



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 2009 EARNINGS, ISSUES EARNINGS GUIDANCE FOR 2010**

- UniSource Energy's net income for 2009 was \$104.3 million, or \$2.69 per diluted share of common stock, compared with net income of \$14.0 million, or \$0.39 per diluted share in 2008.
  - Earnings include a \$6 million pre-tax gain on the sale of an interest in one of UniSource Energy's unregulated energy investments offset by reserves of \$5.6 million, related primarily to wholesale sales to the California Power Exchange in 2000 and 2001.
- Improvement in 2009 earnings is due primarily to higher retail revenues, lower fuel and purchased power expenses and regulatory and accounting adjustments in 2008 that did not recur in 2009.
- Strong operating cash flows of \$347.3 million compared with \$277.0 million in 2008.
- UniSource Energy estimates 2010 diluted earnings per share of between \$2.75 and \$3.00.

**Tucson, Ariz.** – UniSource Energy Corporation (NYSE: UNS) today reported 2009 net income of \$104.3 million, or \$2.69 per diluted share of common stock, compared with \$14.0 million, or \$0.39 per diluted share in 2008.

For the three months that ended December 31, 2009, UniSource Energy reported net income of \$10.4 million, or \$0.28 per diluted share of common stock, compared with \$22.9 million, or \$0.60 per diluted share of common stock, in the fourth quarter of 2008. Earnings in the fourth quarter of 2008 benefited from gains resulting from reinstatement of regulatory accounting at UniSource Energy's principal subsidiary, Tucson Electric Power (TEP).

UniSource Energy's financial results primarily reflect those of TEP, which reported net income of \$89.2 million in 2009, compared with \$4.4 million in 2008. In 2008, TEP's full-year earnings were adversely impacted by amortization of a regulatory asset and revenue deferrals that did not recur in 2009. In addition, during 2008 TEP was exposed to the power markets during a period when average wholesale power costs were twice as high as 2009 levels.

Although the weak economy led to lower energy sales in 2009, TEP's electric retail sales revenues increased due to higher base rates. Despite the economic slowdown, TEP's customer base also expanded by 0.6 percent in 2009.

"While the weak economy continued to put downward pressure on our sales volumes throughout the year, we responded by tightly controlling our costs without compromising safety or reliability," said Paul Bonavia, Chairman, President and CEO of UniSource Energy. "The success of our efforts is evidenced by our operating and maintenance costs for 2009, which were 3 percent below the level anticipated at the beginning of the year."

UniSource Energy's 2009 operating and maintenance expense (O&M), excluding costs directly offset by customer surcharges and third-party reimbursements, increased by \$12 million compared with 2008. Excluding pension expense, which is primarily a function of stock market performance and interest rates, O&M increased \$2.8 million over the previous year due primarily to higher generating plant maintenance costs.

UniSource Energy posted strong operating cash flows in 2009 of \$347.3 million, a level more than adequate to cover the company's capital expenditures of \$287.1 million.

## **Outlook**

"UniSource Energy's 2009 financial performance and our outlook for earnings stability and continued strong operating performance allowed us to increase the dividend." said Bonavia. On February 12, 2010, UniSource Energy's board of directors increased the quarterly dividend to 39 cents per share from 29 cents per share. Bonavia continued, "Looking forward to 2010, we estimate diluted earnings per share of between \$2.75 and \$3.00."

In conjunction with this earnings announcement, UniSource Energy has provided detailed information on its 2009 performance, and factors that could impact the Company's earnings outlook for 2010 and 2011. These materials have been filed with the Securities and Exchange Commission and are also available at [uns.com](http://uns.com)

## Seasonality of Earnings

The net income and results of operations of UniSource Energy's utility businesses are seasonal in nature. TEP and UNS Electric are summer-peaking utilities and historically have recorded a majority of their net income during the second and third quarters, when hot weather drives increases in energy consumption. TEP's retail rates, which include higher charges for higher levels of energy use, shift a larger share of the company's earnings into those periods.

Energy demand from UNS Gas customers typically peaks during the winter. Accordingly, UNS Gas records the majority of its net income during the first and fourth quarters.

## **Tucson Electric Power**

TEP reported net income of \$8.0 million in the fourth quarter of 2009, compared with \$19.7 million in the same period of 2008. For the twelve months ended December 31, 2009, TEP reported net income of \$89.2 million, compared with net income of \$4.4 million in 2008.

## Retail kWh Sales

- In the fourth quarter of 2009, TEP's total retail kWh sales were 2.7 percent below those from the same period last year. Residential sales were up 0.2 percent; commercial sales were down 4.5 percent, industrial sales were down 5.7 percent and sales to mining customers were down 3.0 percent compared with the fourth quarter of 2008.
- For the twelve months ended December 31, 2009, TEP's total retail kWh sales were 1.4 percent below 2008 levels. When adjusted for average weather, TEP estimates its retail sales were down 2.4 percent. Cooling degree days in 2009 were 20 percent above 2008 levels and 9 percent higher than the 10-year average. Residential sales were up 1.4 percent, commercial sales were down 2.3 percent, industrial sales were down 4.5 percent and sales to mining customers were down 2.8 percent compared with 2008.

### Retail Revenues

- Retail electric revenues increased \$39.8 million, or 5 percent, in 2009 due to higher base rates combined with a new rate structure that incorporates higher charges for higher levels of energy use. The \$39.8 million increase does not include a \$20.3 million increase in customer surcharges used to fund renewable energy and energy efficiency programs in 2009 and \$58.1 million of non-cash revenue deferrals in 2008.

### Wholesale Revenues

- Long-term wholesale revenues fell \$9.3 million, or 16 percent, in 2009 due primarily to lower sales volumes. TEP's margin on long-term wholesale sales for 2009 was \$24.0 million. In the fourth quarter of 2009, TEP recorded a \$4.2 million provision for possible wholesale refunds related to transactions in 2000 and 2001 with the California Power Exchange that are under dispute. Revenues from short-term wholesale sales offset the costs included in TEP's Purchased Power and Fuel Adjustor Clause (PPFAC).

### PPFAC

- TEP's PPFAC, which took effect in January 2009, allows the company to pass through its actual fuel, purchased power and transmission costs net of short-term wholesale revenues and other offsets to its retail customers. For comparative purposes, those PPFAC-related costs decreased by \$30.5 million in 2009 compared with 2008. The decrease was due primarily to lower wholesale market prices for energy and natural gas.

### Other

- O&M expense, excluding costs directly offset by customer surcharges for renewable energy and energy efficiency programs and third party reimbursements, increased by \$10.8 million. Cost-containment measures helped offset a \$14.4 million increase in pension and generating plant maintenance expenses.
- Depreciation and amortization increased \$26.9 million due primarily to plant additions, new depreciation rates for generating assets, amortization of regulatory assets resulting from the 2008 TEP rate order and a \$4 million adjustment related to a change in accounting for TEP's investment in Springerville Unit 1 lease equity.
- In 2008, TEP recorded \$24 million of amortization related to the Transition Recovery Asset that did not recur in 2009.
- Interest expense decreased \$11 million in 2009 due primarily to lower interest rates on variable rate debt, lower balances of capital lease obligations and a \$2 million adjustment related to a change in accounting for TEP's investment in Springerville Unit 1 lease equity.

