

TUCSON ELECTRIC POWER CO
Form 10-Q
April 30, 2012
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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 March 31, 2012

OR

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

For the transition period from _____ to _____.

Commission

Registrant; State of Incorporation;

File Number
1-13739

Address; and Telephone Number
UNISOURCE ENERGY CORPORATION

IRS Employer
Identification Number
86-0786732

(An Arizona Corporation)

88 E. Broadway Boulevard

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DEFINITIONS

The abbreviations and acronyms used in the 2012 first quarter report on Form 10-Q are defined below:

1992 Mortgage	TEP's Indenture of Mortgage and Deed of trust, dated as of December 1, 1992, to the Bank of New York Mellon, successor trustee, as supplemented
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
APS	Arizona Public Service Company
Base Rates	The portion of TEP's and UNS Electric's Retail Rates attributed to generation, transmission, distribution costs and customer charge; and UNS Gas' delivery costs, and customer charge
BART	Best Available Retrofit Technology
BHP	BHP Minerals International, Inc.
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
Circuit Court	United States Court of Appeals
Common Stock Company	UniSource Energy Corporation's common stock, without par value UniSource Energy Corporation and its subsidiaries
Convertible Senior Notes	UniSource Energy Corporation's 4.5% Convertible Senior Notes
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
EEIP	Energy Efficiency Implementation Plan
Electric EE Standards	Electric Energy Efficiency Standards
Energy	The amount of power produced over a given period of time measured in Megawatt-hours
EPA	Environmental Protection Agency
EPS	Earnings Per Share
FERC	Federal Energy Regulatory Commission
FIP	Federal Implementation Plan
Four Corners	Four Corners Generating Station
GAAP	Generally Accepted Accounting Principles
Gas EE Standards	Gas Energy Efficiency Standards
GBtu	Billion British thermal units
GWh	Gigawatt-hour(s)

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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
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 Corporation
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
NSP	Negotiated Sales Program
NTUA	Navajo Tribal Utility Authority

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NO _x	Nitrogen oxide
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
PNMR	PNM Resources, Incorporated. PNM's parent company
PPA	Power Purchase Agreement
PPFAC	Purchased Power and Fuel Adjustment Clause
PSD	Prevention of Significant Deterioration
RCRA	Resource Conservation and Recovery Act
RES	Renewable Energy Standard
Retail Rates	Rates designed to allow a regulated utility an opportunity to recover its reasonable operating and capital costs and earn a return on its utility plant in service
San Juan	San Juan Generating Station
SERP	Supplemental Executive Retirement Plan
SCR	Selective Catalytic Reduction
SES	Southwest Energy Solutions, a wholly-owned subsidiary of Millennium
SJCC	San Juan Coal Company
SMCRA	Surface Mine Control and Reclamation Act
SO ₂	Sulfur dioxide
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 Corporation
TEP Credit Agreement	Second Amended and Restated Credit Agreement between TEP and a syndicate of banks, dated as of November 9, 2010 (as amended)
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, Inc.
UED	UniSource Energy Development Company, a wholly-owned subsidiary of UniSource Energy Corporation
UES	

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	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 Corporation and a syndicate of banks, dated as of November 9, 2010 (as amended)
UniSource Energy	UniSource Energy Corporation
UNS Electric	UNS Electric, Inc., a wholly-owned subsidiary of UES
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 (as amended)

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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 March 31, 2012, and the related condensed consolidated statements of income for the three-month periods ended March 31, 2012 and 2011, the condensed consolidated statements of comprehensive income for the three-month periods ended March 31, 2012 and 2011, the condensed consolidated statement of changes in stockholders' equity for the three-month period ended March 31, 2012 and the condensed consolidated statements of cash flows for the three-month periods ended March 31, 2012 and 2011. 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, 2011, 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 February 27, 2012, 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, 2011, 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
April 30, 2012

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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 March 31, 2012, and the related condensed consolidated statements of income (loss) for the three-month periods ended March 31, 2012 and 2011, the condensed consolidated statements of comprehensive income (loss) for the three-month periods ended March 31, 2012 and 2011, the condensed consolidated statement of changes in stockholder s equity for the three-month period ended March 31, 2012, and the condensed consolidated statements of cash flows for the three-month periods ended March 31, 2012 and 2011. 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, 2011, 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 February 27, 2012, 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, 2011, 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
April 30, 2012

