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UNISOURCE ENERGY CORP
Form 8-K
April 14, 2003

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): April 1, 2003

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, Suite 100 Tucson, AZ 85701 (520) 571-4000	86-0786732
1-5924	TUCSON ELECTRIC POWER COMPANY (An Arizona Corporation) One South Church, Suite 100 Tucson, AZ 85701 (520) 571-4000	86-0062700

Item 5. Other Events

On April 1, 2003, UniSource Energy Corporation (UniSource Energy) and Citizens Communications Company (Citizens) reached a proposed settlement agreement (Settlement Agreement) with the Arizona Corporation Commission Staff addressing rate case and financing issues in the planned acquisition by UniSource Energy of the Citizens Arizona gas and electric assets. If the ACC approves the Settlement Agreement, the changes in rates and financing approvals will take effect once the acquisition is completed, which is expected to occur in July 2003. The acquisition has not yet been approved by the Federal Energy Regulatory Commission or the Securities and Exchange Commission.

Under the terms of the Settlement Agreement, UniSource Energy will form one or more wholly-owned subsidiaries to own and operate the acquired assets (collectively, the New Companies) and it may also form an intermediate holding company to finance and own the New Companies.

The Settlement Agreement includes the resolution of two pending rate issues before the ACC: (1) a gas utility base rate case and (2) a review of the electric utility purchase power and fuel adjustment clause. The Settlement Agreement provides for a 20.9 percent increase in gas rates

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compared with the 29 percent increase requested by Citizens. Because UniSource Energy is acquiring the gas utility assets at a discounted purchase price, the amount of rate recovery required is less than under the Citizens rate case. The gas utility rate case also takes into account a \$10 million permanent reduction to the gas rate base due to a disallowance for certain capital expenditures for gas infrastructure, thereby reducing the revenue level to be recovered from ratepayers. In addition, the Settlement Agreement allows for a 22 percent increase in electric utility rates, compared with the 45 percent requested by Citizens. The allowed electric rate increase represents the full recovery in rates of the costs of a long-term purchase power contract on a going forward basis. At the same time, UniSource Energy agreed to forfeit the collection of approximately \$135 million in deferred purchased power costs under the same contract that had been incurred by Citizens but had not been collected from Citizens' customers. If the Settlement Agreement is approved, the revised electric and gas tariffs would be effective upon the completion of the acquisition. The Settlement Agreement also imposes a general rate case moratorium for a period of three years from the date the ACC approves the settlement order.

The financing provisions of the Settlement Agreement authorize the New Companies to issue new debt and equity securities to fund the acquisition of the Citizens gas and electric assets and to provide for initial working capital requirements. The Settlement Agreement also authorizes UniSource Energy's wholly-owned subsidiary, Tucson Electric Power Company (TEP), to loan up to \$50 million to UniSource Energy to fund the purchase. In addition, the Settlement Agreement waives the existing requirement that 30 percent of the proceeds of public stock issuance be invested in TEP, so long as the purpose of the equity issuance is to help finance the Citizens purchase.

The Settlement Agreement limits dividends from the New Companies to 75 percent of earnings until equity capitalization of 40 percent is attained. The Settlement Agreement also modifies TEP's dividend limitation. Currently, TEP may not pay dividends in excess of 75 percent of its earnings until equity capitalization of 37.5 percent is attained. Under the Settlement Agreement, equity capitalization of 40 percent must be attained by TEP to exceed the dividend limitation.

The Settlement Agreement is subject to the review and approval of the ACC and may be amended or supplemented prior to, or in conjunction with, the approval. An administrative law judge for the ACC will review the Settlement Agreement during a hearing that begins May 1, 2003. UniSource Energy expects that the ACC will approve a settlement agreement by June or July 2003.

Item 7. Financial Statements and Exhibits

Exhibit 99 Settlement Agreement - UniSource Energy Corporation's Acquisition of Citizens Communication Company's Gas and Electric Utility Assets.

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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. The signature for each undersigned company shall be deemed to relate only to matters having

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reference to such company or its subsidiary.

UNISOURCE ENERGY CORPORATION

(Registrant)

Date: April 11, 2003

/s/ Kevin P. Larson

Kevin P. Larson
Vice President and Principal
Financial Officer

TUCSON ELECTRIC POWER COMPANY

(Registrant)

Date: April 11, 2003

/s/ Kevin P. Larson

Kevin P. Larson
Vice President and Principal
Financial Officer