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UNISOURCE ENERGY CORP
Form 8-K
November 03, 2005

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

FORM 8-K

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

DATE OF REPORT
(DATE OF EARLIEST EVENT REPORTED): November 3, 2005

| 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 |

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions:

Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02 Results of Operations and Financial Condition

On November 3, 2005, UniSource Energy Corporation ("UniSource Energy") issued a press release announcing earnings for the quarter ended September 30, 2005 for UniSource Energy and Tucson Electric Power Company. A copy of the

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press release is attached hereto as Exhibit 99.

Item 9.01 Financial Statements and Exhibits

Exhibit 99 UniSource Energy Corporation Press Release, dated
 November 3, 2005

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 3, 2005

UNISOURCE ENERGY CORPORATION

(Registrant)

/s/ Kevin P. Larson

Senior Vice President and Principal
Financial Officer

Date: November 3, 2005

TUCSON ELECTRIC POWER COMPANY

(Registrant)

/s/ Kevin P. Larson

Senior Vice President and Principal
Financial Officer

Exhibit 99

[GRAPHIC OMITTED] [GRAPHIC OMITTED]

FOR IMMEDIATE RELEASE
Media Contact: Joe Salkowski, (520) 884-3625
Financial Analyst Contact: Jo Smith, (520) 884-3650

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UNISOURCE ENERGY REPORTS THIRD QUARTER EARNINGS FOR 2005

Tucson, Ariz. - UniSource Energy Corp. (NYSE: UNS) today reported earnings for the third quarter of 2005 of \$18.4 million, or \$0.53 per basic share of common stock. For the same period in 2004, UniSource Energy reported earnings of \$23.8 million, or \$0.69 per share.

The unplanned, four-week outage of a 380-megawatt generator serving Tucson Electric Power (TEP), UniSource Energy's largest subsidiary, and charges related to mark-to-market adjustments on forward energy sales contributed to lower earnings this past quarter.

The outage of Unit 2 at TEP's coal-fired Springerville Generating Station (SGS) reduced TEP's utility gross margin (the sum of retail and wholesale electric revenues less fuel and purchased power expense) by \$14 million due to replacement power costs and lost wholesale sales opportunities.

"The outage occurred during a period of high energy use by TEP customers, so our replacement power costs were significant," said James S. Pignatelli, Chairman, President and CEO of UniSource Energy.

"We've fully repaired the damage and addressed the control system malfunction that caused it," Pignatelli said. "So we're well positioned to take advantage of higher market power prices by capitalizing on wholesale sales opportunities at a time when moderate weather leads to lower energy use by TEP's retail customers."

TEP's pre-tax unrealized losses increased \$8 million due to forward energy sales made before Gulf Coast hurricanes drove up wholesale power prices. Because those contracts are now priced below market, TEP recorded a negative mark-to-market adjustment. This adjustment will be reversed when TEP delivers that energy in the fourth quarter of 2005 and the first six months of 2006.

UniSource Energy Services, which provides gas and electric service in northern and southern Arizona through subsidiaries UNS Gas and UNS Electric, reported earnings of \$0.2 million during the third quarter of 2005, compared to earnings of \$0.4 million from the same period last year.

TUCSON ELECTRIC POWER COMPANY

TEP reported earnings for the third quarter of 2005 of \$20.4 million, or \$0.58 per basic UniSource Energy share, compared with earnings of \$26.2 million, or \$0.76 per basic share, during the same period last year.

Factors impacting TEP's third quarter 2005 results include:

- a \$16.2 million increase in retail revenues due to warmer weather and the expansion of TEP's customer base, which grew to 382,325 by the end of the third quarter - a 3 percent increase from the same period last year. Those gains were offset by higher replacement power costs and unrealized losses recorded on forward energy sales, leading to a \$27.1 million decline in utility gross margin;
- a \$5.6 million reduction in interest expense due to a financial restructuring completed earlier this year; and
- a \$4.2 million gain from the sale of excess sulfur dioxide (SO₂) emissions allowances.

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Other factors affecting TEP's third quarter earnings include lower depreciation expense resulting from the extension of depreciation lives of various generation assets as of July 2004 and April 2005, and higher expenses related to amortization of the Transition Recovery Asset (TRA).

UNS GAS

UNS Gas reported a net loss in the third quarter of 2005 of \$2.1 million, compared with a net loss of \$1.8 million during the same period last year.

Retail therm sales for the quarter decreased 1.2 percent over last year due to warmer weather in northern Arizona. UNS Gas' retail customer base grew to 136,207 by the end of the third quarter, a 4.4 percent increase from the same period last year.

UNS ELECTRIC

UNS Electric reported earnings for the third quarter of 2005 of \$2.3 million, compared with earnings of \$2.2 million for the third quarter of 2004.

Warmer weather and customer growth led to a 6 percent increase in kilowatt hour sales compared with the same period last year. UNS Electric's customer base grew to 88,362 customers, a 4.9 percent increase over the same period last year.

