

TUCSON ELECTRIC POWER CO
Form 10-Q
November 07, 2014

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, 2014

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 1-5924

TUCSON ELECTRIC POWER COMPANY (Exact name of registrant as specified in its charter)

Arizona (State or other jurisdiction of incorporation or organization) 86-0062700 (I.R.S. Employer Identification No.)

88 East Broadway Boulevard, Tucson, AZ 85701
(Address of principal executive offices)(Zip Code)

Registrant's telephone number, including area code: (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 Securities Exchange Act of 1934 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.

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).

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):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer Smaller Reporting Company

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

Yes No

As of October 20, 2014, Tucson Electric Power Company had 32,139,434 shares of common stock, no par value, outstanding, all of which were held by UNS Energy Corporation.

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DEFINITIONS

The abbreviations and acronyms used in the third quarter 2014 Form 10-Q are defined below:

2010 TEP Reimbursement Agreement	Reimbursement Agreement, dated December 14, 2010, between TEP, as borrower, and a financial institution
2013 Covenants Agreement	A Lender Rate Mode Covenants Agreement between TEP and the purchaser of \$100 million of unsecured tax-exempt bonds that were issued on behalf of TEP in November 2013 and sold in a private placement
2013 TEP Rate Order	A rate order issued by the ACC resulting in a new rate structure for TEP, effective July 1, 2013
ACC	Arizona Corporation Commission
APS	Arizona Public Service Company
BART	Best Available Retrofit Technology
Base O&M	A non-GAAP financial measure that represents the fundamental level of operating and maintenance expense related to our business
Base Rates	The portion of TEP's Retail Rates attributed to generation, transmission, distribution and customer costs. Base Rates exclude authorized charges designed to recover specific costs that are passed through to customers including fuel and purchased energy costs, energy efficiency program costs, certain environmental compliance costs, and a portion of renewable energy costs
Btu	British thermal unit(s)
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
DG	Distributed Generation
DSM	Demand Side Management
ECA	Environmental Compliance Adjustor
EE	Energy Efficiency
Entegra	A subsidiary of Entegra Power Group LLC
FERC	Federal Energy Regulatory Commission
Fortis	Fortis Inc., a corporation incorporated under the Corporations Act of Newfoundland and Labrador, Canada
Four Corners	Four Corners Generating Station
GBtu	Billion British thermal units
GWh	Gigawatt-hour(s)
Gila River Unit 3	Unit 3 of the Gila River Generating Station
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
kV	Kilo-volt
kWh	Kilowatt-hour(s)
LFCR	Lost Fixed Cost Recovery
LOC	Letter of Credit
Merger	The acquisition of UNS Energy in 2014 pursuant to the Agreement and Plan of Merger between UNS Energy Corporation and FortisUS Inc.
MMBtu	Million British thermal units
MW	Megawatt(s)
MWh	Megawatt-hour(s)
Navajo	Navajo Generating Station
OATT	Open Access Transmission Tariff
PNM	Public Service Company of New Mexico

PPFAC

Purchased Power and Fuel Adjustment Clause

REC

Renewable Energy Credit

Regional Haze Rules

Rules promulgated by the EPA to improve visibility at national parks and wilderness areas

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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
SCR	Selective Catalytic Reduction
SJCC	San Juan Coal Company
SNCR	Selective Non-Catalytic Reduction
Springerville	Springerville Generating Station
Springerville Coal Handling Facilities	Coal handling facilities at Springerville used by all four Springerville units
Springerville Coal Handling Facilities Leases	Leases for coal handling facilities at Springerville used in common by all four Springerville units
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	The TEP Credit Agreement consists of a \$200 million revolving credit and LOC facility together with an \$82 million LOC facility to support tax-exempt bonds.
Therm	A unit of heating value equivalent to 100,000 Btus
Tri-State	Tri-State Generation and Transmission Association, Inc.
UNS Electric	UNS Electric, Inc., an indirect wholly-owned subsidiary of UNS Energy
UNS Energy	UNS Energy Corporation
UNS Energy affiliates	Affiliated subsidiaries of UNS Energy including UNS Electric, Inc., UNS Gas, Inc., and Southwest Energy Solutions, Inc.
UNS Gas	UNS Gas, Inc., an indirect wholly-owned subsidiary of UNS Energy

