Named Executives:

- Paul J. Bonavia, Chief Executive Officer;
- David G. Hutchens, President and Chief Operating Officer;
- Kevin P. Larson, Senior Vice President, Chief Financial Officer and Treasurer;
- Philip J. Dion, Senior Vice President, Public Policy and Customer Solutions;
- Karen G. Kissinger, Vice President, and Chief Compliance Officer; and
- Michael J. DeConcini, former Senior Vice President, Operations.*

*Mr. DeConcini left the employ of the Company and its subsidiaries on September 30, 2013.

EXECUTIVE SUMMARY

UNS Energy's mission is to deliver safe, reliable service and value to customers and shareholders alike. The Company's strategy includes enhancing shareholder value, maintaining customer satisfaction, expanding its role in the community, meeting environmental challenges and providing for its employees' development and well-being.

UNS Energy is a holding company that has no significant operations of its own. Operations are conducted by UNS Energy's subsidiaries. The Company conducts business in three primary business segments — Tucson Electric Power Company ("TEP"), UNS Gas, Inc. ("UNS Gas"), and UNS Electric, Inc. ("UNS Electric"). TEP, an electric utility, has provided electric service to the community of Tucson, Arizona, for more than 100 years. UNS Gas and UNS Electric provide natural gas and electric service in northern and southern Arizona.

The Company's executive officer compensation policies and decisions have the following objectives:

1. Attracting, motivating and retaining highly-skilled executives;
2. Linking the payment of compensation to the achievement of critical short- and long-term financial and strategic objectives; creation of shareholder value; providing safe, reliable and economically available electric and gas service; and aligning performance objectives of management with those of its other employees by using similar performance measures for both groups;
3. Balancing risk and reward to align the interests of management with those of the Company's stakeholders and encouraging management to think and act like owners, taking into account the interests of the public that the Company serves;
4. Maximizing the financial efficiency of the compensation program to avoid unnecessary tax, accounting and cash flow costs; and
5. Encouraging management to achieve outstanding results through appropriate means by delivering compensation in a manner consistent with established and emerging corporate governance "best practices."

In early 2013, the results of the advisory vote on executive compensation by UNS Energy's shareholders indicated a very high level of support for the Company's 2012 officer compensation program, with 98.6% of shareholders supporting the proposal. To ensure that the 2013 officer compensation program continues to align with the Company's business and human resources objectives, the Company continued to deliver the majority of its long-term incentive awards in performance shares with vesting tied to achievement of multi-year performance goals and introduced time-based restricted stock awards as a new long-term grant type to enhance the retention power of the overall compensation program, and support succession planning initiatives.

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2013 Company Performance

In 2013, the Company produced year-end earnings that exceeded performance goals and achieved most short-term business goals in areas affecting financials, customers, process, and the TEP rate case.

The Arizona Corporation Commission approved new retail electric rates for TEP effective July 1, 2013. The Commission's approval of new rates and new tracking mechanisms combined with the streamlined process in this case contributed to the Company's performance in net income.

The Company continues to focus on operational efficiency, meeting its reliability goals for electric and gas distribution, and exceeding its goals for operational excellence and innovation. Opportunities to improve exist as well, as the Company did not meet operations and maintenance ("O&M") target due to a number of one-time expenditures and accelerating generation outage work that was originally planned for 2014. Additionally, the Company fell short of its safety target goal.

The Company also made significant progress toward numerous long-term goals in 2013, including continued focus on process improvement, a customer-service culture, cost containment, and continuing to diversify its generation fleet.

The Company’s Total Shareholder Return (“TSR”) over the past three years (2011 – 2013) ranked in the 90th percentile relative to the Edison Electric Institute (“EEI”) Index, reflecting strong company performance and the premium value recognized by the upcoming merger.

Pay for Performance – Linking 2013 Performance to Compensation

The Company’s executive officer compensation program includes both short- and long-term incentive compensation components, the majority of which is performance-based. This ensures a tight link between executive pay and Company performance. These incentive compensation components are described in greater detail below.

Short-term Incentive Compensation (Performance Enhancement Plan, or PEP) Cash Award

Cash awards under the Performance Enhancement Plan (“PEP”) link a significant portion of the Named Executives’ annual compensation to the Company’s annual financial and operational performance. This program utilizes a “balanced scorecard” approach with performance measures tied to three areas: investors, customers, and process. For 2013, the PEP financial goals were net income, O&M cost containment and identifying incremental value.