### **UNS Gas**

UNS Gas reported net income of \$7.4 million in 2009, compared with \$8.5 million in 2008. The decrease in net income is primarily attributed to a 4-percent reduction in therm sales resulting from the weak economy and mild winter weather.

In November 2008, UNS Gas filed a general rate case with the Arizona Corporation Commission (ACC) requesting an average base rate increase of 6 percent, or approximately \$9.5 million, to cover increases in capital and operating costs. The ACC staff recommended a rate increase that would result in additional revenue of \$3.4 million. A hearing before an administrative law judge (ALJ) concluded in August 2009, and the company expects the ACC to issue a final order by the end of the first quarter of 2010.

## **UNS Electric**

UNS Electric reported net income of \$5.9 million in 2009, compared with \$3.8 million in 2008. The increase is due primarily to the operations of a new copper mine in UNS Electric's service area which led to a 7-percent increase in retail kWh sales. Excluding mining sales, UNS Electric's retail kWh sales decreased by 0.8 percent compared with 2008 levels due to weak economic conditions.

In April 2009, UNS Electric filed a general rate case with the ACC requesting an average base rate increase of \$13.5 million, or 7.4 percent, to cover its operating and capital costs. The ACC staff recommended a rate increase that would result in additional revenue of approximately \$8 million. A hearing before an ALJ was completed in mid-February, and we expect the ACC to issue a final order in the second half of 2010.

## **Millennium**

In June 2009, Millennium Energy Holdings (Millennium) recorded a pre-tax gain of \$6 million from the sale of its equity interest in Carboelectrica Sabinas, S. de R.L. de C.V. (Sabinas), a Mexican coal supplier and owner of coal and associated gas reserves. The interest in Sabinas represented Millennium's largest unregulated energy investment. Millennium received \$5 million in cash and a \$15 million three-year secured note bearing interest at 6 percent for the sale of its interest in Sabinas. At December 31, 2009, Millennium's cash, investments and note receivable totaled approximately \$32 million.

**UniSource Energy Net Income and Earnings per Share Summary**

<b>Net Income</b>	<b>4th Quarter</b>		<b>YTD Dec. 31</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	-Millions-		-Millions-	
Tucson Electric Power	\$8.0	\$19.7	\$89.2	\$4.4
UNS Gas	3.8	3.2	7.4	8.5
UNS Electric	0.0	0.1	5.9	3.8
Other (1)	(1.4)	(0.1)	1.8	(2.7)
<b>Net Income</b>	<b>\$10.4</b>	<b>\$22.9</b>	<b>\$104.3</b>	<b>\$14.0</b>
Avg. Basic Shares Outstanding (millions)	35.9	35.7	35.9	35.6
Avg. Diluted Shares Outstanding (millions)	40.5	40.1	40.5	40.4
<b>Earnings Per UniSource Energy Share</b>	<b>4th Quarter</b>		<b>YTD Dec. 31</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Tucson Electric Power	\$0.22	\$0.55	\$2.49	\$0.12
UNS Gas	0.11	0.09	0.20	0.24
UNS Electric	0.00	0.00	0.17	0.11
Other (1)	(0.04)	0.00	0.05	(0.08)
<b>Net Income per Basic Share</b>	<b>\$0.29</b>	<b>\$0.64</b>	<b>\$2.91</b>	<b>\$0.39</b>
<b>Net Income per Diluted Share (2)</b>	<b>\$0.28</b>	<b>\$0.60</b>	<b>\$2.69</b>	<b>\$0.39</b>

(1) Includes UniSource Energy on a stand-alone basis and results from Millennium Energy Holdings, Inc. and UniSource Energy Development, wholly-owned subsidiaries of UniSource Energy.

(2) For the year ended December 31, 2008, 4 million potentially dilutive shares from the conversion of convertible senior notes, and after-tax interest expense of \$4 million was not included in the computation of diluted EPS because to do so would have been anti-dilutive.

UniSource Energy believes the presentation of TEP, UNS Gas, UNS Electric 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 or losses.

### **Conference Call and Webcast**

The company will host a conference call on Thursday, February 25 at 12:00 noon EST to discuss the financial results and outlook. To participate in the call, please dial in five to 10 minutes prior to the start.

Dial-in number: **(877) 582-0446**

Reference code: 58320982

The conference call also can be heard live on UniSource Energy's website. The webcast can be accessed at [uns.com](http://uns.com) and will be available for replay for seven days.

Replay number: (800) 642-1687

Reference code: 58320982

UniSource Energy is a Tucson, Arizona-based company with consolidated assets of approximately \$3.5 billion. UniSource Energy's primary subsidiaries include Tucson Electric Power Company, which serves more than 400,000 customers in southern Arizona, and UniSource Energy Services, provider of natural gas and electric service for about 235,000 customers in northern and southern Arizona. For more information about UniSource Energy and its subsidiaries, visit [uns.com](http://uns.com).

*This release contains forward-looking information that involves risks and uncertainties, including factors that could affect UniSource Energy's ability to reach the 2010 earnings guidance. These risks and uncertainties 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 outcomes currently expected by UniSource Energy.*

## UNISOURCE ENERGY 2009 RESULTS

### UniSource Energy Corporation

#### Comparative Condensed Consolidated Statements of Income

(in thousands of dollars, except per share amounts)

(UNAUDITED)	Three Months Ended December 31,		Increase / (Decrease)	
	2009	2008	Amount	Percent
<b>Operating Revenues</b>				
Electric Retail Sales	\$ 230,129	\$ 218,628	\$ 11,501	5.3
Provision for Rate Refunds - CTC Revenue	-	(13,677)	13,677	N/M
Net Electric Retail Sales	230,129	204,951	25,178	12.3
Electric Wholesale Sales	36,596	47,289	(10,693)	(22.6)
California Power Exchange (CPX) Provision for Wholesale Refunds	(4,172)	-	(4,172)	N/M
Gas Revenue	45,420	48,975	(3,555)	(7.3)
Other Revenues	22,571	17,989	4,582	25.5
<b>Total Operating Revenues</b>	<b>330,544</b>	<b>319,204</b>	<b>11,340</b>	<b>3.6</b>
<b>Operating Expenses</b>				
Fuel	74,897	42,393	32,504	76.7
Purchased Energy	77,463	75,565	1,898	2.5
Transmission	2,574	2,479	95	3.8
Increase (Decrease) to reflect PPFAC/PGA Recovery Treatment	(12,008)	2,099	(14,107)	N/M
<b>Total Fuel and Purchased Energy</b>	<b>142,926</b>	<b>122,536</b>	<b>20,390</b>	<b>16.6</b>
Other Operations and Maintenance	90,455	84,134	6,321	7.5
Depreciation and Amortization	44,137	38,493	5,644	14.7
Taxes Other Than Income Taxes	9,941	4,141	5,800	N/M
<b>Total Operating Expenses</b>	<b>287,459</b>	<b>249,304</b>	<b>38,155</b>	<b>15.3</b>
<b>Operating Income</b>	<b>43,085</b>	<b>69,900</b>	<b>(26,815)</b>	<b>(38.4)</b>
<b>Other Income (Deductions)</b>				
Interest Income	2,542	2,287	255	11.1
Other Income	1,779	1,571	208	13.2
Other Expense	(3,252)	(3,567)	315	8.8
<b>Total Other Income (Deductions)</b>	<b>1,069</b>	<b>291</b>	<b>778</b>	<b>N/M</b>
<b>Interest Expense</b>				
Long-Term Debt	14,454	16,625	(2,171)	(13.1)
Interest on Capital Leases	12,508	13,180	(672)	(5.1)
Other Interest Expense	1,057	463	594	N/M
Interest Capitalized	(522)	(1,086)	564	51.9
<b>Total Interest Expense</b>	<b>27,497</b>	<b>29,182</b>	<b>(1,685)</b>	<b>(5.8)</b>
<b>Income Before Income Taxes</b>	<b>16,657</b>	<b>41,009</b>	<b>(24,352)</b>	<b>(59.4)</b>
Income Tax Expense	6,239	18,082	(11,843)	(65.5)
<b>Net Income</b>	<b>\$ 10,418</b>	<b>\$ 22,927</b>	<b>\$ (12,509)</b>	<b>(54.6)</b>
<b>Weighted-average Shares of Common Stock Outstanding (000)</b>	<b>35,948</b>	<b>35,681</b>	<b>267</b>	<b>0.7</b>
<b>Basic Earnings per Share</b>	<b>\$0.29</b>	<b>\$0.64</b>	<b>\$(0.35)</b>	<b>(54.7)</b>
<b>Diluted Earnings per Share</b>	<b>\$0.28</b>	<b>\$0.60</b>	<b>\$(0.32)</b>	<b>(53.3)</b>
<b>Dividends Declared per Share</b>	<b>\$0.29</b>	<b>\$0.24</b>	<b>\$ 0.05</b>	<b>20.8</b>