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FORWARD-LOOKING INFORMATION

This Quarterly Report on Form 10-Q contains forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. TEP is including the following cautionary statements to make applicable and take advantage of the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 for any forward-looking statements made by or for TEP in this Quarterly Report on Form 10-Q. Forward-looking statements include statements concerning plans, objectives, goals, strategies, future events or performance and underlying assumptions, and other statements that are not statements of historical facts. Forward-looking statements may be identified by the use of words such as anticipates, estimates, expects, intends, plans, predicts, projects, and similar expressions. From time to time, we may publish or otherwise make available forward-looking statements of this nature. All such forward-looking statements, whether written or oral, and whether made by or on behalf of TEP, are expressly qualified by these cautionary statements and any other cautionary statements which may accompany the forward-looking statements. In addition, TEP disclaims any obligation to update any forward-looking statements to reflect events or circumstances after the date of this report.

Forward-looking statements involve risks and uncertainties, which could cause actual results or outcomes to differ materially from those expressed therein. We express our expectations, beliefs, and projections in good faith and believe them to have a reasonable basis. However, we make no assurances that management's expectations, beliefs or projections will be achieved or accomplished. We have identified the following important factors that could cause actual results to differ materially from those discussed in our forward-looking statements. These may be in addition to other factors and matters discussed in: Part II, Item 1A. Risk Factors; Part I, Item 2. Management's Discussion and Analysis; and other parts of this report. These factors include: state and federal regulatory and legislative decisions and actions; changes in, and compliance with, environmental laws, regulations, decisions and policies that could increase operating and capital costs, reduce generating facility output or accelerate generating facility retirements; regional economic and market conditions which could affect customer growth and energy usage; weather variations affecting energy usage; the cost of debt and equity capital and access to capital markets; the performance of the stock market and changing interest rate environment, which affect the value of our pension and other retiree benefit plan assets and the related contribution requirements and expense; unexpected increases in O&M expense; resolution of pending litigation matters; changes in accounting standards; changes in critical accounting estimates; the ongoing impact of mandated energy efficiency and distributed generation initiatives; changes to long-term contracts; the cost of fuel and power supplies; cyber attacks or challenges to our information security; and the performance of TEP's generating plants.

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PART I—FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS
TUCSON ELECTRIC POWER COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2014	December 31, 2013
	(Unaudited)	
	Thousands of Dollars	
ASSETS		
Utility Plant		
Plant in Service	\$4,675,441	\$4,467,667
Utility Plant Under Capital Leases	747,158	637,957
Construction Work in Progress	173,022	180,485
Total Utility Plant	5,595,621	5,286,109
Less Accumulated Depreciation and Amortization	(1,909,448)	(1,826,977)
Less Accumulated Amortization of Capital Lease Assets	(531,159)	(514,677)
Total Utility Plant—Net	3,155,014	2,944,455
Investments and Other Property		
Investments in Lease Equity	36,086	36,194
Other	36,201	33,488
Total Investments and Other Property	72,287	69,682
Current Assets		
Cash and Cash Equivalents	28,208	25,335
Accounts Receivable—Customer	110,906	80,211
Unbilled Accounts Receivable	49,743	34,369
Allowance for Doubtful Accounts	(5,136)	(4,825)
Accounts Receivable—Due from Affiliates	3,281	6,064
Materials and Supplies	80,475	75,200
Deferred Income Taxes—Current	111,593	70,722
Fuel Inventory	39,027	44,027
Regulatory Assets—Current	66,877	42,555
Derivative Instruments	699	2,137
Other	13,923	12,923
Total Current Assets	499,596	388,718
Regulatory and Other Assets		
Regulatory Assets—Noncurrent	162,872	141,030
Derivative Instruments	212	167
Other Assets	20,587	19,233
Total Regulatory and Other Assets	183,671	160,430
Total Assets	\$3,910,568	\$3,563,285
See Notes to Condensed Consolidated Financial Statements.		

