

TUCSON ELECTRIC POWER CO

Form 10-Q

October 31, 2011

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q**

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2011
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	Registrant; State of Incorporation; Address; and Telephone Number	IRS Employer Identification Number
1-13739	UNISOURCE ENERGY CORPORATION (An Arizona Corporation) One South Church Avenue, Suite 100 Tucson, AZ 85701 (520) 571-4000	86-0786732
1-5924	TUCSON ELECTRIC POWER COMPANY (An Arizona Corporation) One South Church Avenue, Suite 100 Tucson, AZ 85701 (520) 571-4000	86-0062700

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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.

UniSource Energy Corporation Yes No
Tucson Electric Power Company (1) Yes No

(1) Tucson Electric Power Company is not required to file reports under the Exchange Act. However, Tucson Electric Power Company has filed all Exchange Act reports for the preceding 12 months.

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, 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).

UniSource Energy Corporation Yes No
Tucson Electric Power Company Yes No

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):

UniSource Energy Corporation

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

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(Do not check if a smaller reporting
company)

Tucson Electric Power Company

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting
company)

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

UniSource Energy Corporation Yes No

Tucson Electric Power Company Yes No

As of October 20, 2011, 36,922,643 shares of UniSource Energy Corporation Common Stock, no par value (the only class of Common Stock), were outstanding. As of October 20, 2011, Tucson Electric Power Company had 32,139,434 shares of common stock outstanding, no par value, all of which were held by UniSource Energy Corporation.

This combined Form 10-Q is separately filed by UniSource Energy Corporation and Tucson Electric Power Company. Information contained in this document relating to Tucson Electric Power Company is filed by UniSource Energy Corporation and separately by Tucson Electric Power Company on its own behalf. Tucson Electric Power Company makes no representation as to information relating to UniSource Energy Corporation or its subsidiaries, except as it may relate to Tucson Electric Power Company.

Table of Contents

Table of Contents

<u>Definitions</u>	iv
<u>PART I</u>	
<u>Reports of Independent Registered Public Accounting Firm</u>	1
<u>Item 1. Financial Statements</u>	3
<u>UniSource Energy Corporation</u>	
<u>Condensed Consolidated Statements of Income</u>	3
<u>Condensed Consolidated Statements of Cash Flows</u>	4
<u>Condensed Consolidated Balance Sheets</u>	5
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income</u>	7
<u>Tucson Electric Power Company</u>	
<u>Condensed Consolidated Statements of Income</u>	8
<u>Condensed Consolidated Statements of Cash Flows</u>	9
<u>Condensed Consolidated Balance Sheets</u>	10
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity and Comprehensive Income</u>	12
<u>Notes to Condensed Consolidated Financial Statements - Unaudited</u>	13
<u>Note 1. Nature of Operations and Basis of Accounting Presentation</u>	13
<u>Note 2. Regulatory Matters</u>	18
<u>Note 3. Business Segments</u>	19
<u>Note 4. Debt and Credit Facilities</u>	22
<u>Note 5. Income Taxes</u>	23
<u>Note 6. Commitments, Contingencies and Proposed Environmental Matters</u>	23
<u>Note 7. Employee Benefit Plans</u>	30
<u>Note 8. Share-Based Compensation Plans</u>	30
<u>Note 9. Fair Value Measurements</u>	31
Table of Contents	4

<u>Note 10. UniSource Energy Earnings Per Share</u>	36
<u>Note 11. Stockholders' Equity</u>	38
<u>Note 12. Recently Issued Accounting Pronouncements</u>	38
<u>Note 13. Supplemental Cash Flow Information</u>	39
<u>Note 14. Accounting for Derivative Instruments, Trading Activities and Hedging Activities</u>	40
<u>Note 15. Review by Independent Registered Public Accounting Firm</u>	43
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	44
<u>UniSource Energy Consolidated</u>	44
<u>Overview of Consolidated Business</u>	44
<u>Outlook and Strategies</u>	45
<u>Results of Operations</u>	45
<u>Liquidity and Capital Resources</u>	47
<u>Tucson Electric Power Company</u>	51
<u>Results of Operations</u>	51
<u>Factors Affecting Results of Operations</u>	59
<u>Liquidity and Capital Resources</u>	63
<u>UNS Gas</u>	66
<u>Results of Operations</u>	66
<u>Factors Affecting Results of Operations</u>	68
<u>Liquidity and Capital Resources</u>	69
<u>UNS Electric</u>	71
<u>Results of Operations</u>	71
<u>Factors Affecting Results of Operations</u>	73
<u>Liquidity and Capital Resources</u>	74
<u>Other Non-Reportable Business Segments</u>	76

<u>Results of Operations</u>	76
<u>Factors Affecting Results of Operations</u>	77
<u>Critical Accounting Estimates</u>	77