2013 Changes to the Company’s PEP

Each year, the Company reviews the PEP goals and modifies them, as appropriate, to align UNS Energy’s employees’ performance with the following objectives: enhancing shareholder value, maintaining customer satisfaction, expanding the Company’s role in the community, and providing for UNS Energy’s employees’ development. Goals for 2013 were designed to reflect the Company's strategic priorities and drive continuous improvement over the previous year’s performance.

2013 PEP performance

Overall, the Company achieved a total weighted performance for all 2013 PEP goals of 101.25% of target, as summarized below.

Goal	Weighting of Goal (A)	Performance Achieved (B)	Payout Percentage (A x B)
Net Income	35%	150%	52.5%
Rate Case	10%	125%	12.5%
O&M Cost Containment	12.5%	0%	0.0%
Customer	25%	85%	21.25%
OSHA	7.5%	0%	0.0%
Process Improvement	10%	150%	15.0%
	100%		101.25%

Long-term incentive compensation (equity awards)

UNS Energy believes that performance-based equity awards hold executive officers accountable for the long-term impact of their actions, which in turn aligns the interest of those executive officers with the interest of the Company's shareholders. For 2013, two-thirds of executive officer long-term incentive awards were delivered in performance shares with vesting tied to achievement of the three-year cumulative net income goal and the Company’s 3-year TSR relative to the companies comprising

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the EEI Index. Cumulative net income focuses participants on profitability, which will be strongly influenced by the success of cost control initiatives during the three-year performance period. TSR measures the success of the execution of the Company’s operating and strategic plans, as reflected in shareholder value and measured by changes in the Company’s market capitalization and dividends paid to shareholders on a relative basis. The remaining one-third of executive officer long-term incentive awards were delivered in restricted stock units that cliff vest on the third anniversary of grant to support the Company's retention objective, as well as succession planning activities.

2011-2013 performance shares

Performance shares granted in 2011 with a three-year performance period (2011-2013) had 50% of the shares tied to achievement of relative Total Shareholder Return (TSR) goals and 50% of the shares tied to achievement of cumulative net income goals.

At the completion of the 2011-2013 performance period, executives vested in 103.9% of the target shares, reflecting above target relative TSR performance and below target cumulative net income.

Executives vested in 150% of the target number of shares linked to the Company’s relative TSR goal, which was at the 90th percentile relative to the EEI Index and above the outstanding level. Executives vested in 57.8% of the target number of shares based on the Company’s cumulative net income goal of $334.6 million, which was between threshold and target levels. Restricted stock units were included in the 2013 long term incentive grant.

Best Practices

The Named Executive compensation program is designed to reflect current “best practices” and discourage behaviors that could create material risk for UNS Energy. The following examples illustrate those “best practices”:

- stock ownership guidelines (as explained on page 23),
- clawback provisions for cash and equity awards (as explained on page 23),
- prohibition on hedging and pledging of Company stock (as explained on page 24), and
- “double trigger” equity vesting in the event of a change in control (as explained on page 36).

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COMPENSATION PHILOSOPHY

Objectives of the Compensation Program

UNS Energy, with the oversight of the Compensation Committee, provides a balanced total compensation program and ensures that a significant part of executive officer compensation is performance-based. Corporate goals are designed to focus executive officers and all non-union employees on successful execution of the Company’s strategy and annual operating plan. The Company's 2013 executive officer compensation consisted primarily of the following components:

Summary of 2013 Executive Officer Compensation Program

Compensation Component	Key Features	Purpose
Base Salary	Increases considered on an annual basis to remain near the median of the Company's peer group (as described on page 16) Intended to constitute a sufficient component of total compensation to discourage inappropriate risk-taking	Provide a fixed amount of cash compensation to the Company's Named Executives
Short-term Incentive Compensation (Performance Enhancement Program or PEP)	Incentive plans are structured identically for executive and non-executive employees and across business units/functions, uniting all non-union employees in the achievement of common goals All incentive plans are capped at 150% of target, protecting against the possibility that executives take short-term actions not supportive of long-term objectives to maximize bonuses Must achieve at least the threshold level of net income to receive payment above 50% of target for other performance measures; this cap limits non-financial goal payout if the financial goals are not met	Motivate and reward achieving or exceeding organization short-term performance goals, reinforcing pay-for-performance Focus entire organization on key customer, operational and financial objectives
Long-Term Incentive Compensation (LTI or equity-based compensation)	LTI is delivered solely in a combination of performance shares and restricted stock units Ultimate value earned from the LTI program is based on both absolute and relative shareholder value and longer-term operating performance Performance shares represent 67% of the target award with 50% of the	Opportunities for ownership and financial reward in support of the Company’s longer-term financial goals and stock price growth; also supports retention objective Provide a link between compensation and long-term shareholder interests as reflected in changes in stock price

shares earned based on achievement of cumulative net income goals and 50% of the shares earned based on achievement of relative TSR over a three-year period

RSU's represent 33% of the target awards, and cliff vest on the 3rd anniversary of grant

The Compensation Committee considers decisions regarding each component of pay in the context of each executive officer's total compensation. For example, as discussed in the "Compensation Analysis" section on page 16, if the Compensation Committee increases an executive officer's base salary, it also considers the resultant impact on short- and long-term performance-based incentive compensation and compares total compensation levels to competitive practice. The Compensation Committee does not directly consider the value of previous equity awards in setting current year total compensation opportunities, but does review the value of outstanding equity awards to assess the degree to which such awards support the Company's performance motivation, retention, and shareholder alignment objectives.

Each of these components is described in more detail below and in the narrative and footnotes to the supporting tables. The following sections highlight how the above objectives are reflected in the Company's compensation program.

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Attracting, Retaining and Motivating Executives

To attract, retain and motivate highly-skilled employees, UNS Energy provides the Named Executives with compensation packages that are competitive with those offered by other electric and gas utility companies of comparable size and complexity and/or electric and gas utility companies thought to be competitors for executives. The Compensation Committee generally targets total direct compensation for the Named Executives to be, on average, at the median of selected comparable companies identified below under the "Compensation Analysis" section. Under this approach, newly promoted executives and those new to their role may be placed below the median to reflect their limited experience and evolving skill set. Similarly, executives with longer tenure and therefore an above-market skill set, or those executives who are sustained high performers over time and are most critical to the Company's long-term success, may be placed above the median. The Company believes that this strategy enables it to successfully hire, motivate and retain talented executives while ensuring a reasonable overall compensation cost structure relative to its peers.

In addition to providing competitive direct compensation opportunities, the Company also provides certain indirect compensation and benefits programs that are intended to assist in attracting and retaining high quality executives. These programs include pension and retirement programs and are described in more detail below and in the narratives that accompany the tables that follow this Compensation Discussion and Analysis section.

Linking Compensation to Performance

UNS Energy's compensation program seeks to link the actual compensation earned by the Named Executives to their performance and that of the Company. UNS Energy achieves this goal primarily through two elements of executive compensation: (i) short-term cash awards and (ii) equity-based compensation. To ensure that the executive officers are held accountable for achieving the Company's financial, operational and strategic objectives and for creating shareholder value, the Company believes that the percentage of pay at risk should increase with the level of responsibility within the Company. The target amounts of performance-based pay programs (i.e., cash incentive and equity-based compensation) comprise approximately 50% to 70% of the total direct compensation opportunity for the Named Executives. Of the performance-based compensation, approximately 30-50% is short-term and 50-70% is long-term. Placing a greater emphasis on long-term performance-based compensation encourages executive officers to focus on the long-term impact of their actions. Non-variable compensation, such as benefits and perquisites, is de-emphasized in the total compensation program to reinforce the linkage between compensation and performance.