(Continued)

TUCSON ELECTRIC POWER COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

	September 30, 2014 (Unaudited)	December 31, 2013
	Thousands of Dollars	
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity	\$ 1,017,778	\$925,923
Capital Lease Obligations	68,424	131,370
Long-Term Debt	1,372,369	1,223,070
Total Capitalization	2,458,571	2,280,363
Current Liabilities		
Current Obligations Under Capital Leases	191,951	186,056
Borrowings Under Revolving Credit Facility	35,000	—
Accounts Payable—Trade	83,571	88,556
Accounts Payable—Due to Affiliates	4,099	9,153
Accrued Taxes Other than Income Taxes	53,230	34,485
Accrued Employee Expenses	18,134	24,454
Regulatory Liabilities—Current	37,125	23,701
Accrued Interest	20,043	22,785
Customer Deposits	20,370	21,354
Derivative Instruments	6,664	5,531
Other	8,420	9,244
Total Current Liabilities	478,607	425,319
Deferred Credits and Other Liabilities		
Deferred Income Taxes—Noncurrent	509,062	428,103
Regulatory Liabilities—Noncurrent	302,912	263,270
Pension and Other Postretirement Benefits	79,911	84,936
Derivative Instruments	3,393	5,161
Other	78,112	76,133
Total Deferred Credits and Other Liabilities	973,390	857,603
Commitments, Contingencies & Environmental Matters (Note 5)		
Total Capitalization and Other Liabilities	\$3,910,568	\$3,563,285
See Notes to Condensed Consolidated Financial Statements. (Concluded)		

TUCSON ELECTRIC POWER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME

Three Months Ended			Nine Months Ended	
September 30,			September 30,	
2014	2013		2014	2013
(Unaudited)			(Unaudited)	
Thousands of Dollars			Thousands of Dollars	
		Operating Revenues		
\$316,387	\$310,632	Electric Retail Sales	\$760,192	\$739,147
37,053	26,563	Electric Wholesale Sales	111,692	90,503
33,971	34,044	Other Revenues	92,658	93,603
387,411	371,239	Total Operating Revenues	964,542	923,253
		Operating Expenses		
89,199	82,065	Fuel	225,163	247,417
49,902	42,477	Purchased Energy	125,423	89,815
5,222	4,940	Transmission and Other PPFAC Recoverable Costs	12,683	7,535
(5,376)	(7,992)	Increase (Decrease) to Reflect PPFAC Recovery Treatment	(20,167)	(5,079)
138,947	121,490	Total Fuel and Purchased Energy	343,102	339,688
112,667	79,335	Operations and Maintenance	273,784	239,170
31,966	30,311	Depreciation	93,857	87,729
6,973	6,118	Amortization	21,449	24,393
11,960	10,808	Taxes Other Than Income Taxes	35,800	32,916
302,513	248,062	Total Operating Expenses	767,992	723,896
84,898	123,177	Operating Income	196,550	199,357
		Other Income (Deductions)		
7	6	Interest Income	181	14
2,024	1,466	Other Income	6,123	3,904
(7,170)	(2,776)	Other Expense	(11,979)	(7,493)
(504)	731	Appreciation (Depreciation) in Fair Value of Investments	375	1,864
(5,643)	(573)	Total Other Income (Deductions)	(5,300)	(1,711)
		Interest Expense		
15,579	13,848	Long-Term Debt	45,326	42,412
1,202	6,323	Capital Leases	9,048	18,821
104	82	Other Interest Expense	557	(86)
(850)	(644)	Interest Capitalized	(2,878)	(1,671)
16,035	19,609	Total Interest Expense	52,053	59,476
63,220	102,995	Income Before Income Taxes	139,197	138,170
23,576	38,828	Income Tax Expense	51,656	41,737
\$39,644	\$64,167	Net Income	\$87,541	\$96,433