Table of Contents

<u>Recently Issued Accounting Pronouncements</u>	77
<u>Safe Harbor for Forward-Looking Statements</u>	78
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	78
<u>Item 4. Controls and Procedures</u>	81

PART II OTHER INFORMATION

<u>Item 1. Legal Proceedings</u>	81
<u>Item 1A. Risk Factors</u>	81
<u>Item 2. Unregistered Sale of Equity Securities and Use of Proceeds</u>	81
<u>Item 5. Other Information</u>	82
<u>Ratio of Earnings to Fixed Charges</u>	82
<u>Environmental Matters</u>	82
<u>Item 6. Exhibits</u>	85
<u>Signatures</u>	86
<u>Exhibit Index</u>	87

<u>Exhibit 12(a)</u>	
<u>Exhibit 12(b)</u>	
<u>Exhibit 15</u>	
<u>Exhibit 31(a)</u>	
<u>Exhibit 31(b)</u>	
<u>Exhibit 31(c)</u>	
<u>Exhibit 31(d)</u>	
<u>Exhibit 32</u>	
<u>EX-101 INSTANCE DOCUMENT</u>	
<u>EX-101 SCHEMA DOCUMENT</u>	
<u>EX-101 CALCULATION LINKBASE DOCUMENT</u>	
<u>EX-101 LABELS LINKBASE DOCUMENT</u>	
<u>EX-101 PRESENTATION LINKBASE DOCUMENT</u>	
<u>EX-101 DEFINITION LINKBASE DOCUMENT</u>	

Table of Contents

DEFINITIONS

The abbreviations and acronyms used in the 2011 third quarter report on Form 10-Q are defined below:

2008 TEP Rate Order	A rate order issued by the ACC resulting in a new retail rate structure for TEP, effective December 1, 2008
2010 TEP Reimbursement Agreement	Reimbursement Agreement, dated December 14, 2010, between TEP, as borrower, and a group of financial institutions
ACC	Arizona Corporation Commission
AFUDC	Allowance for Funds Used During Construction
AMT	Alternative Minimum Tax
AOCI	Accumulated Other Comprehensive Income
APS	Arizona Public Service Company
Augusta	Augusta Resources Corporation
BART	Best Available Retrofit Technology
BMGS	Black Mountain Generating Station
Btu	British thermal unit(s)
Capacity	The ability to produce power; the most power a unit can produce or the maximum that can be taken under a contract, measured in megawatts
CCRs	Coal combustion residuals
CO ₂	Carbon dioxide
Common Stock	UniSource Energy's common stock, without par value
Company	UniSource Energy Corporation
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	Electric Energy Efficiency Standards
El Paso	El Paso Electric Company
Emission Allowance(s)	An allowance issued by the Environmental Protection Agency which permits emission of one ton of sulfur dioxide or one ton of nitrogen oxide. These

	allowances can be bought and sold
Energy	The amount of power produced over a given period of time measured in MWh
EPA	Environmental Protection Agency
FERC	Federal Energy Regulatory Commission
Four Corners	Four Corners Generating Station
GAAP	Generally Accepted Accounting Principles
Gas EE Standards	Gas Energy Efficiency Standards
GBtu	Billion British thermal units
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
IDBs	Industrial Development Bonds
IRS	Internal Revenue Service
kWh	Kilowatt-hour(s)
LIBOR	London Interbank Offered Rate
Luna	Luna Generating Station
Millennium	Millennium Energy Holdings, Inc., a wholly-owned subsidiary of UniSource Energy
MMBtu	Million British thermal units
Mortgage Bonds	Mortgage Bonds issued under the 1992 Mortgage
MW	Megawatt(s)
MWh	Megawatt-hour(s)
Navajo	Navajo Generating Station
O&M	Operations and Maintenance Expense
NTUA	Navajo Tribal Utility Authority
NOL	Net Operating Loss
PGA	Purchased Gas Adjuster, a retail rate mechanism designed to recover the cost of gas purchased for retail gas customers

PNM

Public Service Company of New Mexico

PPA

Power purchase agreement

Table of Contents

PPFAC	Purchased Power and Fuel Adjustment Clause
RES	Renewable Energy Standard
San Juan	San Juan Generating Station
SCR	Selective Catalytic Reduction
SES	Southwest Energy Solutions
Springerville	Springerville Generating Station
Springerville Common Facilities	Facilities at Springerville used in common by all four Springerville units
Springerville Common Facilities Leases	Leveraged lease arrangements relating to an undivided one-half interest in certain 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
Staff Accounting Bulletin 108	Staff Accounting Bulletin No. 108 (ASC 250-10), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements
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 UniSource Energy
TEP Credit Agreement	Second Amended and Restated Credit Agreement between TEP and a syndicate of banks, dated as of November 9, 2010
TEP Letter of Credit Facility	Letter of credit facility under the TEP Credit Agreement
TEP Revolving Credit Facility	Revolving credit facility under the TEP Credit Agreement

