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UNISOURCE ENERGY CORP
Form 8-K
March 02, 2006

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): March 2, 2006

| 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 March 2, 2006, UniSource Energy Corporation ("UniSource Energy") issued a press release announcing earnings for the quarter ended December 31, 2005 for UniSource Energy and Tucson Electric Power Company. A copy of the press release is attached hereto as Exhibit 99.

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Item 9.01 Financial Statements and Exhibits

Exhibit 99 UniSource Energy Corporation Press Release, dated
March 2, 2006

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: March 2, 2006

UNISOURCE ENERGY CORPORATION

(Registrant)

/ s / Kevin P. Larson

Senior Vice President and
Principal Financial Officer

Date: March 2, 2006

TUCSON ELECTRIC POWER COMPANY

(Registrant)

/ s / Kevin P. Larson

Senior Vice President and
Principal Financial Officer

Exhibit 99

U N I S O U R C E E N E R G Y N E W S
[GRAPHIC OMITTED][GRAPHIC OMITTED]

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

March 2, 2006
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UNISOURCE ENERGY REPORTS 2005 EARNINGS, ISSUES EARNINGS OUTLOOK FOR 2006

Tucson, Ariz. - UniSource Energy Corp. (NYSE: UNS) today reported earnings for 2005 of \$46 million, or \$1.33 per basic share of common stock. UniSource Energy also announced that it expects the company's 2006 earnings will be between \$1.65 and \$2.05 per basic share.

Growing retail and wholesale revenues and the benefits of a financial restructuring in 2005 were offset by the effects of maintenance and unplanned outages at generators serving Tucson Electric Power (TEP), UniSource Energy's largest subsidiary. A nearly four-week unplanned outage shut down Unit 2 at TEP's Springerville Generating Station (SGS) in August, a period when customer demand was high and energy prices were boosted by the impact of Gulf Coast hurricane activity. Higher gas prices and the cost of purchasing electricity during the outage contributed to an 82 percent increase in TEP's purchased power expense.

"The cost of replacing the power that we lost to plant outages took a heavy toll on an otherwise solid year," said James S. Pignatelli, Chairman, President and CEO of UniSource Energy. "Our utility operations continued to experience strong customer growth, and we took advantage of the favorable capital markets to improve TEP's balance sheet, provide additional sources of liquidity and reduce interest costs."

Both TEP and its sister utility, UniSource Energy Services (UES), maintained healthy customer growth rates and increased retail revenues in 2005. UES, which provides gas and electric service in northern and southern Arizona through subsidiaries UNS Gas and UNS Electric, reported earnings of \$10 million in both 2005 and 2004.

On a consolidated basis, UniSource Energy generated \$276 million of cash flow from operations in 2005, allowing the company to internally fund capital expenditures of \$203 million while increasing its dividend to shareholders.

"I'm proud of our efforts to improve our long-term financial and operational performance," Pignatelli said. "We retired more than \$320 million of debt and capital lease obligations at TEP, made capital investments to meet the needs of our growing electric and gas service areas and continued to fund the development of a new power plant."

The new gas-fired Luna Energy Facility near Deming, N.M., is expected to be online during the first half of this year, providing TEP with 190 MW to help serve its retail and wholesale customers. TEP expects its total investment to be about \$50 million when the plant is completed, all of which is being funded with internally generated cash. TEP will

co-own the facility with PNM, an Albuquerque, N.M.-based utility and Phelps Dodge Energy Services.

Meanwhile, construction of the new 400-MW coal-fired Unit 3 at SGS remains on pace for completion during the third quarter of 2006. TEP will operate the unit and purchase up to 100 MW for a maximum of five years from Tri-State Generation and Transmission Association, which will lease the completed unit from a financial owner.

In 2004, UniSource Energy reported earnings of \$46 million, or \$1.34 per basic share. Those results include \$10 million of expenses related to a proposed acquisition of UniSource Energy that was rejected by state regulators in December 2004.