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Three Months Ended			Nine Months Ended	
September 30,			September 30,	
2014	2013		2014	2013
(Unaudited)			(Unaudited)	
Thousands of Dollars			Thousands of Dollars	
		Comprehensive Income		
\$39,644	\$64,167	Net Income	\$87,541	\$96,433
		Other Comprehensive Income		
		Net Changes in Fair Value of Cash Flow Hedges:		
		net of income tax expense of \$450 and \$458		
697	700	net of income tax expense of \$1,117 and \$1,412	1,672	2,156
		Supplemental Executive Retirement Plan (SERP) Benefit		
		Amortization:		
		net of income tax expense of \$16 and \$42		
25	68	net of income tax expense of \$46 and \$127	74	205
722	768	Total Other Comprehensive Income, Net of Taxes	1,746	2,361
\$40,366	\$64,935	Total Comprehensive Income	\$89,287	\$98,794

See Notes to Condensed Consolidated Financial Statements.

TUCSON ELECTRIC POWER COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	Nine Months Ended September 30,	
	2014	2013
	(Unaudited)	
	Thousands of Dollars	
Net Income	\$87,541	\$96,433
Adjustments to Reconcile Net Income		
To Net Cash Flows from Operating Activities		
Depreciation Expense	93,857	87,729
Amortization Expense	21,449	24,393
Amortization of Deferred Debt-Related Costs included in Interest Expense	1,959	1,831
Use of Renewable Energy Credits for Compliance	15,129	11,766
Deferred Income Taxes	53,991	53,381
Pension and Retiree Expense	10,236	14,909
Pension and Retiree Funding	(12,989)	(26,118)
Share-Based Compensation Expense	5,010	2,239
Allowance for Equity Funds Used During Construction	(4,983)	(2,923)
LFCR Revenue	(8,350)	—
Decrease to Reflect PPFAC Recovery	(20,167)	(5,079)
Fortis Acquisition Direct Customer Benefit	18,870	—
PPFAC Reduction - 2013 TEP Rate Order	—	3,000
Changes in Assets and Liabilities which Provided (Used)		
Cash Exclusive of Changes Shown Separately		
Accounts Receivable	(45,758)	(41,227)
Materials and Fuel Inventory	(274)	14,955
Accounts Payable	(472)	(8,678)
Income Taxes	(25)	(10,681)
Interest Accrued	(3,849)	1,008
Taxes Other Than Income Taxes	18,745	17,405
Other	(8,652)	19,836
Net Cash Flows – Operating Activities	221,268	254,179
Cash Flows from Investing Activities		
Capital Expenditures	(227,153)	(180,451)
Purchase of Intangibles—Renewable Energy Credits	(22,047)	(17,552)
Return of Investments in Springerville Lease Debt	—	9,104
Restricted Cash Released	—	4,500
Other, net	12,883	4,656
Net Cash Flows—Investing Activities	(236,317)	(179,743)
Cash Flows from Financing Activities		
Proceeds from Borrowings Under Revolving Credit Facility	190,000	78,000
Repayments of Borrowings Under Revolving Credit Facility	(155,000)	(78,000)
Proceeds from Issuance of Long-Term Debt	149,168	—
Payments of Capital Lease Obligations	(165,145)	(99,621)
Dividends Paid to UNS Energy	—	(20,000)
Payment of Debt Issue/Retirement Costs	(1,652)	(1,022)
Other, net	551	1,250
Net Cash Flows—Financing Activities	17,922	(119,393)

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Net Increase (Decrease) in Cash and Cash Equivalents	2,873	(44,957)
Cash and Cash Equivalents, Beginning of Year	25,335	79,743	
Cash and Cash Equivalents, End of Period	\$28,208	\$34,786	

See Note 8 for supplemental cash flow information.

See Notes to Condensed Consolidated Financial Statements.

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TUCSON ELECTRIC POWER COMPANY
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDER'S EQUITY

Common Stock	Capital Stock Expense	Retained Earnings
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