Balancing Risk and Reward to Align the Interests of the Company's Named Executives with Stakeholders

UNS Energy's compensation program also seeks to align the interests of the Named Executives with those of the Company's key stakeholders, including shareholders, customers, the community and employees. The Company uses the short-term incentive compensation component to focus the Named Executives on the importance of providing safe and reliable customer service, creating a safe work environment for employees and improving financial performance by linking their short-term cash incentive compensation to achievement of these objectives. The Company primarily relies on the equity compensation element of its compensation package to align the interests of the Named Executives with those of shareholders. UNS Energy's compensation strategy is intended to mitigate risk by emphasizing long-term compensation and financial performance measures correlated with shareholder value. UNS Energy believes that equity-based compensation, together with the three-year vesting of stock-based awards and the stock ownership guidelines, result in compensation programs that do not encourage excessive risk-taking by management relating to the Company's business and operations, and increase executive officer accountability in the performance of the Company. In addition, the Compensation Committee has the ability to reduce short-term incentive compensation award payouts, in its sole discretion, based upon factors other than Company performance measures. In considering the design alternatives, the Compensation Committee continually evaluates the potential for unintended consequences of its compensation program.

Maximizing the Financial Efficiency of the Program

In structuring the total compensation package for the Named Executives, the Compensation Committee evaluates the accounting cost, cash flow implications and tax deductibility of compensation to mitigate financial inefficiencies to the greatest extent possible. For instance, as part of this process, the Compensation Committee evaluates whether compensation costs are fixed or variable and places a heavier weighting on variable pay elements to calibrate expense with the achievement of operating performance objectives and delivery of value to shareholders. In addition, the Compensation Committee takes into account the objective of having the incentive-based compensation components qualify for tax deductibility under Section 162(m) (“Section 162(m)”) of the Internal Revenue Code, as amended (the “Code”). See discussion under “Impact of Regulatory Requirements” on page 25.

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Adhering to Corporate Governance “Best Practices”

The Compensation Committee continually seeks to evaluate the executive officer compensation program in light of corporate governance “best practices.” For example, the Compensation Committee has established formal stock ownership guidelines that encourage each Named Executive to accumulate and hold a meaningful amount of Company stock. The short-term and long-term incentive compensation programs include a clawback provision, and the Change in Control Agreements do not contain an excise tax gross-up provision, all of which are discussed in more detail below.

The Compensation Committee also reviews tally sheets and wealth accumulation analyses, which are designed to assist the Compensation Committee in evaluating the reasonableness of the compensation provided to Named Executives. Based on this review, the Compensation Committee concluded that the current program design supports the Company’s objectives and that no changes were warranted to the program, other than the addition of restricted stock units to support retention objectives.

Compensation Analysis

To provide a foundation for the executive officer compensation program, UNS Energy periodically benchmarks its Named Executives’ compensation levels and practices against a peer group of companies intended to represent the Company’s competitors for business and talent. The peer group, which is reviewed periodically and approved by the Compensation Committee, includes the 12 utility companies named below that are comparable to UNS Energy in size, as measured by annual revenues and market capitalization (the “Peer Group”). As of November 2013, the date when the most recent benchmarking analysis was performed, UNS Energy’s revenues and number of employees approximate the median of the Peer Group; total assets and market capitalization are between the 25th percentile and the median; net income is below the 25th percentile.

Frederic W. Cook & Co., Inc., the independent consultant retained by the Compensation Committee, supplements the benchmark information annually with information relating to general market trends, changes in regulatory requirements related to executive officer compensation and emerging “best practices” in corporate governance. See discussion relating to compensation under “Compensation Consultant” on page 43.

2013 Peer Group

ALLETE, Inc.	NorthWestern Corp.
Avista Corp.	NV Energy, Inc.
Cleco Corp.	PNM Resources Inc.
El Paso Electric Co.	Portland General Electric Co.
Great Plains Energy, Inc.	UIL Holdings Corp.
IDACORP Inc.	Westar Energy Inc.

In December 2012, the Company made changes to its Peer Group to take effect in 2013. Frederic W. Cook & Co., Inc. performed an analysis using relevant selection criteria, including total revenue, total assets, market cap, enterprise value, total employees, and industry. The analysis showed that the 2012 Peer Group continued to be reasonable, but it also highlighted peers that would further align the Company's Peer Group with its business model and size. As a result, the Company changed its Peer Group, adding ALLETE, El Paso Electric, Great Plains Energy, and NV Energy and removing Pinnacle West Capital, Northwest Natural Gas, Piedmont Natural Gas, Southwest Gas, and South Jersey Industries.