Tucson Electric Power	Three Months Ended December 31,		Increase / (Decrease)	
	2009	2008	Amount	Percent
<b>Electric MWh Sales:</b>				
Retail Sales	2,049,142	2,106,483	(57,341)	(2.7)
Long-Term Wholesale Sales	266,582	272,912	(6,330)	(2.3)

N/M - Not Meaningful

Reclassifications have been made to prior periods to conform to the current period's presentation.

## UNISOURCE ENERGY 2009 RESULTS

### UniSource Energy Corporation

#### Comparative Condensed Consolidated Statements of Income

(in thousands of dollars, except per share amounts)

(UNAUDITED)	Years Ended December 31,		Increase / (Decrease)	
	2009	2008	Amount	Percent
<b>Operating Revenues</b>				
Electric Retail Sales	\$ 1,047,619	\$ 988,612	\$ 59,007	6.0
Provision for Rate Refunds - CTC Revenue	-	(58,092)	58,092	N/M
Net Electric Retail Sales	1,047,619	930,520	117,099	12.6
Electric Wholesale Sales	128,627	236,300	(107,673)	(45.6)
California Power Exchange (CPX) Provision for Wholesale Refunds	(4,172)	-	(4,172)	N/M
Gas Revenue	144,609	163,977	(19,368)	(11.8)
Other Revenues	77,741	66,714	11,027	16.5
<b>Total Operating Revenues</b>	<b>1,394,424</b>	<b>1,397,511</b>	<b>(3,087)</b>	<b>(0.2)</b>
<b>Operating Expenses</b>				
Fuel	298,655	299,987	(1,332)	(0.4)
Purchased Energy	294,584	442,210	(147,626)	(33.4)
Transmission	10,181	19,214	(9,033)	(47.0)
Increase (Decrease) to reflect PPFAC/PGA Recovery Treatment	(17,091)	(10,975)	(6,116)	(55.7)
<b>Total Fuel and Purchased Energy</b>	<b>586,329</b>	<b>750,436</b>	<b>(164,107)</b>	<b>(21.9)</b>
Other Operations and Maintenance	333,887	295,658	38,229	12.9
Depreciation and Amortization	176,018	147,690	28,328	19.2
Amortization of Transition Recovery Asset	-	23,945	(23,945)	N/M
Taxes Other Than Income Taxes	45,857	39,339	6,518	16.6
<b>Total Operating Expenses</b>	<b>1,142,091</b>	<b>1,257,068</b>	<b>(114,977)</b>	<b>(9.1)</b>
<b>Operating Income</b>	<b>252,333</b>	<b>140,443</b>	<b>111,890</b>	<b>79.7</b>
<b>Other Income (Deductions)</b>				
Interest Income	12,072	11,011	1,061	9.6
Other Income	18,063	7,838	10,225	N/M
Other Expense	(5,292)	(9,286)	3,994	43.0
<b>Total Other Income (Deductions)</b>	<b>24,843</b>	<b>9,563</b>	<b>15,280</b>	<b>N/M</b>
<b>Interest Expense</b>				
Long-Term Debt	58,134	70,227	(12,093)	(17.2)
Interest on Capital Leases	49,270	52,511	(3,241)	(6.2)
Other Interest Expense	3,468	1,837	1,631	88.8
Interest Capitalized	(2,302)	(5,565)	3,263	58.6
<b>Total Interest Expense</b>	<b>108,570</b>	<b>119,010</b>	<b>(10,440)</b>	<b>(8.8)</b>
<b>Income Before Income Taxes</b>	<b>168,606</b>	<b>30,996</b>	<b>137,610</b>	<b>N/M</b>
Income Tax Expense	64,348	16,975	47,373	N/M
<b>Net Income</b>	<b>\$ 104,258</b>	<b>\$ 14,021</b>	<b>\$ 90,237</b>	<b>N/M</b>
<b>Weighted-average Shares of Common Stock Outstanding (000)</b>	<b>35,858</b>	<b>35,632</b>	<b>226</b>	<b>0.6</b>
<b>Basic Earnings per Share</b>	<b>\$2.91</b>	<b>\$0.39</b>	<b>\$2.52</b>	<b>N/M</b>
<b>Diluted Earnings per Share</b>	<b>\$2.69</b>	<b>\$0.39</b>	<b>\$2.30</b>	<b>N/M</b>
<b>Dividends Declared per Share</b>	<b>\$1.16</b>	<b>\$0.96</b>	<b>\$ 0.20</b>	<b>20.8</b>

Tucson Electric Power	Years Ended December 31,		Increase / (Decrease)	
	2009	2008	Amount	Percent
<b>Electric MWh Sales:</b>				
Retail Sales	9,370,743	9,502,644	(131,901)	(1.4)
Long-Term Wholesale Sales	832,847	1,096,092	(263,245)	(24.0)

N/M - Not Meaningful

Reclassifications have been made to prior periods to conform to the current period's presentation.

