

TUCSON ELECTRIC POWER CO
Form 10-Q
July 30, 2012
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 June 30, 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;	IRS Employer
File Number	Address; and Telephone Number	Identification Number
1-13739	UNS ENERGY CORPORATION	86-0786732
	(An Arizona Corporation)	
	88 East Broadway Boulevard	

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Tucson, AZ 85701

(520) 571-4000

1-5924

TUCSON ELECTRIC POWER COMPANY

86-0062700

(An Arizona Corporation)

88 East Broadway Boulevard

Tucson, AZ 85701

(520) 571-4000

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.

UNS Energy Corporation Yes No

Tucson Electric Power Company Yes No

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

UNS 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):

UNS Energy Corporation	Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
	Non-accelerated filer	<input type="checkbox"/>		
	Smaller reporting company	<input type="checkbox"/>		

Tucson Electric Power Company	Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
	Non-accelerated filer	<input checked="" type="checkbox"/>		
	Smaller reporting company	<input type="checkbox"/>		

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

UNS Energy Corporation Yes No

Tucson Electric Power Company Yes No

As of July 18, 2012, 41,265,837 shares of UNS Energy Corporation Common Stock, no par value (the only class of Common Stock), were outstanding. As of July 18, 2012, Tucson Electric Power Company had 32,139,434 shares of common stock outstanding, no par value, all of which were held by UNS Energy Corporation.

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This combined Form 10-Q is separately filed by UNS Energy Corporation and Tucson Electric Power Company. Information contained in this document relating to Tucson Electric Power Company is filed by UNS 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 UNS Energy Corporation or its subsidiaries, except as it may relate to Tucson Electric Power Company.

Table of Contents**Table of Contents**

<u>Definitions</u>	v
<u>PART I</u>	
<u>Reports of Independent Registered Public Accounting Firm</u>	1
<u>Item 1. Financial Statements</u>	3
<u>UNS Energy Corporation</u>	
<u>Condensed Consolidated Statements of Income</u>	3
<u>Condensed Consolidated Statements of Comprehensive Income</u>	4
<u>Condensed Consolidated Statements of Cash Flows</u>	5
<u>Condensed Consolidated Balance Sheets</u>	6
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u>	8
<u>Tucson Electric Power Company</u>	
<u>Condensed Consolidated Statements of Income</u>	9
<u>Condensed Consolidated Statements of Comprehensive Income</u>	10
<u>Condensed Consolidated Statements of Cash Flows</u>	11
<u>Condensed Consolidated Balance Sheets</u>	12
<u>Condensed Consolidated Statement of Changes in Stockholders' Equity</u>	14
<u>Notes to Condensed Consolidated Financial Statements - Unaudited</u>	15
<u>Note 1. Nature of Operations and Basis of Accounting Presentation</u>	15
<u>Note 2. Regulatory Matters</u>	16
<u>Note 3. Business Segments</u>	17
<u>Note 4. Debt and Credit Facilities</u>	19
<u>Note 5. Income Taxes</u>	20
<u>Note 6. Commitments, Contingencies, and Proposed Environmental Matters</u>	20
<u>Note 7. Employee Benefit Plans</u>	25
<u>Note 8. Share-Based Compensation Plans</u>	26
<u>Note 9. Fair Value Measurements</u>	26
<u>Note 10. UNS Energy Earnings Per Share</u>	32
<u>Note 11. Millennium Investments</u>	33
<u>Note 12. Supplemental Cash Flow Information</u>	34
<u>Note 13. Derivative Instruments and Hedging Activities</u>	35
<u>Note 14. Review by Independent Registered Public Accounting Firm</u>	38
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	39
<u>UNS Energy Consolidated</u>	39
<u>Overview of Consolidated Business</u>	39
<u>Outlook and Strategies</u>	40
<u>Results of Operations</u>	40
<u>Liquidity and Capital Resources</u>	42
<u>Tucson Electric Power Company</u>	45
<u>Results of Operations</u>	45
<u>Factors Affecting Results of Operations</u>	53
<u>Liquidity and Capital Resources</u>	58
<u>UNS Gas</u>	61
<u>Results of Operations</u>	61
<u>Factors Affecting Results of Operations</u>	63
<u>Liquidity and Capital Resources</u>	65
<u>UNS Electric</u>	66
<u>Results of Operations</u>	66
<u>Factors Affecting Results of Operations</u>	68
<u>Liquidity and Capital Resources</u>	69
<u>Other Non-Reportable Business Segments</u>	71
<u>Results of Operations</u>	71
<u>Factors Affecting Results of Operations</u>	71

