

TUCSON ELECTRIC POWER CO
Form 424B2
November 04, 2011
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Filed Pursuant to Rule 424(b)(2)
Registration No. 333-159244-01

CALCULATION OF REGISTRATION FEE

Title of each class of securities to be registered	Proposed maximum aggregate offering price(1)	Amount of registration fee(1)(2)
Tucson Electric Power Company 5.15% Notes due 2021	\$250,000,000	\$28,650

(1) Calculated in accordance with Rule 457(r) under the Securities Act of 1933, as amended.

(2) This Calculation of Registration Fee table shall be deemed to update the Calculation of Registration Fee table in Registration Statement No. 333-159244-01.

PROSPECTUS SUPPLEMENT

(To Prospectus dated November 1, 2011)

\$250,000,000

Tucson Electric Power Company

5.15% Notes due 2021

We are offering \$250,000,000 aggregate principal amount of our 5.15% notes due 2021, which we refer to as the notes. Interest on the notes will be payable semi-annually on each May 15 and November 15, beginning May 15, 2012, and at maturity. The notes will mature on November 15, 2021.

We may redeem the notes from time to time, in whole or in part, at any time prior to August 15, 2021 at the make-whole redemption price, and thereafter at any time prior to maturity at par, as described in this prospectus supplement under the heading Description of Notes Optional Redemption .

The notes will be our direct unsecured and unsubordinated general obligations and will rank equally with all of our other existing and future unsecured and unsubordinated debt, will be senior in right of payment to all of our future subordinated debt and will be junior to any of our existing and future secured debt, including our mortgage bonds, to the extent of the value of the collateral securing such secured debt.

The notes will initially be represented by global certificates deposited with or on behalf of The Depository Trust Company, or DTC, and registered in the name of DTC's nominee, Cede & Co. Beneficial interests in the global certificates will be exchangeable for definitive securities only in limited circumstances. The notes will not be listed on any national securities exchange. Currently, there is no public market for the notes.

*Investing in the notes involves risks. See **Risk Factors** beginning on page S-4.*

	PER NOTE	TOTAL
Public Offering Price(1)	99.682%	\$ 249,205,000
Underwriting Discount	0.650%	\$ 1,625,000
Proceeds to Tucson Electric Power Company (Before Expenses)	99.032%	\$ 247,580,000

(1) Plus accrued interest from November 8, 2011, if settlement occurs after that date.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus supplement or the accompanying prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the notes in book-entry form only through the facilities of DTC against payment in New York, New York on or about November 8, 2011.

Credit Suisse

Scotia Capital

Wells Fargo Securities

BofA Merrill Lynch

SunTrust Robinson Humphrey

Mitsubishi UFJ Securities

US Bancorp

The date of this prospectus supplement is November 3, 2011.

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THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS DO NOT CONSTITUTE AN OFFER TO SELL, OR A SOLICITATION OF AN OFFER TO BUY, ANY NOTES OFFERED HEREBY BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH AN OFFER OR SOLICITATION. NEITHER THE DELIVERY OF THIS PROSPECTUS SUPPLEMENT AND THE ACCOMPANYING PROSPECTUS NOR ANY SALE MADE HEREUNDER SHALL UNDER ANY CIRCUMSTANCES IMPLY THAT THERE HAS BEEN NO CHANGE IN OUR AFFAIRS OR THAT THE INFORMATION SET FORTH HEREIN IS CORRECT AS OF ANY DATE SUBSEQUENT TO THE DATE HEREOF.

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ABOUT THIS PROSPECTUS SUPPLEMENT

This document is in two parts. The first part, this prospectus supplement, describes the specific terms of the notes we are offering. The second part, the accompanying prospectus and the documents incorporated by reference, describes our business and gives more general information, some of which may not apply to the notes we are offering in this prospectus supplement. You should read this prospectus supplement together with the accompanying prospectus and the documents incorporated by reference before making a decision to invest in the notes. If the information in this prospectus supplement or the information incorporated by reference in this prospectus supplement is inconsistent with the accompanying prospectus, the information in this prospectus supplement or the information incorporated by reference in this prospectus supplement will apply and will supersede that information in the accompanying prospectus.

This prospectus supplement and the accompanying prospectus are part of a registration statement that was filed by us with the Securities and Exchange Commission (SEC) as a wholly-owned subsidiary of UniSource Energy Corporation, which is a well-known seasoned issuer . Under the shelf registration process, we may, from time to time, issue and sell to the public the securities described in the accompanying prospectus, including the notes, up to an indeterminate amount, of which this offering is a part. In this prospectus supplement, we provide you with specific information about the terms of the notes and this offering.