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PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNISOURCE ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
	-Thousands of Dollars-	
	(Except Per Share Amounts)	
Operating Revenues		
Electric Retail Sales	\$ 205,431	\$ 217,215
Electric Wholesale Sales	37,104	40,914
Gas Retail Sales	50,209	57,189
Other Revenues	26,130	29,448
Total Operating Revenues	318,874	344,766
Operating Expenses		
Fuel	70,735	71,191
Purchased Energy	63,276	78,274
Transmission	2,826	2,502
Decrease to Reflect PPFAC/PGA Recovery Treatment	(2,561)	(5,388)
Total Fuel and Purchased Energy	134,276	146,579
Other Operations and Maintenance	94,317	101,056
Depreciation	34,984	32,790
Amortization	8,664	7,377
Taxes Other Than Income Taxes	12,238	12,144
Total Operating Expenses	284,479	299,946
Operating Income	34,395	44,820
Other Income (Deductions)		
Interest Income	258	994
Other Income	3,095	2,856
Other Expense	(458)	(629)
Total Other Income (Deductions)	2,895	3,221
Interest Expense		
Long-Term Debt	19,135	18,092
Capital Leases	8,296	9,929
Other Interest Expense, Net of Interest Capitalized	175	(920)
Total Interest Expense	27,606	27,101
Income Before Income Taxes	9,684	20,940

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Income Tax Expense	3,208	7,468
Net Income	\$ 6,476	\$ 13,472
Weighted-Average Shares of Common Stock Outstanding (000)		
Basic	38,031	36,789
Diluted	38,321	41,401
Earnings Per Share		
Basic	\$ 0.17	\$ 0.37
Diluted	\$ 0.17	\$ 0.35
Dividends Declared Per Share	\$ 0.43	\$ 0.42

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**UNISOURCE ENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
	-Thousands of Dollars-	
Comprehensive Income		
Net Income	\$ 6,476	\$ 13,472
Other Comprehensive Income (Loss)		
Unrealized Gain (Loss) on Cash Flow Hedges, net of \$550, and \$(232) income taxes	(839)	179
Reclassification of Realized Losses on Cash Flow Hedges to Net Income, net of \$(544), and \$(105) income taxes	831	161
Supplemental Executive Retirement Plan (SERP) Benefit Adjustments, net of \$19, and \$0 income taxes	108	126
Total Other Comprehensive Income, Net of Income Taxes	100	466
Total Comprehensive Income	\$ 6,576	\$ 13,938

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**UNISOURCE ENERGY CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Three Months Ended March 31,	
	2012	2011
	(Unaudited)	
	-Thousands of Dollars-	
Cash Flows from Operating Activities		
Cash Receipts from Electric Retail Sales	\$ 240,164	\$ 252,545
Cash Receipts from Electric Wholesale Sales	43,034	45,973
Cash Receipts from Gas Retail Sales	62,064	67,327
Cash Receipts from Operating Springerville Units 3 & 4	25,169	26,345
Interest Received	1,528	3,653
Performance Deposits Received		4,700
Other Cash Receipts	6,841	6,317
Fuel Costs Paid	(77,309)	(54,320)
Purchased Energy Costs Paid	(72,353)	(81,712)
Payment of Other Operations and Maintenance Costs	(70,427)	(76,626)
Wages Paid, Net of Amounts Capitalized	(38,016)	(36,042)
Taxes Other Than Income Taxes Paid, Net of Amounts Capitalized	(31,952)	(31,593)
Interest Paid, Net of Amounts Capitalized	(20,490)	(21,829)
Capital Lease Interest Paid	(19,369)	(22,721)
Performance Deposits Paid		(3,340)
Other Cash Payments	(2,314)	(1,838)
Net Cash Flows Operating Activities	46,570	76,839
Cash Flows from Investing Activities		
Return of Investments in Springerville Lease Debt	19,278	38,353
Insurance Proceeds for Replacement Assets	2,875	
Other Cash Receipts	4,047	2,468
Capital Expenditures	(78,931)	(88,611)
Other Cash Payments	(2,223)	(2,136)
Net Cash Flows Investing Activities	(54,954)	(49,926)
Cash Flows from Financing Activities		
Proceeds from Borrowings Under Revolving Credit Facilities	198,000	101,000
Proceeds from Issuance of Long-Term Debt		11,080
Other Cash Receipts	1,463	2,435
Repayments of Borrowings Under Revolving Credit Facilities	(92,000)	(54,000)
Payments of Capital Lease Obligations	(73,993)	(62,463)
Common Stock Dividends Paid	(16,322)	(15,406)
Repayments of Long-Term Debt	(8,448)	(1,064)
Other Cash Payments	(1,603)	(447)
Net Cash Flows Financing Activities	7,097	(18,865)
Net Increase (Decrease) in Cash and Cash Equivalents	(1,287)	8,048
Cash and Cash Equivalents, Beginning of Year	76,390	67,599
Cash and Cash Equivalents, End of Period	\$ 75,103	\$ 75,647