MILLENNIUM ENERGY HOLDINGS

Millennium Energy Holdings, a subsidiary that oversees UniSource Energy's unregulated investments, reported a net loss of \$0.4 million during this past quarter, compared with a loss of \$1.4 million from the same period last year.

YEAR TO DATE

UniSource Energy's consolidated year-to-date earnings through September 30, 2005 were \$24.1 million, or \$0.69 per basic share of common stock. During the same period last year, UniSource Energy reported earnings of \$43.0 million, or \$1.25 per basic share.

EARNINGS PER BASIC SHARE SUMMARY

| Net Income (Loss) - In Millions | 3rd Quarter 2005 | 2004 | Year-to-Date 2005 |
|---------------------------------|---------------------|--------|----------------------|
| TEP | \$20.4 | \$26.2 | \$27.8 |
| UNS Gas | (2.1) | (1.8) | 2.2 |
| UNS Electric | 2.3 | 2.2 | 3.7 |
| MEH | (0.4) | (1.4) | (4.9) |
| Other | (1.8) | (1.4) | (4.7) |
| UniSource Energy Consolidated | \$18.4 | \$23.8 | \$24.1 |

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| ----- Per Basic UniSource Energy Share ----- | 3rd Quarter | | Year-to-Date S |
|--|-------------|--------|----------------|
| | 2005 | 2004 | 2005 |
| TEP | \$0.58 | \$0.76 | \$0.80 |
| UNS Gas | (0.06) | (0.05) | 0.06 |
| UNS Electric | 0.07 | 0.06 | 0.11 |
| MEH | (0.01) | (0.04) | (0.14) |
| Other | (0.05) | (0.04) | (0.14) |
| ----- UniSource Energy Consolidated ===== | \$0.53 | \$0.69 | \$0.69 |
| ----- Avg. Basic Shares Outstanding (millions) ----- | 34.9 | 34.4 | 34.8 |

UniSource Energy believes that the presentation of TEP, UNS Gas, UNS Electric, Millennium, and Other segment net income or loss on a per basic UniSource Energy share basis, which are non-GAAP financial measures, provides useful information to investors by disclosing the results of operations of its business segments on a basis consistent with UniSource Energy's reported earnings.

EARNINGS OUTLOOK

UniSource Energy's management reaffirms its estimate given on Sept. 8, 2005, that 2005 full-year earnings will be between \$1.30 and \$1.60 per basic share.

Numerous factors can affect UniSource Energy's ability to reach the 2005 estimate. The factors include, but are not limited to: changes in accounting standards; uncertainties

prevailing in the wholesale power market; regulatory decisions; performance of TEP's generating plants; the weather; the pace and strength of the economic recovery in the region; fuel and purchased power expense; changes to long-term contracts; changes in asset depreciable lives; and the amount of losses incurred by Millennium.

UniSource Energy's earnings are subject to its utilities' seasonal energy sales. Generally, TEP records a significant portion of its earnings during the third quarter as a result of peak energy usage during the summer.

Third Quarter 2005 Earnings Discussion

UniSource Energy officials will discuss the company's third quarter 2005 earnings on Friday, Nov. 4, beginning at 11 a.m. EST in a conference call that will be available live on the Internet. James S. Pignatelli, UniSource Energy Chairman, President and Chief Executive Officer, and Kevin P. Larson, Senior Vice President and Chief Financial Officer, will host the call.

Telephone Access

To listen to the live conference call, dial 877-582-0446 five to 10 minutes prior to the event and reference confirmation code 1733759. A telephone replay will be available for seven days starting Nov. 4. To listen to the replay, dial 800-642-1687 and reference confirmation code 1733759.

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Internet Access

 A live audio-only webcast of the conference call is available through a link at www.uns.com. Listeners are encouraged to visit the Web site at least 30 minutes before the event to register, download and install any necessary audio software. A recording of the webcast will be available for 30 days through a link at uns.com.

UniSource Energy's primary subsidiaries include Tucson Electric Power, which serves more than 380,000 customers in southern Arizona; UniSource Energy Services, provider of natural gas and electric service for more than 224,000 customers in northern and southern Arizona; and Millennium Energy Holdings, parent company of UniSource Energy's unregulated energy businesses. For more information about UniSource Energy and its subsidiaries, visit uns.com.

This news release contains forward-looking information that involves risks and uncertainties, that include, but are not limited to: changes in accounting standards the outcome of regulatory proceedings; the ongoing restructuring of the electric industry; regional economic and market conditions which could affect customer growth and the cost of fuel and power supplies; changes to long-term contracts; performance of TEP's generating plants; the weather; changes in asset depreciable lives; changes related to the recognition of unbilled revenue; the cost of debt and equity capital; and other factors listed in UniSource Energy's Form 10-K and 10-Q filings with the Securities and Exchange Commission. The preceding factors may cause future results to differ materially from outcomes currently expected by UniSource Energy.