ELEMENTS OF COMPENSATION

Base Salary

The Company uses base salary to provide each Named Executive a set amount of money during the year with the expectation that he or she will perform his or her responsibilities to the best of his or her ability and in the best interests of the Company. The Company believes that competitive base salaries are necessary to attract and retain executive talent critical to achieving its business goals. In general, Named Executives’ base salaries are targeted to the median of the Peer Group described above. However, individual salaries can and do vary from the Peer Group median data based on such factors as (i) the competitive environment for Named Executives, and (ii) incumbent responsibilities, experience, skills and performance relative to similarly situated executive officers within the

Company. Currently, all of the Named Executives' salaries are within 10 percent of their comparable Peer Group median.

Increases to Named Executives' base salaries are considered annually by the Compensation Committee. In approving base pay increases for Named Executives other than the CEO, the Compensation Committee also considers recommendations made by the CEO.

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In February 2013, the Compensation Committee approved 2% base salary increases for the Named Executives, which were consistent with salary increases as a percent of salary for other non-union Company employees. In August of 2013, David Hutchens received an 11% base salary increase in consideration of his additional responsibilities after being named Chief Operating Officer in addition to his other duties as President of the Company, and Phil Dion received a 32% salary increase in consideration of his promotion to Senior Vice President of Public Policy & Customer Solutions. Base salary as a percentage of total compensation for the Named Executives ranges from approximately 30-50%. Additional information is provided in the Summary Compensation Table on page 27.

Short-Term Incentive Compensation (Cash Awards)

UNS Energy's short-term incentive compensation consists of cash awards under the Performance Enhancement Plan ("PEP"), which links a significant portion of the Named Executives' annual compensation to the Company's annual financial and operational performance.

Each year, before the end of the first quarter, the Compensation Committee establishes performance objectives that must be met in whole or in part before the Company pays PEP awards. The key performance objectives are tailored to drive behavior that supports the Company's strategy of delivering safe, reliable service and value to customers and a fair return to shareholders over time. The Compensation Committee generally attempts to align the target opportunity for each Named Executive, stated as a percentage of base salary, with the median rate for equivalent positions at the Peer Group companies. In 2013, the target incentive opportunity for the Named Executives ranged from 35% to 80% of base salary, depending upon the Named Executive's responsibilities (i.e., the greater the responsibility, the more pay at risk). The Company's Named Executives' target incentive opportunities as a percent of base salary are near the Peer Group median. As described more fully below, the actual amounts paid depend on the achievement of specified performance objectives and could range from 50% of the target award upon achievement of threshold performance to 145.0% of the target award upon achievement of exceptional performance. In 2013, maximum short-term incentive compensation was capped at 145.0% (rather than 150%) because two non-financial performance objectives were limited to target performance (100% payout).

Financial and Operating Performance Objectives-2013

The PEP performance targets and weighting are based on factors that are essential for the long-term success of the Company and are identical to the performance objectives used in its performance plan for other non-union employees. In 2013, the financial and operating objectives were (i) net income; (ii) incremental value, which encourages employees to look for new ways to either increase revenue or reduce expenses; (iii) O&M cost containment; and (iv) customer, process, and rate case goals, which include both quantitative and qualitative measures. The Compensation Committee selected the goals and individual weightings for the 2013 PEP to ensure an appropriate focus on profitable growth and expense control, as well as operational and customer service excellence, process improvements, and establishing new rates. This balanced scorecard approach encourages all employees to work toward common goals that are in the interests of UNS Energy's various stakeholders.

The financial and other metrics for the Company's 2013 Short-Term Incentive Compensation program were:

- Financial – 52.50%
- Net Income – 35%
- Incremental Value – 5%
- O&M Cost Containment – 12.50%

Customer, Process, and Rate Case – 47.50%

In developing the PEP performance targets, Company management compiles relevant data such as Company historic performance and industry benchmarks and makes recommendations to the Compensation Committee for a particular year, but the Compensation Committee ultimately determines the performance objectives that are adopted.