## TUCSON ELECTRIC POWER COMPANY 2009 RESULTS

### TUCSON ELECTRIC POWER COMPANY

Comparative Condensed Consolidated Statements of Income  
(in thousands of dollars)

(UNAUDITED)	Three Months Ended December 31,		Increase / (Decrease)	
	2009	2008	Amount	Percent
<b>Operating Revenues</b>				
Electric Retail Sales	\$ 192,326	\$ 177,564	\$ 14,762	8.3
Provision for Rate Refunds - CTC Revenue	-	(13,677)	13,677	N/M
Net Electric Retail Sales	192,326	163,887	28,439	17.4
Electric Wholesale Sales	42,917	50,157	(7,240)	(14.4)
California Power Exchange (CPX) Provision for Wholesale Refunds	(4,172)	-	(4,172)	N/M
Other Revenues	23,633	19,154	4,479	23.4
<b>Total Operating Revenues</b>	<b>254,704</b>	<b>233,198</b>	<b>21,506</b>	<b>9.2</b>
<b>Operating Expenses</b>				
Fuel	72,902	38,419	34,483	89.8
Purchased Energy	29,836	26,829	3,007	11.2
Transmission	627	948	(321)	(33.9)
Increase (Decrease) to reflect PPFAC Recovery Treatment	(3,826)	-	(3,826)	N/M
<b>Total Fuel and Purchased Energy</b>	<b>99,539</b>	<b>66,196</b>	<b>33,343</b>	<b>50.4</b>
Other Operations and Maintenance	76,696	72,683	4,013	5.5
Depreciation and Amortization	38,362	32,842	5,520	16.8
Taxes Other Than Income Taxes	8,205	2,507	5,698	N/M
<b>Total Operating Expenses</b>	<b>222,802</b>	<b>174,228</b>	<b>48,574</b>	<b>27.9</b>
<b>Operating Income</b>	<b>31,902</b>	<b>58,970</b>	<b>(27,068)</b>	<b>(45.9)</b>
<b>Other Income (Deductions)</b>				
Interest Income	2,295	2,196	99	4.5
Other Income	1,320	732	588	80.3
Other Expense	(1,288)	(2,961)	1,673	56.5
<b>Total Other Income (Deductions)</b>	<b>2,327</b>	<b>(33)</b>	<b>2,360</b>	<b>N/M</b>
<b>Interest Expense</b>				
Long-Term Debt	8,994	10,803	(1,809)	(16.7)
Interest on Capital Leases	12,505	13,176	(671)	(5.1)
Other Interest Expense	467	355	112	31.5
Interest Capitalized	(359)	(1,043)	684	65.6
<b>Total Interest Expense</b>	<b>21,607</b>	<b>23,291</b>	<b>(1,684)</b>	<b>(7.2)</b>
<b>Income Before Income Taxes</b>				
	12,622	35,646	(23,024)	(64.6)
Income Tax Expense	4,603	15,950	(11,347)	(71.1)
<b>Net Income</b>	<b>\$ 8,019</b>	<b>\$ 19,696</b>	<b>\$ (11,677)</b>	<b>(59.3)</b>

N/M - Not Meaningful

Reclassifications have been made to prior periods to conform to the current period's presentation.

## TUCSON ELECTRIC POWER COMPANY 2009 RESULTS

### TUCSON ELECTRIC POWER COMPANY

#### Comparative Condensed Consolidated Statements of Income

(in thousands of dollars)

(UNAUDITED)	Years ended December 31,		Increase / (Decrease)	
	2009	2008	Amount	Percent
<b>Operating Revenues</b>				
Electric Retail Sales	\$ 867,516	\$ 805,528	\$ 61,988	7.7
Provision for Rate Refunds - CTC Revenue	-	(58,092)	58,092	N/M
Net Electric Retail Sales	867,516	747,436	120,080	16.1
Electric Wholesale Sales	150,679	259,855	(109,176)	(42.0)
California Power Exchange (CPX) Provision for Wholesale Refunds	(4,172)	-	(4,172)	N/M
Other Revenues	82,688	71,962	10,726	14.9
<b>Total Operating Revenues</b>	<b>1,096,711</b>	<b>1,079,253</b>	<b>17,458</b>	<b>1.6</b>
<b>Operating Expenses</b>				
Fuel	281,710	289,985	(8,275)	(2.9)
Purchased Energy	142,252	238,024	(95,772)	(40.2)
Transmission	3,066	10,515	(7,449)	(70.8)
Increase (Decrease) to reflect PPFAC Recovery Treatment	(20,724)	-	(20,724)	N/M
<b>Total Fuel and Purchased Energy</b>	<b>406,304</b>	<b>538,524</b>	<b>(132,220)</b>	<b>(24.6)</b>
Other Operations and Maintenance	289,765	256,584	33,181	12.9
Depreciation and Amortization	152,901	126,040	26,861	21.3
Amortization of Transition Recovery Asset	-	23,945	(23,945)	N/M
Taxes Other Than Income Taxes	37,618	31,650	5,968	18.9
<b>Total Operating Expenses</b>	<b>886,588</b>	<b>976,743</b>	<b>(90,155)</b>	<b>(9.2)</b>
<b>Operating Income</b>	<b>210,123</b>	<b>102,510</b>	<b>107,613</b>	<b>N/M</b>
<b>Other Income (Deductions)</b>				
Interest Income	11,471	9,900	1,571	15.9
Other Income	10,991	5,708	5,283	92.6
Other Expense	(2,904)	(6,249)	3,345	53.5
<b>Total Other Income (Deductions)</b>	<b>19,558</b>	<b>9,359</b>	<b>10,199</b>	<b>N/M</b>
<b>Interest Expense</b>				
Long-Term Debt	36,226	47,456	(11,230)	(23.7)
Interest on Capital Leases	49,258	52,491	(3,233)	(6.2)
Other Interest Expense	1,571	1,367	204	14.9
Interest Capitalized	(1,752)	(4,675)	2,923	62.5
<b>Total Interest Expense</b>	<b>85,303</b>	<b>96,639</b>	<b>(11,336)</b>	<b>(11.7)</b>
<b>Income Before Income Taxes</b>	<b>144,378</b>	<b>15,230</b>	<b>129,148</b>	<b>N/M</b>
Income Tax Expense	55,130	10,867	44,263	N/M
<b>Net Income</b>	<b>\$ 89,248</b>	<b>\$ 4,363</b>	<b>\$ 84,885</b>	<b>N/M</b>

N/M - Not Meaningful

Reclassifications have been made to prior periods to conform to the current period's presentation.

**UniSource Energy Corporation**  
**Supplemental Earnings & Outlook Information**  
**February 24, 2010**

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**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 forecast assumptions and estimates below are not intended to be a full list of factors which could cause UniSource Energy's future results to differ from current expectations. Please refer to UniSource Energy's SEC filings for more information regarding risks and other uncertainties that could cause current expectations to differ from future results.

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.