Critical Accounting Estimates

71

Safe Harbor for Forward-Looking Statements

71

iii

Table of Contents

<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	72
<u>Item 4. Controls and Procedures</u>	72
<u>PART II OTHER INFORMATION</u>	
<u>Item 1. Legal Proceedings</u>	73
<u>Item 1A. Risk Factors</u>	73
<u>Item 2. Unregistered Sale of Equity Securities and Use of Proceeds</u>	73
<u>Item 5. Other Information</u>	74
<u>Comprehensive Income</u>	74
<u>Ratio of Earnings to Fixed Charges</u>	75
<u>Environmental Matters</u>	75
<u>Item 6. Exhibits</u>	78
<u>Signatures</u>	79
<u>Exhibit Index</u>	80

Table of Contents**DEFINITIONS**

The abbreviations and acronyms used in the 2012 second 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 financial institution
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	UNS Energy Corporation's common stock, without par value
Company	UNS Energy Corporation and its subsidiaries
Convertible Senior Notes	UNS 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
ECA	Environmental Compliance Adjustor
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

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GBtu	Billion British thermal units
GWh	Gigawatt-hour(s)
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)
LFCR	Lost Fixed Cost Recovery Mechanism
LIBOR	London Interbank Offered Rate
Luna	Luna Generating Station
Millennium	Millennium Energy Holdings, Inc., a wholly-owned subsidiary of UNS Energy Corporation
MMBtu	Million British thermal units
Mortgage Bonds	Mortgage Bonds issued under the 1992 Mortgage
MW	Megawatt(s)
MWh	Megawatt-hour(s)

Table of Contents

Navajo	Navajo Generating Station
O&M	Operations and Maintenance Expense
NSP	Negotiated Sales Program
NTUA	Navajo Tribal Utility Authority
NOx	Nitrogen oxide
PGA	Purchased Gas Adjustor, 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
Sundt	H. Wilson Sundt Generating Station
Sundt Unit 4	Unit 4 of the H. Wilson Sundt Generating Station
TEP	Tucson Electric Power Company, the principal subsidiary of UNS Energy Corporation
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

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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 UNS Energy Corporation
UES	UniSource Energy Services, Inc., an intermediate holding company established to own the operating companies UNS Gas and UNS Electric
UNS Credit Agreement	Second Amended and Restated Credit Agreement between UNS Energy Corporation and a syndicate of banks, dated as of November 9, 2010 (as amended)
UNS Energy	UNS 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)

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of

UNS Energy Corporation:

We have reviewed the accompanying condensed consolidated balance sheet of UNS Energy Corporation and its subsidiaries (the Company) as of June 30, 2012, and the related condensed consolidated statements of income for the three and six-month periods ended June 30, 2012 and 2011, the condensed consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2012 and 2011, the condensed consolidated statement of changes in stockholders' equity for the six-month period ended June 30, 2012, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 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

July 30, 2012

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 June 30, 2012, and the related condensed consolidated statements of income for the three and six-month periods ended June 30, 2012 and 2011, the condensed consolidated statements of comprehensive income for the three and six-month periods ended June 30, 2012 and 2011, the condensed consolidated statement of changes in stockholder's equity for the six-month period ended June 30, 2012, and the condensed consolidated statements of cash flows for the six-month periods ended June 30, 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 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

July 30, 2012

Table of Contents

PART I FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

UNS ENERGY CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended June 30,			Six Months Ended June 30,	
2012	2011		2012	2011
(Unaudited)			(Unaudited)	
-Thousands of Dollars-			-Thousands of Dollars-	
(Except Per Share Amounts)			(Except Per Share Amounts)	
		Operating Revenues		
\$ 292,071	\$ 275,616	Electric Retail Sales	\$ 497,502	\$ 492,831
28,684	38,744	Electric Wholesale Sales	65,787	79,658
20,006	25,020	Gas Retail Sales	70,215	82,210
26,410	30,293	Other Revenues	52,540	59,740
367,171	369,673	Total Operating Revenues	686,044	714,439
		Operating Expenses		
82,325	81,949	Fuel	153,060	153,141
51,376	66,336	Purchased Energy	114,653	144,610
3,412	3,464	Transmission	6,238	5,966
14,215	3,790	Increase (Decrease) to Reflect PPFAC/PGA Recovery Treatment	11,654	(1,599)
151,328	155,539	Total Fuel and Purchased Energy	285,605	302,118
90,926	90,052	Other Operations and Maintenance	185,241	191,107
35,190	33,310	Depreciation	70,174	66,100
9,112	7,253	Amortization	17,776	14,631
12,556	12,229	Taxes Other Than Income Taxes	24,794	