UNISOURCE ENERGY 2005 RESULTS

UniSource Energy Corporation
 Condensed Consolidated Statements of Income
 (in thousands of dollars, except per share amounts)

Three Months End
 September 30

| (UNAUDITED) | 2005 | 2004 |
|---|-----------|------------|
| <hr/> | | |
| Operating Revenues | | |
| Electric Retail Sales | \$296,003 | \$ 296,003 |
| Electric Wholesale Sales | 30,830 | 30,830 |
| Gas Revenue | 16,231 | 16,231 |
| Other Revenues | 6,188 | 6,188 |
| <hr/> | | |
| Total Operating Revenues | 349,252 | 349,252 |
| <hr/> | | |
| Operating Expenses | | |
| Fuel | 66,510 | 66,510 |
| Purchased Energy | 105,982 | 105,982 |
| Other Operations and Maintenance | 52,827 | 52,827 |
| Depreciation and Amortization | 33,878 | 33,878 |
| Amortization of Transition Recovery Asset | 20,242 | 20,242 |
| Taxes Other Than Income Taxes | 10,305 | 10,305 |
| Total Operating Expenses | 289,744 | 289,744 |
| <hr/> | | |
| Operating Income | 59,508 | 59,508 |

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| | | |
|---|--------------------|-----|
| Other Income (Deductions) | | |
| Interest Income | 4,657 | |
| Other Income | 3,261 | |
| Other Expense | (25) | |
| Total Other Income (Deductions) | 7,893 | |
| Interest Expense | | |
| Long-Term Debt | 18,002 | |
| Interest on Capital Leases | 20,078 | |
| Loss on Reacquired Debt | - | |
| Other Interest Expense, Net of Amounts Capitalized | (12) | |
| Total Interest Expense | 38,068 | |
| Income Before Income Taxes | 29,333 | |
| Income Tax Expense | 10,936 | |
| Net Income | \$ 18,397 | \$ |
| Weighted-average Shares of Common Stock Outstanding (000) | 34,915 | |
| Basic Earnings per Share | \$0.53 | |
| Diluted Earnings per Share | \$0.49 | |
| Dividends Declared per Share | \$0.19 | |
| Tucson Electric Power | Three Months Ended | |
| Electric MWh Sales: | September 30, | |
| | 2005 | |
| Retail Sales | 2,828,827 | 2,6 |
| Wholesale Sales | 659,776 | 7 |
| Total | 3,488,603 | 3,3 |

UNISOURCE ENERGY 2005 RESULTS

| | | |
|---|-----------|----------------|
| UniSource Energy Corporation | | |
| Condensed Consolidated Statements of Income | | Nine Months En |
| (in thousands of dollars, except per share amounts) | | September 30 |
| (UNAUDITED) | | 2005 |
| Operating Revenues | | |
| Electric Retail Sales | \$699,378 | \$ 6 |
| Electric Wholesale Sales | 107,881 | 1 |
| Gas Revenue | 88,838 | |
| Other Revenues | 14,676 | |

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| | | |
|---|------------------------------------|-----|
| Total Operating Revenues | 910,773 | 8 |
| Operating Expenses | | |
| Fuel | 169,664 | 1 |
| Purchased Energy | 239,286 | 1 |
| Other Operations and Maintenance | 175,567 | 1 |
| Depreciation and Amortization | 102,046 | 1 |
| Amortization of Transition Recovery Asset | 43,865 | |
| Taxes Other Than Income Taxes | 36,314 | |
| Total Operating Expenses | 766,742 | 7 |
| Operating Income | 144,031 | 1 |
| Other Income (Deductions) | | |
| Interest Income | 14,694 | |
| Other Income | 6,064 | |
| Other Expense | (2,267) | |
| Total Other Income (Deductions) | 18,491 | |
| Interest Expense | | |
| Long-Term Debt | 58,098 | |
| Interest on Capital Leases | 59,225 | |
| Loss on Reacquired Debt | 5,261 | |
| Other Interest Expense, Net of Amounts Capitalized | (732) | |
| Total Interest Expense | 121,852 | 1 |
| Income Before Income Taxes | 40,670 | |
| Income Tax Expense | 16,588 | |
| Net Income | \$ 24,082 | \$ |
| Weighted-average Shares of Common Stock Outstanding (000) | 34,786 | |
| Basic Earnings per Share | \$0.69 | |
| Diluted Earnings per Share | \$0.68 | |
| Dividends Declared per Share | \$0.57 | |
| Tucson Electric Power | | |
| | Nine Months Ended September 30, | |
| Electric MWh Sales: | 2005 | |
| Retail Sales | 6,897,412 | 6,6 |
| Wholesale Sales | 2,175,145 | 2,5 |
| Total | 9,072,557 | 9,1 |