**UniSource Energy 2010 diluted earnings per share estimate: \$2.75 - \$3.00 per share**

Key Assumptions	Actual	Estimated		
	2009	2010E	2011E	2012E
		-\$ in millions-		
<b>UniSource Consolidated</b>				
Base Utility O&M (TEP + UES)	\$277	\$281		
Less: Consolidating Adj. & Other Segment O&M	(7)	(6)		
Base O&M	\$270	\$275		
<i>Change vs. Prior Year</i>		1.9%	<i>See next page</i>	
Effective Income Tax Rate	38.2%	40%		
<b>TEP</b>				
Retail Sales - Actual (GWh)	9,370	9,330		
<i>Change vs. Prior Year</i>	-1.4%	-0.4%	1% - 2% / year	
Retail Sales – Weather Normalized (GWh)	9,284			
Retail Customers	401,608			
<i>Change vs. Prior Year</i>	0.4%	0.3%	1% - 1.5% / year	
Pre-Tax Benefits Related to the Operation of Springerville Unit 4	\$0	\$8	\$8	\$8
Capital Lease Amortization	\$26	\$15	\$13	\$13
Capital Lease Interest Expense [1]	\$40	\$40	\$39	\$34
Interest on Short-Term and L-T Debt (excl. cap. lease int. expense)	\$38	\$40-\$45		
<b>UES</b>				
UNS Gas Retail Customers	146,275			
<i>Change vs. Prior Year</i>	0.4%	0-1% / year		
UNS Electric Retail Customers	90,267			
<i>Change vs. Prior Year</i>	0.6%	0-1% / year		
UNS Electric Retail Sales (GWh)	1,784			
<i>Avg. Change vs. Prior Year</i>	7.3%	0.5% - 3.5% / year		
UNS Gas Retail Sales (Millions of Therms)	107.9			
<i>Avg. Change vs. Prior Year</i>	-3.6%	1.5% - 3.0% / year		

[1] Net of interest income on investment in lease debt

## **2010 KEY ASSUMPTIONS**

### **Depreciation on TEP's Transmission Assets**

In January 2010, TEP completed an updated depreciation study which indicated that its transmission assets' depreciable lives should be extended. As a result, TEP adopted new transmission depreciation rates effective January 2010 which will have the effect of reducing depreciation expense for transmission assets by approximately \$14 million in 2010.

### **Impact of Purchase of Sundt Unit 4 – Assumed to Close by March 31, 2010**

We expect net benefits of purchasing Sundt Unit 4 – excluding the cost of capital – to be about \$12 million in 2010, compared with 2009. This includes: a \$6 million reduction in depreciation expense (\$9 million decrease related to extending the depreciation on leasehold improvements made to the unit partially offset by a \$3 million increase in depreciation expense on the facility); and a \$6 million decrease in capital lease amortization.

### **Other Assumptions**

- ▶ UNS Gas rate case resolution in March 2010
- ▶ UNS Electric rate case resolution in 2<sup>nd</sup> half of 2010
- ▶ Avg. shares outstanding: 40 million fully diluted; 36 million basic
  - Fully diluted EPS calculation incorporates \$4.4 million of after-tax interest savings as if the \$150 million of convertible notes were converted to common stock

## **2010 FORECAST SENSITIVITIES**

<b>2010 Sensitivities</b>	<b>Pre-Tax (millions)</b>	<b>After-Tax (millions)</b>	<b>Per Diluted Share</b>
<b><u>1% Change</u></b>			
UNS Base O&M	\$2.8	\$1.6	\$0.04
TEP Retail kWh Sales	\$6.0	\$3.6	\$0.08
Rate on Un-hedged TEP Var. Rate Debt	\$3.1	\$1.9	\$0.05

## **2011-2012 OUTLOOK**

### **UNS Consolidated Base O&M**

- ▶ Long-term average base O&M growth of 4% per year
- ▶ The frequency and duration of planned generating outages varies from year to year, which causes variability in O&M growth
- ▶ Current O&M estimate for 2011 includes an approximate \$5 million increase in planned outage O&M compared with 2010

## TEP

- ▶ Modifications to terms of 100 MW long-term wholesale sales contract with Salt River Project
  - Beginning in June 2011, price of energy based on a slight discount to Palo Verde Index
  - Minimum annual energy purchase of 876 GWhs
- ▶ Financing Activity
  - TEP \$341 million letter of credit (LOC) facility expires in August 2011
    - ▶ 2009 average all-in cost of LOC was approximately 0.70%
    - ▶ If refinanced under current market conditions, the avg. all-in cost of LOC would be approximately 2.25% to 2.75%
    - ▶ A 1% change in estimated pricing would increase annual interest expense by \$3.4 million pre-tax or \$0.05 per diluted share
  - TEP \$150 million revolving credit facility matures in August 2011
    - ▶ Current pricing is LIBOR + 0.45%
    - ▶ If refinanced under current market conditions, the rate would be approximately LIBOR plus a margin of approximately 2.00% to 2.50%

## Potential New Customer

### *Rosemont Copper Mine*

In 2007, Augusta Resources Corporation (Augusta) filed a plan of operations with the United States Forest Service (USFS) for the proposed Rosemont Copper Mine near Tucson, Arizona. Augusta is waiting for an environmental impact statement from the USFS before it can begin construction and operation of the mine. If the Rosemont Copper Mine begins full production, it would become TEP's largest retail customer, with an estimated annual load of up to 110 MW. TEP cannot predict if or when the mine will commence operations. TEP's assumptions for estimated retail kWh sales growth do not include the potential sales related to this mine.

## YEAR OVER YEAR EARNINGS VARIANCE EXPLANATION

\$ in millions	Pre-Tax	After Tax
<b>2008 UniSource Energy Net Income</b>		<b>\$14.0</b>
<b><u>TEP 2009 vs. 2008</u></b>		
<b>Change in Revenues</b>		
Higher retail revenues (excluding REST and DSM revenues) due to TEP's new rate structure and hot summer weather during the 3rd quarter.	39.8	24.6
Lower long-term wholesale electric and transmission revenues due to lower sales volumes.	(7.5)	(4.6)
<b>Change in PPFAC-Related Expenses</b>		
Lower fuel and purchased power expense (net of short-term wholesale revenues) resulting primarily from a decline in the wholesale market price for power and natural gas.	61.9	38.3
<hr/>		
<b>Change in TEP Utility Gross Margin</b>	<b>\$94.2</b>	<b>\$58.2</b>
<b>Change in Other Expenses and Income</b>		
Higher base O&M due to an increase in pension expense and higher generating plant maintenance expense.	(10.8)	(6.7)
Higher depreciation and amortization due to: additions to plant in service; new depreciation rates for generation assets; amortization of regulatory assets resulting from the 2008 TEP Rate Order; and an adjustment related to an investment in lease equity made in 2006.	(26.9)	(16.6)
Higher Other Income due in part to: an adjustment related to an investment in lease equity made in 2006; and interest income related to an income tax refund and a company owned life insurance policy.	10.2	6.3
Lower interest expense due primarily to lower rates on variable rate debt and lower balances of capital lease obligations.	11.3	7.0
Other Changes	1.1	0.7
<b>Change in TEP's Other Expenses and Income</b>	<b>(\$15.1)</b>	<b>(\$9.4)</b>
<b>Other Changes</b>		
Deferral of Revenues after TRA amortized in May 2008	58.1	35.9
TRA amortization expense in 2008	23.9	14.8
Gain Recorded in Fuel Expense Related to Reinstatement of Regulatory Accounting	(32.0)	(19.8)
Reimbursed Fuel and Purchased Power, and Provision for Wholesale Sales Refund	8.3	5.1
<b>Total TEP Change 2009 vs. 2008</b>	<b>\$137.4</b>	<b>\$84.9</b>
<b><u>Other Changes 2009 vs. 2008</u></b>		
<b>UNS Gas Change in Net Income</b>		(1.2)
Lower retail therm sales resulting from weakened economic conditions		
<b>UNS Electric Change in Net Income</b>		2.2
Rate increase in June 2008, hot summer weather and a new mining customer.		
<b>Other</b>		
Results include an after-tax gain at Millennium from the sale of Sabinas (\$3.6 million). Results also include UED and consolidating adjustments.		4.4
<b>Total Change in UNS Net Income</b>		<b>90.3</b>
<hr/>		
<b>2009 UniSource Energy Net Income</b>		<b>\$104.3</b>