See Note 11 for supplemental cash flow information.

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**UNISOURCE ENERGY CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2012	December 31, 2011
	(Unaudited)	
	-Thousands of Dollars-	
ASSETS		
Utility Plant		
Plant in Service	\$ 4,877,759	\$ 4,856,108
Utility Plant Under Capital Leases	582,669	582,669
Construction Work in Progress	113,306	89,749
Total Utility Plant	5,573,734	5,528,526
Less Accumulated Depreciation and Amortization	(1,888,516)	(1,869,300)
Less Accumulated Amortization of Capital Lease Assets	(481,325)	(476,963)
Total Utility Plant Net	3,203,893	3,182,263
Investments and Other Property		
Investments in Lease Debt and Equity	36,447	65,829
Other	34,987	34,205
Total Investments and Other Property	71,434	100,034
Current Assets		
Cash and Cash Equivalents	75,103	76,390
Accounts Receivable - Customer	77,365	94,585
Unbilled Accounts Receivable	40,834	51,464
Allowance for Doubtful Accounts	(5,722)	(5,572)
Fuel Inventory	44,178	33,263
Materials and Supplies	84,454	82,649
Derivative Instruments	12,311	11,966
Regulatory Assets - Current	116,509	97,056
Deferred Income Taxes - Current	21,721	23,158
Investments in Lease Debt	9,831	
Other	31,174	32,577
Total Current Assets	507,758	497,536
Regulatory and Other Assets		
Regulatory Assets - Noncurrent	166,111	173,199
Other Assets	32,680	32,199
Total Regulatory and Other Assets	198,791	205,398
Total Assets	\$ 3,981,876	\$ 3,985,231

See Notes to Condensed Consolidated Financial Statements.

(Continued)

Table of Contents**UNISOURCE ENERGY CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS**

	March 31, 2012	December 31, 2011
	(Unaudited)	
	-Thousands of Dollars-	
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	\$ 954,038	\$ 888,474
Capital Lease Obligations	275,198	352,720
Long-Term Debt	1,446,720	1,517,373
Total Capitalization	2,675,956	2,758,567
Current Liabilities		
Current Obligations Under Capital Leases	86,051	77,482
Borrowing Under Revolving Credit Facilities	105,000	10,000
Accounts Payable Trade	79,050	109,759
Interest Accrued	20,072	38,302
Accrued Taxes Other than Income Taxes	52,006	41,997
Accrued Employee Expenses	18,369	24,917
Customer Deposits	32,710	32,485
Regulatory Liabilities Current	43,843	41,911
Derivative Instruments	45,131	36,467
Other	5,686	5,151
Total Current Liabilities	487,918	418,471
Deferred Credits and Other Liabilities		
Deferred Income Taxes Noncurrent	299,927	300,326
Regulatory Liabilities Noncurrent	243,915	234,945
Derivative Instruments	20,741	20,403
Pension and Other Postretirement Benefits	140,433	139,356
Other	112,986	113,163
Total Deferred Credits and Other Liabilities	818,002	808,193
Commitments, Contingencies, and Proposed Environmental Matters (Note 6)		
Total Capitalization and Other Liabilities	\$ 3,981,876	\$ 3,985,231

See Notes to Condensed Consolidated Financial Statements.

(Concluded)

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UNISOURCE ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Shares	Common	Accumulated	Accumulated Other Comprehensive	Total
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