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The 2013 financial performance objectives were:

Performance Objectives	Threshold	Target	Exceptional
Net Income	$100.7 million	$111.2 million	$121.7 million
Incremental Value	$6.0 million	$8.0 million	$12.0 million
O&M Costs	$268 million	$263 million	$258 million

The 2013 performance objectives were:

	Threshold	Target	Exceptional
Customer			
Equivalent Availability Factor (“EAF”)			
Generation Reliability—Annual	87.7% - 88.6%	88.7% - 89.6%	89.7% +
Generation Reliability – Summer	91.5% - 92.4%	92.5% - 93.4%	93.5% +
System Average Interruption Duration Index (“SAIDI”) Transmission/Distribution Reliability	86 - 100	65 - 85	< 65
Gas Distribution			
Losses	2.01% – 2.25%	1.25% – 2.00%	< 1.25%
Leaks per Mile	.061% - .070%	.040% - .060%	< .039%
Employee Hours Volunteered	NA	40,000 Hours	NA
Capital Plan	NA	Optimize by Dec. 31	NA
Process			
OSHA Rate (Employee Safety Measure)	1.90 - 2.20	1.40 - 1.89	≤ 1.40
Operational Excellence / Productivity	$250K Reduction	$500K Reduction	$1.0M Reduction
Rate Case			
TEP Rate Case New Rates Implementation	Oct. 1st	Aug. 1st	Before Jul. 31st
TEP Rate Case Alignment	Energy Efficiency (EE) Resource Plan Approval	Lost Fixed Cost Revenue (LFCR) Plan Approval	Both EE & LFCR Plan Approval

Short-Term Incentive Award to the CEO

Because the CEO’s total compensation could exceed $1 million, Section 162(m) would deny the Company a tax deduction for the excess over $1 million, unless that excess compensation qualifies as “performance-based” compensation. To comply with the performance-based compensation requirements, and also allow the Compensation Committee to retain discretion to adjust the PEP award, if appropriate, the Compensation Committee used a modified approach from that described above for the Named Executives and other employees, requiring two separate steps to calculate the CEO’s short-term incentive award.

The first step involved the 2011 Omnibus Plan, which permits payment of cash awards up to $2 million. For the CEO’s short-term incentive award to qualify as performance-based compensation, Section 162(m) requires that the award be payable solely upon the attainment of performance goals. If the performance goals are achieved, Section 162(m) permits the Compensation Committee to pay the amount specified at the time of the award or to pay any lesser amount, but does not allow payment of any greater amount. For the CEO’s short-term incentive award, the Compensation Committee established, as a minimum target, the attainment of net income of at least $77.8 million for 2013, which, if achieved, would allow the Compensation Committee to pay the CEO the $2 million maximum permitted by the 2011 Omnibus Plan or any lesser amount; however, if the Company failed to achieve $77.8 million of net income, the CEO would not be entitled to any short-term incentive award payment, regardless of the achievement of other PEP performance objectives as described above. In this respect, the CEO’s performance objective differed significantly from objectives set for the awards to the other Named Executives. The CEO’s award had an absolute minimum performance level that must have been achieved before the CEO received any payment, whereas if the Company failed to achieve the minimum performance on the net income objective set under the PEP, the other

Named Executives could have still received a limited payment based on the attainment of the remaining performance objectives. Solely for purposes of this first step of determining the CEO's short-term incentive award, the Compensation Committee felt it was appropriate to set the CEO's net income performance objective below the net income threshold used for the other Named Executives, because of the increased importance of the CEO's net income target, the increased risk related to that target, and the desire to comply with the performance-based compensation requirement of Section 162(m).

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The second step for determining the CEO's short-term incentive award involved applying negative discretion in the form of the PEP performance objectives and methodology. Once the Company achieved the minimum performance objective established pursuant to the 2011 Omnibus Plan for the CEO to receive any payment, the amount of the CEO's payment, including whether the CEO received the minimum, target or maximum amount as a percentage of base salary, would be determined using the same PEP performance objectives and methodology (including the same net income goal) as described above for the other Named Executives.

2013 PEP Results

Summary:

Overall, the 2013 results produced a total weighted performance for all goals of 101.25% of target performance, as summarized in Table A below. The Compensation Committee approved an overall PEP payout of 101.25% of target awards for all participants, subject to adjustment for individual performance. While individual performance is a factor in determining a PEP award, the sum total of Company awards does not exceed the total PEP funding of 101.25%. Additionally, Mr. Bonavia was eligible for a payment of his annual incentive award because the Company exceeded the minimum net income threshold of $77.8 million necessary for him to receive a payment.