## TEP UTILITY GROSS MARGIN

(millions)	Year End		4th Quarter	
	2009	2008	2009	2008
Retail Electric Revenues (Excluding DSM & REST)	\$842.1	\$802.3	\$176.8	\$175.2
Long-Term Wholesale Electric Sales	48.2	57.5	13.6	14.3
Wholesale Transmission Revenues	19.0	17.2	6.5	4.3
<b>Total</b>	<b>\$909.3</b>	<b>\$877.0</b>	<b>\$196.9</b>	<b>\$193.8</b>
<b>Less Fuel, Purchased Power and Transmission Expense</b>				
Fuel	281.7	290.0	72.9	38.4
Reimbursed Fuel	(5.0)	(5.1)	(1.7)	(0.9)
Gain Recorded in Fuel Expense Related to Reinstatement of Regulatory Accounting	0.0	24.0	0.0	24.0
Purchased Power	142.2	238.0	29.8	26.8
Increase (Decrease) to Reflect PPFAC Recovery	(20.7)	0.0	(3.8)	0.0
REST Included in PPFAC	(7.5)	0.0	(7.4)	0.0
Transmission	3.1	10.5	0.6	0.9
Short-Term Wholesale Electric Sales	(83.5)	(185.2)	(22.8)	(33.4)
Fuel, Purchased Power and Transmission Expense Net of Short-Term Wholesale Revenues	310.3	372.2	67.6	55.8
<b>Utility Gross Margin (non-GAAP)</b>	<b>\$599.0</b>	<b>\$504.8</b>	<b>\$129.3</b>	<b>\$138.0</b>
<b>Reconciling Line Items to Operating Income</b>				
CTC Revenue Subject to Refund	0.0	(58.1)	0.0	(13.7)
Provision for Wholesale Sales Refunds	(4.2)	0.0	(4.2)	0.0
Other Revenue	82.7	71.9	23.6	17.2
REST & DSM Revenues	25.4	3.2	15.5	2.4
Gain Recorded in Fuel Expense Related to Reinstatement of Regulatory Accounting	0.0	24.0	0.0	24.0
<u>Other Operating Expenses (Income):</u>				
Reimbursed Fuel	5.0	5.1	1.7	0.9
REST Expense Included in PPFAC	7.5	0.0	7.4	0.0
Other Operations & Maintenance	289.8	256.6	76.7	72.7
Depreciation & Amortization	152.9	126.0	38.3	32.8
Amortization of Transition Recovery Asset	0.0	23.9	0.0	0.0
Taxes Other Than Income Taxes	37.6	31.7	8.2	2.5
<b>Operating Income (GAAP)</b>	<b>\$210.1</b>	<b>\$102.5</b>	<b>\$31.9</b>	<b>\$59.0</b>

## TEP - RETAIL AND LONG-TERM WHOLESALE MARGIN

<b>RETAIL REVENUES (CENTS / KWH)</b>	<b>Year-End 2009</b>	<b>Q4 2009</b>
<b>Avg. Non-Fuel Rates</b>		
Residential	6.48	6.33
Commercial	8.04	7.95
Industrial	4.59	4.53
Mining	2.93	2.77
Other	5.00	4.96
<b>Total Average Non-Fuel Rate</b>	<b>5.93</b>	<b>5.73</b>
Avg. Base Fuel and PPFAC Rate	3.05	2.90
Avg. REST & DSM Rate	0.27	0.76
<b>Avg. Total Retail Rate</b>	<b>9.26</b>	<b>9.39</b>

<b>RETAIL NON-FUEL REVENUES* (MILLIONS)</b>	<b>Year-End 2009</b>	<b>Q4 2009</b>
Residential	\$253.3	\$49.2
Commercial	159.9	35.3
Industrial	99.1	22.4
Mining	31.2	7.5
Other	12.5	3.1
<b>Total Retail Non-Fuel Revenues</b>	<b>\$556.0</b>	<b>\$117.5</b>
Base Fuel and PPFAC Revenues	286.1	59.4
REST & DSM Revenues	25.4	15.5
<b>Total Electric Retail Revenues</b>	<b>\$867.5</b>	<b>\$192.3</b>

\*Retail non-fuel revenues exclude fuel, PPFAC, REST/DSM charges

<b>LONG-TERM WHOLESALE GROSS MARGIN (MILLIONS)</b>	<b>Year-End 2009</b>	<b>Q4 2009</b>
Long-term Wholesale Revenues	\$48.2	\$13.6
Fuel and Purchased Power Expense	24.2	8.2
<b>Net</b>	<b>\$24.0</b>	<b>\$5.4</b>

## UNISOURCE ENERGY AND TEP O&M

UniSource Energy O&M Components	Year-End		4th Quarter	
	2009	2008	2009	2008
	-millions-		-millions-	
TEP Base O&M (Non-GAAP)	\$231.0	\$220.2	\$57.5	\$62.3
UNS Gas O&M	24.7	25.0	6.4	6.6
UNS Electric O&M	20.8	20.8	6.5	5.5
<b>Total Base Utility O&amp;M</b>	<b>276.5</b>	<b>266.0</b>	<b>70.4</b>	<b>74.4</b>
Consolidating Adjustments & Other	(7.0)	(8.5)	(1.5)	(2.6)
<b>UniSource Energy Base O&amp;M (Non-GAAP)</b>	<b>\$269.5</b>	<b>\$257.5</b>	<b>\$68.9</b>	<b>\$71.8</b>
Reimbursed O&M Related to Springerville Units 3 and 4	40.9	35.2	11.2	9.0
	23.5	5.0	10.4	3.3
O&M Related to Customer-funded Renewable Energy and DSM Programs				
Reinstatement of regulatory accounting	0.0	(1.0)	0.0	(1.0)
Gain on the Sale of SO2 Emissions Allowances	0.0	(1.0)	0.0	0.0
<b>UniSource Energy O&amp;M (GAAP)</b>	<b>\$333.9</b>	<b>\$295.7</b>	<b>\$90.5</b>	<b>\$84.1</b>
<b>TEP</b>				
<b>O&amp;M Components</b>	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
	-millions-		-millions-	
Wages, A&G, Other	\$149.6	\$153.2	\$34.3	\$47.1
Generating Plant Maintenance Expense	64.2	58.7	19.2	13.1
Pension and Postretirement Benefits Expense	17.3	8.3	4.1	2.1
<b>TEP Base O&amp;M (Non-GAAP)</b>	<b>\$231.0</b>	<b>\$220.2</b>	<b>\$57.5</b>	<b>\$62.3</b>
Reimbursed O&M Related to Springerville Units 3 and 4	40.9	35.2	11.2	9.0
	17.9	3.2	8.0	2.4
O&M Related to Customer-funded Renewable Energy and DSM Programs				
Reinstatement of regulatory accounting	0.0	(1.0)	0.0	(1.0)
Gain on the Sale of SO2 Emissions Allowances	0.0	(1.0)	0.0	0.0
<b>TEP O&amp;M (GAAP)</b>	<b>\$289.8</b>	<b>\$256.6</b>	<b>\$76.7</b>	<b>\$72.7</b>