Therm	A unit of heating value equivalent to 100,000 Btus
Tri-State	Tri-State Generation and Transmission Association
UED	UniSource Energy Development Company, a wholly-owned subsidiary of UniSource Energy, which engages in developing generation resources and other project development services and related activities
UED Credit Agreement	Credit agreement between UED and a syndicate of banks, dated as of March 26, 2009, as amended, and guaranteed by UniSource Energy. Repaid on July 1, 2011
UES	UniSource Energy Services, Inc., an intermediate holding company established to own the operating companies UNS Gas and UNS Electric
UniSource Credit Agreement	Second Amended and Restated Credit Agreement between UniSource Energy and a syndicate of banks, dated as of November 9, 2010
UniSource Energy	UniSource Energy Corporation
UNS Electric	UNS Electric, Inc., a wholly-owned subsidiary of UES
UNS Electric Credit Agreement	Credit Agreement among UNS Electric, as borrower, and Union Bank, N.A., dated as of August 10, 2011
UNS Gas	UNS Gas, Inc., a wholly-owned subsidiary of UES
UNS Gas/UNS Electric Revolver	Revolving credit facility under the Second Amended and Restated Credit Agreement among UNS Gas and UNS Electric as borrowers, UES as guarantor, and a syndicate of banks, dated as of November 9, 2010
USFS	United States Forest Service

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
UniSource Energy Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of UniSource Energy Corporation and its subsidiaries (the Company) as of September 30, 2011, and the related condensed consolidated statements of income for the three and nine-month periods ended September 30, 2011 and 2010, the condensed consolidated statement of changes in stockholders' equity and comprehensive income for the nine-month period ended September 30, 2011 and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2011 and 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2010, and the related consolidated statements of income, of cash flows, of capitalization, and of changes in stockholders' equity and comprehensive income for the year then ended (not presented herein), and in our report dated March 1, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona

October 31, 2011

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholder of
Tucson Electric Power Company:

We have reviewed the accompanying condensed consolidated balance sheet of Tucson Electric Power Company and its subsidiaries (the Company) as of September 30, 2011, and the related condensed consolidated statements of income for the three and nine-month periods ended September 30, 2011 and 2010, the condensed consolidated statement of changes in stockholder's equity and comprehensive income for the nine-month period ended September 30, 2011, and the condensed consolidated statements of cash flows for the nine-month periods ended September 30, 2011 and 2010. These interim financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole.

Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for them to be in conformity with accounting principles generally accepted in the United States of America.

We previously audited in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet as of December 31, 2010, and the related consolidated statements of income, of cash flows, of capitalization, and of changes in stockholder's equity and comprehensive income for the year then ended (not present herein), and in our report dated March 1, 2011, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 31, 2010, is fairly stated in all material respects in relation to the consolidated balance sheet from which it has been derived.

/s/PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP

Phoenix, Arizona

October 31, 2011

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNISOURCE ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended September 30, 2011 2010 (Unaudited) -Thousands of Dollars- (Except Per Share Amounts)		Nine Months Ended September 30, 2011 2010 (Unaudited) -Thousands of Dollars- (Except Per Share Amounts)	
		Operating Revenues	
\$ 363,385	\$ 360,028	\$ 856,216	\$ 824,714
41,847	36,838	121,506	102,397
			(2,970)
16,831	16,140	99,041	96,598
28,884	25,824	88,624	76,053
450,947	438,830	1,165,387	1,096,792
		Operating Expenses	
98,962	89,874	252,103	219,192
88,734	93,889	233,344	243,285
(1,354)	3,380	4,612	8,688
(3,576)	(11,735)	(5,174)	(34,260)
182,766	175,408	484,885	436,905
90,781	88,936	281,888	258,979
33,553	32,450	99,653	95,773
7,882	7,177	22,513	20,797
12,205	11,334	36,579	35,559
327,187	315,305	925,518	848,013
123,760	123,525	239,869	248,779
		Other Income (Deductions)	
1,919	2,011	3,739	5,891
1,678	2,196	7,155	9,334
(1,412)	(2,456)	(2,830)	(9,359)
2,185	1,751	8,064	5,866

Interest Expense

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17,945	15,928	Long-Term Debt	54,240	46,984
10,248	11,616	Capital Leases	30,108	35,124
(88)	(1,726)	Other Interest Expense, Net of Interest Capitalized	(1,118)	(1,213)
28,105	25,818	Total Interest Expense	83,230	80,895
97,840	99,458	Income Before Income Taxes	164,703	173,750
38,128	43,793	Income Tax Expense	62,916	72,018
\$ 59,712	\$ 55,665	Net Income	\$ 101,787	\$ 101,732
		Weighted-Average Shares of Common Stock Outstanding (000)		
37,053	36,533	Basic	36,930	36,321
41,777	41,141	Diluted	41,577	40,923
		Earnings per Share		
\$ 1.61	\$			