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TUCSON ELECTRIC POWER COMPANY

TEP reported earnings for 2005 of \$48 million, or \$1.39 per basic UniSource Energy share, compared with earnings of \$46 million, or \$1.34 per basic UniSource Energy share, in 2004.

Factors impacting TEP's 2005 results include:

- a \$28 million increase in retail revenues due to warmer weather and the expansion of TEP's customer base, which grew to approximately 385,000 by the end of 2005 - a 3 percent increase from the same period last year, and an \$18 million increase in wholesale revenues due to higher market prices for energy.
- \$74 million of higher purchased power and fuel expense, leading to a \$28 million decline in utility gross margin (the sum of retail and wholesale electric revenues, less fuel and purchased power expense). The increase in purchased power expense was due to planned and unplanned coal plant outages, as well as higher market prices for energy;
- a \$6 million increase in amortization expense of the Transition Recovery Asset;
- a \$17 million reduction in interest expense due to the debt refinancing completed in 2005 and lower balances on capital lease obligations; and
- a \$10 million increase in gains from the sales of excess sulfur dioxide (SO₂) emission allowances.

In 2004, TEP recorded \$8 million of expenses related to its allocation of costs associated with a proposed acquisition of UniSource Energy.

UNS GAS

UNS Gas reported net income for 2005 of \$5 million, compared with net income of \$6 million in 2004.

Retail therm sales in 2005 declined by 2 percent compared to 2004 due to warmer weather in northern Arizona. UNS Gas' retail customer base grew to approximately 139,000 by the end of 2005, a 4 percent increase from the previous year.

UNS ELECTRIC

UNS Electric reported earnings for 2005 of \$5 million, compared with earnings of \$4 million in 2004.

Warmer weather and customer growth contributed to a 4 percent year-over-year increase in retail kilowatt hour sales. UNS Electric's customer base grew to approximately 89,000 customers, a 4 percent increase over 2004.

MILLENNIUM ENERGY HOLDINGS

Millennium Energy Holdings, a subsidiary that oversees UniSource Energy's unregulated investments, reported a net loss of \$6 million in 2005, compared with a net loss of \$4 million in 2004. Higher net losses in 2005 are due

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primarily to increased operating expenses at some of its investees and a \$1 million net loss on the disposal of Microsat.

EARNINGS PER SHARE SUMMARY

| Net Income (millions) | Year End | | 4th Quarter | |
|------------------------------------------------------|----------|--------|-------------|-------|
| | 2005 | 2004 | 2005 | 2004 |
| Tucson Electric Power | \$48.3 | \$46.1 | \$20.4 | \$1.1 |
| UNS Gas | 5.0 | 5.7 | 2.9 | 4.1 |
| UNS Electric | 5.0 | 4.3 | 1.3 | 0.1 |
| Millennium | (5.7) | (4.1) | (0.8) | (1.4) |
| Other | (5.9) | (6.1) | (1.1) | (1.0) |
| Income Before Cumulative Effect of Accounting Change | \$46.7 | \$45.9 | \$22.7 | \$2.9 |
| Cumulative Effect of Accounting Change - Net of Tax | (0.6) | - | (0.6) | - |
| UniSource Energy Consolidated | \$46.1 | \$45.9 | \$22.1 | \$2.9 |

| Per UniSource Energy Share | Year End | | 4th Quarter | |
|------------------------------------------------------|----------|--------|-------------|--------|
| | 2005 | 2004 | 2005 | 2004 |
| Tucson Electric Power | \$1.39 | \$1.34 | \$0.58 | \$0.03 |
| UNS Gas | 0.14 | 0.17 | 0.08 | 0.12 |
| UNS Electric | 0.14 | 0.13 | 0.04 | 0.01 |
| Millennium | (0.16) | (0.12) | (0.02) | (0.04) |
| Other | (0.16) | (0.18) | (0.03) | (0.03) |
| Income Before Cumulative Effect of Accounting Change | \$1.35 | \$1.34 | \$0.65 | \$0.09 |
| Cumulative Effect of Accounting Change - Net of Tax | (0.02) | - | (0.02) | - |
| UniSource Energy Consolidated | \$1.33 | \$1.34 | \$0.63 | \$0.09 |
| Avg. Shares Outstanding (millions) | 34.8 | 34.4 | 35.0 | 34.5 |

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

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a basis consistent with UniSource Energy's reported earnings.