## TEP - RETAIL OPERATING STATISTICS

	3 Months Ended Dec. 31				Year-End			
	2009	2008	Incr (Decr)	% Change	2009	2008	Incr (Decr)	% Change
<b>AVG. ELECTRIC CUSTOMERS</b>								
Residential	364,847	363,367	1,480	0.4%	364,755	362,732	2,023	0.6%
Commercial	35,746	35,390	356	1.0%	35,660	35,143	517	1.5%
Industrial	629	633	(4)	-0.6%	630	635	(6)	-0.9%
Mining	3	3	-	0.0%	2	2	-	0.0%
Other	61	61	-	0.0%	61	61	-	0.0%
<b>Total</b>	<b>401,286</b>	<b>399,454</b>	<b>1,832</b>	<b>0.5%</b>	<b>401,108</b>	<b>398,573</b>	<b>2,535</b>	<b>0.6%</b>
<b>RETAIL SALES - MWH</b>								
Residential	776,536	774,749	1,787	0.2%	3,905,696	3,852,707	52,989	1.4%
Commercial	443,842	464,655	(20,813)	-4.5%	1,988,356	2,034,453	(46,097)	-2.3%
Industrial	494,167	524,044	(29,877)	-5.7%	2,160,946	2,263,706	(102,760)	-4.5%
Mining	272,039	280,331	(8,292)	-3.0%	1,064,830	1,095,962	(31,132)	-2.8%
Other	62,556	62,704	(148)	-0.2%	250,915	255,817	(4,902)	-1.9%
<b>Total</b>	<b>2,049,140</b>	<b>2,106,483</b>	<b>(57,343)</b>	<b>-2.7%</b>	<b>9,370,743</b>	<b>9,502,645</b>	<b>(131,902)</b>	<b>-1.4%</b>
<b>RETAIL USAGE - KWH/CUSTOMER</b>								
Residential	2,128	2,132	(4)	-0.2%	10,708	10,621	87	0.8%
Commercial	12,417	13,130	(713)	-5.4%	55,759	57,891	(2,132)	-3.7%
Industrial	785,639	827,874	(42,235)	-5.1%	3,430,073	3,564,891	(134,818)	-3.8%
Mining	90,679,667	93,443,667	(2,764,000)	-3.0%	532,415,000	547,981,000	(15,566,000)	-2.8%
Other	1,025,508	1,027,934	(2,426)	-0.2%	4,113,361	4,193,721	(80,361)	-1.9%
<b>Total</b>	<b>5,106</b>	<b>5,273</b>	<b>(167)</b>	<b>-3.2%</b>	<b>23,362</b>	<b>23,842</b>	<b>(480)</b>	<b>-2.0%</b>
<b>RETAIL REVENUES - MILLIONS</b>								
Residential	\$72.2	\$69.9	\$2.3	3.3%	\$377.8	\$351.1	\$26.7	7.6%
Commercial	48.0	48.5	(0.5)	-1.1%	219.7	211.6	8.1	3.8%
Industrial	36.6	37.9	(1.3)	-3.4%	163.7	164.8	(1.1)	-0.7%
Mining	15.2	14.2	1.0	7.1%	61.0	55.6	5.4	9.7%
Other	4.9	4.7	0.2	3.5%	19.9	19.1	0.7	3.8%
<b>Total</b>	<b>\$176.9</b>	<b>\$175.2</b>	<b>\$1.7</b>	<b>1.0%</b>	<b>\$842.1</b>	<b>\$802.3</b>	<b>\$39.8</b>	<b>5.0%</b>
<b>DSM / REST</b>	<b>15.5</b>	<b>2.4</b>	<b>13.1</b>	<b>N/M</b>	<b>25.4</b>	<b>3.2</b>	<b>22.2</b>	<b>N/M</b>
<b>Total Retail Revenues</b>	<b>\$192.3</b>	<b>\$177.6</b>	<b>\$14.7</b>	<b>8.3%</b>	<b>\$867.5</b>	<b>\$805.5</b>	<b>\$62.0</b>	<b>7.7%</b>
<b>WEATHER - COOLING DEGREE DAYS</b>								
Actual	NM	NM			1,599	1,336	263	19.7%
10-Year Average	NM	NM			1,469	1,431		
% Change Actual vs. 10-Year Avg.					8.8%	-6.6%		
<b>WEATHER - HEATING DEGREE DAYS</b>								
Actual	578	480	98	20.4%	1,287	1,367	(80)	-5.9%
10-Year Average	585	578			1,434	1,444		
% Change Actual vs. 10-Year Avg.	-1.2%	-17.0%			-10.3%	-5.3%		
<b>ENERGY MARKET INDICATORS</b>								
Avg. Wholesale Power Prices								
Palo Verde Index - \$/MWh								
On Peak	\$40.13	\$45.07	(\$4.94)	-11.0%	\$34.89	\$72.11	(\$37.22)	-51.6%
Off Peak	\$30.49	\$33.90	(\$3.41)	-10.1%	\$24.35	\$52.99	(\$28.64)	-54.0%
Avg. Natural Gas Prices								
Permian Index - \$/MMBtu								
	\$4.03	\$4.24	(\$0.21)	-5.0%	\$3.34	\$7.41	(\$4.07)	-54.9%

