BRIGHT SOLUTIONS℠

UniSource Energy Corporation

2011 Year-End Earnings Call

Feb. 27, 2012

UniSource Energy Safe Harbor

Safe Harbor and Non-GAAP Measures

- **This document contains forward-looking information that involves risks and uncertainties, that include, but are not limited to: state and federal regulatory and legislative decisions and actions; 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 the company's pension and other postretirement 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 restructuring of the electric industry; changes to long-term contracts; the cost of fuel and power supplies; performance of TEP's generating plants; 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 historical results or from outcomes currently expected by UniSource Energy.**

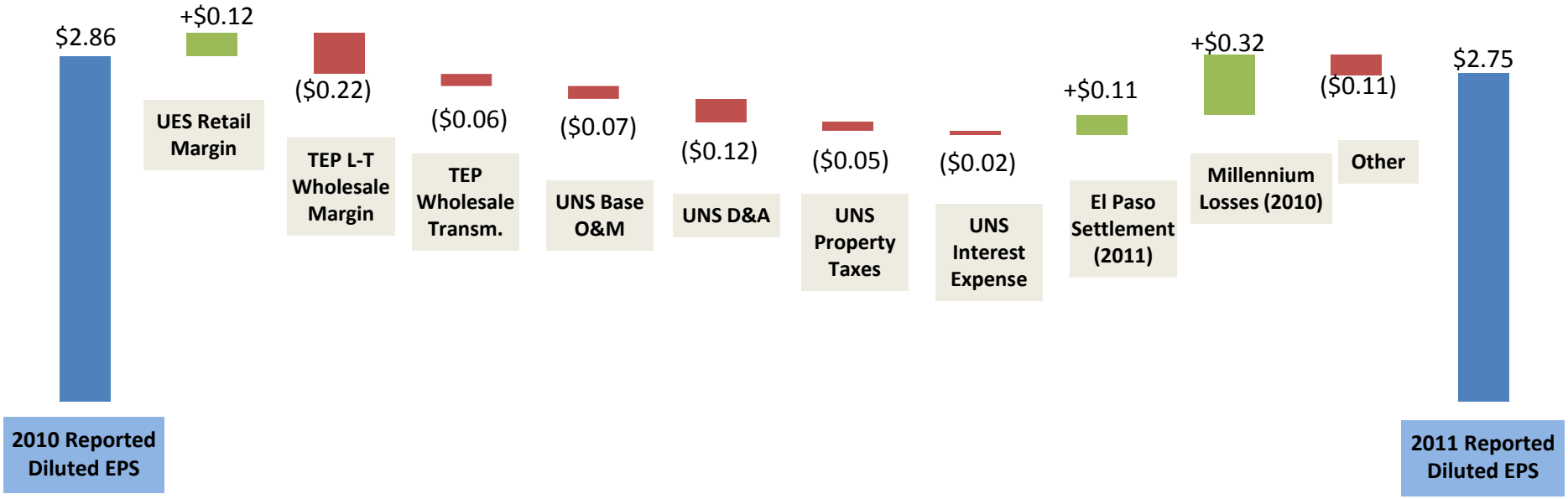
- **The Company's press releases and other communications may include certain non-Generally Accepted Accounting Principles (GAAP) financial measures. A "non-GAAP financial measure" is defined as a numerical measure of a company's financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP in the Company's financial statements.**

- **Non-GAAP financial measures utilized by the Company include presentations of revenues, operating expenses, operating income and earnings (loss) per share. The Company uses these non-GAAP measures to evaluate the operations of the Company. Certain non-GAAP financial measures utilized by the Company exclude: the impact of non-recurring items: the effect of accounting changes or adjustments; expenses that are reimbursed by third parties; and other items. The Company's management believes that these non-GAAP financial measures provide useful information to investors by removing the effect of variances in GAAP reported results of operations that are not indicative of fundamental changes in the earnings or cash flow capacity of the Company's operations. Management also believes that the presentation of the non-GAAP financial measures is largely consistent with its past practice, as well as industry practice in general, and will enable investors and analysts to compare current non-GAAP measures with non-GAAP measures with respect to prior periods.**

- **Please refer to Exhibit 99.2 of the 8-K filed on February 27, 2012, for a reconciliation of non-GAAP measures with the most comparable GAAP measure.**

UniSource Energy Earnings Walk

2011 Earnings Drivers
Diluted EPS



2012 Earnings Guidance and Sensitivities

2012 Earnings Guidance Range: $2.05 - $2.35 per diluted share

2012 Earnings Sensitivities	Pre-Tax (millions)	After-Tax (millions)	Per Diluted Share
1% Change in Total Utility Retail Sales (based on average margin rate across all customer classes)	$6.0	$3.6	+/- $0.09
1% Change in UNS Consolidated Base O&M	$2.7	$1.6	+/- $0.04
$5 / MWh Change in Wholesale Power Prices (SRP Contract)	$2.5	$1.5	+/- $0.04
1% Increase in TEP's Un-hedged Long-Term Variable Rate Debt ($215 million outstanding at 12/31/11 of which $50 million is hedged)	$1.7	$1.0	($0.02)