EARNINGS OUTLOOK

UniSource Energy's management currently estimates that its 2006 full-year earnings will be between \$1.65 and \$2.05 per share.

Numerous factors can affect UniSource Energy's ability to reach the 2006 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 regional economy; fuel and purchased power expense; changes to long-term contracts; changes in asset depreciable lives; the potential sale of Global Solar; and the amount of losses incurred by Millennium.

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

DISCUSSION OF 2005 EARNINGS AND 2006 OUTLOOK

UniSource Energy officials will discuss the company's 2005 year-end earnings and outlook for 2006 on March 3, 2006 beginning at 12 p.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.

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.

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 5986480. A telephone replay will be available for seven days starting March 3. To listen to the replay, dial 800-642-1687 and reference confirmation code 5986480.

UniSource Energy's primary subsidiaries include Tucson Electric Power, which serves nearly 385,000 customers in southern Arizona; UniSource Energy Services, provider of natural gas and electric service for nearly 228,000 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.

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UNISOURCE ENERGY 2005 RESULTS

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

Three Months Ended
 December 31,

(UNAUDITED)

2005

Operating Revenues

| | | |
|--------------------------|------------|------|
| Electric Retail Sales | \$ 196,033 | \$ 1 |
| Electric Wholesale Sales | 70,786 | |
| Gas Revenue | 47,071 | |
| Other Revenues | 4,872 | |

| | | |
|--------------------------|---------|---|
| Total Operating Revenues | 318,762 | 2 |
|--------------------------|---------|---|

Operating Expenses

| | |
|-------------------------------------------|--------|
| Fuel | 56,614 |
| Purchased Energy | 85,065 |
| Other Operations and Maintenance | 52,670 |
| Depreciation and Amortization | 33,510 |
| Amortization of Transition Recovery Asset | 12,553 |
| Taxes Other Than Income Taxes | 11,423 |

| | | |
|--------------------------|---------|---|
| Total Operating Expenses | 251,835 | 2 |
|--------------------------|---------|---|

| | |
|------------------|--------|
| Operating Income | 66,927 |
|------------------|--------|

Other Income (Deductions)

| | |
|-----------------|-------|
| Interest Income | 5,144 |
| Other Income | 4,921 |
| Other Expense | 112 |

| | |
|---------------------------------|--------|
| Total Other Income (Deductions) | 10,177 |
|---------------------------------|--------|

Interest Expense

| | |
|----------------------------|--------|
| Long-Term Debt | 18,664 |
| Interest on Capital Leases | 19,873 |
| Loss on Reacquired Debt | - |
| Other Interest Expense | 650 |
| Interest Capitalized | (743) |

| | |
|------------------------|--------|
| Total Interest Expense | 38,444 |
|------------------------|--------|

Income Before Income Taxes and
 Cumulative Effect of Accounting Change
 Income Tax Expense (Benefit)

38,660
 15,972

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| | |
|------------------------------------------------------|--------|
| Income Before Cumulative Effect of Accounting Change | 22,688 |
| Cumulative Effect of Accounting Change - Net of Tax | (626) |

| | |
|------------|-----------|
| Net Income | \$ 22,062 |
|------------|-----------|

| | |
|-----------------------------------------------------------|--------|
| Weighted-average Shares of Common Stock Outstanding (000) | 34,990 |
|-----------------------------------------------------------|--------|