## UNS GAS - OPERATING STATISTICS

	3 Months Ended Dec. 31				Year-End			
	2009	2008	Incr (Decr)	% Change	2009	2008	Incr (Decr)	% Change
<b>AVG. GAS CUSTOMERS</b>								
Residential	133,285	132,700	585	0.4%	132,776	132,579	197	0.1%
Commercial	11,364	11,430	(66)	-0.6%	11,372	11,447	(75)	-0.7%
All Other	1,115	1,106	9	0.8%	1,111	1,106	5	0.5%
<b>Total</b>	<b>145,764</b>	<b>145,236</b>	<b>528</b>	<b>0.4%</b>	<b>145,259</b>	<b>145,132</b>	<b>127</b>	<b>0.1%</b>
<b>RETAIL SALES - THOUSANDS OF THERMS</b>								
Residential	25,088	22,188	2,900	13.1%	69,641	72,093	(2,453)	-3.4%
Commercial	10,018	9,309	708	7.6%	29,622	30,990	(1,368)	-4.4%
All Other	3,123	2,836	287	10.1%	8,626	8,886	(260)	-2.9%
<b>Total</b>	<b>38,228</b>	<b>34,333</b>	<b>3,895</b>	<b>11.3%</b>	<b>107,888</b>	<b>111,970</b>	<b>(4,081)</b>	<b>-3.6%</b>
<b>RETAIL USAGE - THERMS/CUSTOMER</b>								
Residential	188.2	167.2	21	12.6%	524	544	(19)	-3.5%
Commercial	881.5	814.5	67	8.2%	2,605	2,707	(102)	-3.8%
<b>RETAIL REVENUES - MILLIONS</b>								
<b>Non-Fuel Revenues:</b>								
Residential	\$11.5	\$10.6	0.9	8.5%	\$36.0	\$37.0	(1.0)	-2.7%
Commercial	3.1	2.9	0.2	6.2%	9.6	10.0	(0.4)	-4.2%
All Other	0.7	0.7	0.0	6.4%	2.0	2.1	(0.1)	-5.0%
<b>Total</b>	<b>\$15.3</b>	<b>\$14.2</b>	<b>\$1.1</b>	<b>7.9%</b>	<b>\$47.6</b>	<b>\$49.1</b>	<b>(\$1.5)</b>	<b>-3.1%</b>
<b>DSM Revenues</b>	<b>0.3</b>	<b>0.2</b>	<b>0.1</b>	<b>50.0%</b>	<b>0.7</b>	<b>0.4</b>	<b>0.3</b>	<b>62.8%</b>
<b>Transport/NSP Revenues</b>	<b>4.0</b>	<b>6.7</b>	<b>(2.7)</b>	<b>-40.5%</b>	<b>16.3</b>	<b>28.8</b>	<b>(12.5)</b>	<b>-43.3%</b>
<b>Fuel Revenues:</b>								
Recovered from Customers	26.6	30.5	(3.9)	-12.8%	84.8	93.6	(8.8)	-9.4%
<b>Total Gas Revenues</b>	<b>\$46.1</b>	<b>\$51.5</b>	<b>(\$5.4)</b>	<b>-10.5%</b>	<b>\$149.4</b>	<b>\$171.9</b>	<b>(\$22.5)</b>	<b>-13.1%</b>
<b>WEATHER - HEATING DEGREE DAYS</b>								
Actual	8,592	7,413	1,179	15.9%	20,470	21,003	(533)	-2.5%
10-Year Average	8,092				20,900			
% Change Actual vs. 10-Year Avg.	6.2%				-2.1%			

## UNS ELECTRIC - OPERATING STATISTICS

	3 Months Ended Dec. 31				Year-End			
	2009	2008	Incr (Decr)	% Change	2009	2008	Incr (Decr)	% Change
<b>AVG. ELECTRIC CUSTOMERS</b>								
Residential	79,553	79,154	399	0.5%	79,483	79,378	105	0.1%
Commercial	10,328	10,349	(21)	-0.2%	10,330	10,334	(4)	0.0%
All Other	291	279	12	4.3%	287	275	12	4.4%
<b>Total</b>	<b>90,172</b>	<b>89,782</b>	<b>390</b>	<b>0.4%</b>	<b>90,100</b>	<b>89,987</b>	<b>113</b>	<b>0.1%</b>
<b>RETAIL SALES - MWH</b>								
Residential	162,218	155,732	6,486	4.2%	813,796	822,497	(8,701)	-1.1%
Commercial	129,300	134,123	(4,823)	-3.6%	607,928	619,581	(11,653)	-1.9%
Industrial	52,712	44,391	8,321	18.7%	196,985	189,082	7,903	4.2%
Mining	46,831	12,097	34,734	NM	163,474	29,921	133,553	NM
Other	634	565	69	12.2%	2,220	2,237	(17)	-0.8%
<b>Total</b>	<b>391,695</b>	<b>346,908</b>	<b>44,787</b>	<b>12.9%</b>	<b>1,784,403</b>	<b>1,663,318</b>	<b>121,085</b>	<b>7.3%</b>
<b>RETAIL USAGE - KWH/CUSTOMER</b>								
Residential	2,039	1,967	72	3.6%	10,239	10,362	(123)	-1.2%
Commercial	12,519	12,960	(441)	-3.4%	58,851	59,956	(1,105)	-1.8%
<b>RETAIL REVENUES - MILLIONS</b>								
<b>Non-Fuel Revenues:</b>								
Residential	\$4.3	\$4.1	0.2	4.9%	\$20.5	\$22.3	(1.8)	-8.1%
Commercial	4.2	5.0	(0.8)	-16.0%	21.4	21.3	0.1	0.5%
Industrial	1.7	0.6	1.1	183.3%	6.9	2.3	4.6	NM
Mining	0.9	1.2	(0.3)	-25.0%	2.9	2.2	0.7	NM
Other	0.1	0.1	0.0	13.6%	0.3	0.3	0.0	2.0%
<b>Total</b>	<b>\$11.2</b>	<b>\$11.0</b>	<b>\$0.2</b>	<b>1.9%</b>	<b>\$51.9</b>	<b>\$48.4</b>	<b>\$3.6</b>	<b>7.4%</b>
<b>DSM / REST</b>	<b>3.4</b>	<b>0.7</b>	<b>2.7</b>	<b>NM</b>	<b>6.3</b>	<b>1.4</b>	<b>4.8</b>	<b>NM</b>
<b>Fuel Revenues:</b>								
Recovered from Customers	23.2	29.4	(6.2)	-21.1%	121.9	133.3	(11.4)	-8.6%
<b>Total Retail Revenues</b>	<b>\$37.8</b>	<b>\$41.1</b>	<b>(\$3.3)</b>	<b>-8.1%</b>	<b>\$180.1</b>	<b>\$183.1</b>	<b>(\$3.0)</b>	<b>-1.7%</b>
<b>WEATHER - COOLING DEGREE DAYS</b>								
Actual	474	652	(178)	-27.3%	8,777	8,795	(18)	-0.2%
10-Year Average	556				8,847			
% Change Actual vs. 10-Year Avg.	-14.7%				-0.8%			
<b>WEATHER - HEATING DEGREE DAYS</b>								
Actual	2,746	2,345	401	17.1%	6,289	6,581	(292)	-4.4%
10-Year Average	2,549				6,392			
% Change Actual vs. 10-Year Avg.	7.7%				-1.6%			

## BASIC AND DILUTED SHARES OUTSTANDING

Years Ended December 31,  
**2009**      **2008**      **2007**

	-In Thousands-		
Numerator:			
Net Income	<b>\$104,258</b>	\$14,021	\$58,373
Income from Assumed Conversion of Convertible Senior Notes	<b>4,390</b>		4,390
<b>Adjusted Numerator</b>	<b>\$108,648</b>	\$14,021	\$62,763
Denominator:			
Weighted-average Shares of Common Stock Outstanding			
Common Shares Issued	<b>35,653</b>	35,415	35,264
Participating Securities	<b>100</b>	260	222
Fully Vested Deferred Stock Units	<b>105</b>	217	274
<b>Total Weighted-average Shares of Common Stock Outstanding and Participating Securities - Basic</b>	<b>35,858</b>	35,892	35,760
Effect of Diluted Securities			
Convertible Senior Notes	<b>4,093</b>		4,000
Options and Stock Issuable under Employee Benefit Plans and the Directors' Plan	<b>499</b>	476	502
<b>Total Shares</b>	<b>40,450</b>	36,368	40,262

For the year ended December 31, 2008, 4 million potentially dilutive shares from the conversion of convertible senior notes, and after-tax interest expense of \$4 million was not included in the computation of diluted EPS because to do so would be anti-dilutive.

Stock options to purchase an average of 395,000, 312,000 and 169,000 shares of Common Stock were outstanding during 2009, 2008 and 2007, respectively, but were not included in the computation of EPS because the stock option's exercise price was greater than the average market price of the Common Stock at year end.