Table A: Summary of 2013 PEP Results

Goal	Weighting of Goal (A)	Percentage of Target Performance Achieved (B)*	Payout Percentage (A x B)
Net Income	35%	150%	52.5%
Incremental Value	5%	150%	7.5%
O&M Cost Containment	12.5%	0%	0.0%
Customer/Process/Rate Case	47.5%	Various	41.25%
	100%		101.25%

* Additional detail provided below

Net Income Goal:

In 2013, the Company achieved $133.7 million of net income, which was above the exceptional performance level. Table B, below, reflects the net income goal, which ranged from $100.7 million (threshold) to $121.7 million (exceptional), and the corresponding payout levels, which ranged from 50% to 150% of the target award, as well as the actual net income achieved for 2013. Net income must have been more than $100.7 million to produce a payout. All incentive plans are capped at 150% of target to protect against the possibility that executives take short-term actions not supportive of long-term objectives to maximize bonuses, therefore, the achievement of $133.7 million in net income resulted in a payout level of 150% of the target amount for that performance objective.

Table B: Net Income

								Final Result: $133.7* $			
Range ($Millions)	$100.7	$102.8	$104.9M	$107.0	$109.1	$111.2	$113.3	$115.4	$117.5	$119.6	$121.7
Payout % of Target	50%	60%	70%	80%	90%	100%	110%	120%	130%	140%	150%
	# Threshold					# Target					# Exceptional

* Amount calculated net of merger-related costs

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Incremental Value Goal:

The Incremental Value Goal represents 5% of the target amount of the 2013 PEP award. The purpose of this goal is to continue to drive improvement of the Company's bottom line results by encouraging employees or departments to look for new ways to either increase revenue or reduce expenses. Incremental Value is measured by any increase in incremental annual pre-tax income by implementing these profit improvements. Profitability of any individual effort is measured over a 12-month period from date improvement is expected to be implemented.

Table C, below, reflects the incremental value goal, which ranged from $6.0 million (threshold) with a payout value of 50%, to $8.0 million (target) with a payout value of 100%, to $12.0 million (exceptional) with a payout value of 150%. Incremental value must have been more than $6.0 million to produce a payout. Straight-line interpolation is not used in the calculation of results on this measure between threshold and target or target and exceptional; the payout is based on the highest level (threshold, target, or exceptional) actually achieved. Because the Company achieved better than $12.0 million ($14.1 million), a payout level of 150% (exceptional) was achieved for this performance objective.

Table C: Incremental Value

			Final Result: $14.1 $
Range ($ Millions)	$6.0	$8.0	$12.0
Percentage of Target	# 50% Threshold	# 100% Target	# 150% Exceptional

O&M Cost Containment Goal:

The Company achieved an O&M spending level for 2013 of $270.4 million. For this goal, lower spending represents better performance. The actual spending level was above the amount required for threshold level of performance, and therefore no amounts were paid on account of this goal. The Company experienced a number of one-time expenses and accelerated generation outage-related work that was originally planned for 2014. O&M spending, for purposes of a PEP calculation, is defined as the sum of O&M expenses for TEP and UES operations, excluding (1) any reimbursable items for O&M costs incurred by TEP for operating Units 3 and 4 at the Springerville Generating Station; (2) reimbursable O&M expenses for renewable and demand side management programs; and (3) any PEP accrued expense. TEP operates Unit 3 for Tri-State Generation and Transmission Association, which leases the unit from financial owners, and Unit 4, which is owned by Salt River Project Agricultural Improvement and Power District. Additionally, for the purposes of goal calculation, O&M was further reduced for expenses related to the proposed merger of the Company and Fortis, Inc.

Table D, below, reflects the O&M cost containment goal, which ranged from $268 million (threshold) to $258 million (exceptional), and the corresponding payout levels, which ranged from 50% to 150% of the target award, as well as the O&M spending level achieved for 2013. O&M spending must have been less than $268 million to produce a payout, therefore there was no payout for the O&M cost containment goal in 2013.

Table D: O & M Cost Containment

Final Result:	$270.4 $										
Range ($Millions)	$268	$267	$266	$265	$264	$263	$262	$261	$260	$259	$258
Payout % of Target	50%	60%	70%	80%	90%	100%	110%	120%	130%	140%	150%
	#					#					#