Basic Earnings per Share

| | |
|------------------------------------------------------|--------|
| Income Before Cumulative Effect of Accounting Change | \$0.65 |
| Cumulative Effect of Accounting Change - Net of Tax | (0.02) |

| | |
|------------|--------|
| Net Income | \$0.63 |
|------------|--------|

Diluted Earnings per Share

| | |
|------------------------------------------------------|--------|
| Income Before Cumulative Effect of Accounting Change | \$0.60 |
| Cumulative Effect of Accounting Change - Net of Tax | (0.02) |

| | |
|------------|--------|
| Net Income | \$0.58 |
|------------|--------|

| | |
|------------------------------|--------|
| Dividends Declared per Share | \$0.19 |
|------------------------------|--------|

| | | |
|-----------------------|--|------------------------------------|
| Tucson Electric Power | | Three Months Ended December 31, |
|-----------------------|--|------------------------------------|

| | | |
|---------------------------|--|------|
| Electric kWh Sales (000): | | 2005 |
|---------------------------|--|------|

| | | |
|-----------------|-----------|-----|
| Retail Sales | 1,977,573 | 1,9 |
| Wholesale Sales | 1,006,755 | 7 |

| | | |
|-------|-----------|-----|
| Total | 2,984,328 | 2,6 |
|-------|-----------|-----|

UNISOURCE ENERGY 2005 RESULTS

UniSource Energy Corporation

Condensed Consolidated Statements of Income

(in thousands of dollars, except per share amounts)

Twelve Months Ended

December 31,

| | | |
|-------------|--|------|
| (UNAUDITED) | | 2005 |
|-------------|--|------|

Operating Revenues

| | | |
|--------------------------|------------|------|
| Electric Retail Sales | \$ 895,411 | \$ 8 |
| Electric Wholesale Sales | 178,667 | 1 |
| Gas Revenue | 135,909 | 1 |
| Other Revenues | 19,548 | |

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| | | |
|--------------------------------------------------------------------------|-----------|-----|
| Total Operating Revenues | 1,229,535 | 1,1 |
| Operating Expenses | | |
| Fuel | 226,278 | 2 |
| Purchased Energy | 324,351 | 2 |
| Other Operations and Maintenance | 228,237 | 2 |
| Depreciation and Amortization | 135,556 | 1 |
| Amortization of Transition Recovery Asset | 56,418 | |
| Taxes Other Than Income Taxes | 47,737 | |
| Total Operating Expenses | 1,018,577 | 9 |
| Operating Income | 210,958 | 2 |
| Other Income (Deductions) | | |
| Interest Income | 19,838 | |
| Other Income | 10,985 | |
| Other Expense | (2,155) | |
| Total Other Income (Deductions) | 28,668 | |
| Interest Expense | | |
| Long-Term Debt | 76,762 | |
| Interest on Capital Leases | 79,098 | |
| Loss on Reacquired Debt | 5,261 | |
| Other Interest Expense | 3,153 | |
| Interest Capitalized | (3,978) | |
| Total Interest Expense | 160,296 | 1 |
| Income Before Income Taxes and Cumulative Effect of Accounting Change | | |
| Income Tax Expense | 79,330 | |
| | 32,560 | |
| Income Before Cumulative Effect of Accounting Change | | |
| Cumulative Effect of Accounting Change - Net of Tax | 46,770 | |
| | (626) | |
| Net Income | \$ 46,144 | \$ |
| Weighted-average Shares of Common Stock Outstanding (000) | | |
| | 34,798 | |
| Basic Earnings per Share | | |
| Income Before Cumulative Effect of Accounting Change | \$1.35 | |
| Cumulative Effect of Accounting Change - Net of Tax | (0.02) | |
| Net Income | \$1.33 | |
| Diluted Earnings per Share | | |
| Income Before Cumulative Effect of Accounting Change | \$1.30 | |
| Cumulative Effect of Accounting Change - Net of Tax | (0.02) | |
| Net Income | \$1.28 | |

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Dividends Declared per Share \$0.76

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Tucson Electric Power Twelve Months End
December 31,

Electric kWh Sales (000): 2005

Retail Sales 8,874,985 8,5

Wholesale Sales 3,181,900 3,2

Total 12,056,885 11,8

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