You should rely only on the information incorporated by reference or provided in this prospectus supplement, the accompanying prospectus and any written communication from us or the underwriters specifying the final terms of the offering. We have not, nor have any underwriters or dealers, authorized anyone else to provide you with different information about us or the debt securities. We are not, nor are any underwriters or dealers, making an offer of the debt securities in any jurisdiction where the offer is not permitted. You should not assume that the information in this prospectus supplement, the accompanying prospectus or any written communication from us or the underwriters specifying the final terms of the offering is accurate as of any date other than the date on the front of those documents or that the documents incorporated by reference in this prospectus supplement, the accompanying prospectus or any written communication from us or the underwriters specifying the final terms of the offering are accurate as of any date other than the date those documents were filed with the SEC. Our business, financial condition, results of operations and prospects may have changed since these dates.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

We caution you that this prospectus supplement and the periodic reports and other documents that are incorporated by reference in this prospectus supplement contain forward-looking statements as defined by the Private Securities Litigation Reform Act of 1995. We are 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 us in this prospectus supplement and the periodic reports and other documents that are incorporated by reference in this prospectus supplement. 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, are expressly qualified by these cautionary statements and any other cautionary statements which may accompany the forward-looking statements. In addition, we disclaim any obligation to update any forward-looking statements to reflect events or circumstances after the date of this prospectus supplement.

Forward-looking statements involve risks and uncertainties which could cause actual results or outcomes to differ materially from those expressed in the forward-looking statements. 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 our periodic reports and other documents that are incorporated by reference in this prospectus supplement: state and federal regulatory and legislative decisions and actions, including environmental legislation and renewable energy requirements; 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 operations and maintenance expense; resolution of pending litigation matters; changes in accounting standards; changes in critical accounting estimates; changes to long-term contracts; the cost of fuel and energy supplies; and performance of our generating plants.

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SUMMARY

The following summary information is qualified in its entirety by the information contained elsewhere in this prospectus supplement, in the documents incorporated by reference in this prospectus supplement and in the indenture (as defined below).

We were incorporated in the State of Arizona in 1963. We are the principal operating subsidiary of UniSource Energy. In 2010, our electric utility operations contributed 77% of UniSource Energy's operating revenues and comprised 81% of its assets.

We are a vertically integrated utility that provides regulated electric service to approximately 403,000 retail customers in southeastern Arizona. Our service territory covers 1,155 square miles and includes a population of approximately 1 million people in the greater Tucson metropolitan area in Pima County, as well as parts of Cochise County. We provide electric utility service to a diverse group of residential, commercial, industrial, and public sector customers. Major industries served include copper mining, cement manufacturing, defense, health care, education, military bases and other governmental entities. We also sell electricity to other utilities and power marketing entities in the western United States.

At December 31, 2010, we owned or leased 2,245 MW of net generating capability.

Our principal executive offices are located at One South Church Avenue, Suite 100, Tucson, Arizona 85701. Our telephone number is (520) 571-4000.

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Summary of the Offering

Issuer	Tucson Electric Power Company
Securities Offered	We are offering \$250,000,000 aggregate principal amount of our 5.15% notes due 2021.
Maturity Date	The notes will mature on November 15, 2021.
Interest Rate	Interest on the notes will accrue at a rate of 5.15% per annum.
Interest Payment Dates	Interest on the notes will accrue from the interest accrual date set forth on the cover of this prospectus supplement and will be payable semi-annually in arrears on each May 15 and November 15, beginning on May 15, 2012, and at maturity.
Optional Redemption	The notes will be redeemable, in whole or in part, at our option, at any time prior to August 15, 2021, at a make-whole redemption price and thereafter at any time prior to maturity at par, as described under Description of Notes Optional Redemption herein.
Security and Ranking	The notes will be our direct unsecured and unsubordinated general obligations and will rank equally with all of our other existing and future unsecured and unsubordinated debt, will be senior in right of payment to any subordinated debt that we may issue in the future and will be junior to any of our existing and future secured debt, including our mortgage bonds, to the extent of the value of the collateral securing such secured debt. Substantially all of our utility plant assets are subject to the lien and security interest created by our indenture of mortgage and deed of trust, dated as of December 1, 1992, to The Bank of New York Mellon, successor trustee, as amended and supplemented, which we refer to as our mortgage indenture. We have \$578 million of mortgage bonds outstanding under the mortgage indenture. See Description of Notes Ranking herein.
Limitation on Secured Debt	As long as the notes are outstanding, we will not create, issue, incur or assume any debt secured by a lien upon any of our property (other than Excepted Property, as described below), except for certain permitted secured debt, unless the notes are also secured by that lien. See Description of Notes Limitation on Secured Debt herein.
Sinking Fund	There is no sinking fund for the notes.

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Additional Issuances	We may from time to time, without the consent of the holders of our notes, create and issue additional notes having the same terms and conditions as the notes so that the additional issuance is consolidated and forms a single series with the previously outstanding notes.
Form and Denomination	The notes will be represented by global certificates deposited with, or on behalf of, DTC, or its nominee. For more information, see Description of Notes Book-Entry Only Issuance The Depository Trust Company. The notes will be issued in fully registered form only in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof.
Use of Proceeds	We intend to use the net proceeds from this offering (i) to purchase or redeem up to \$150 million of our tax-exempt variable rate debt with maturity dates from 2018 to 2020, (ii) to redeem an outstanding series of our fixed rate debt, and (iii) to repay amounts outstanding under our revolving credit facility, with any remaining balance to be applied to general corporate purposes. See Use of Proceeds herein.
Risk Factors	You should carefully read and consider, in addition to matters set forth elsewhere in this prospectus supplement, the information in the Risk Factors section beginning on page S-4.
Trustee and Paying Agent	U.S. Bank National Association, or the Trustee.
Governing Law	The notes and the indenture, dated as of November 1, 2011, between us and the Trustee, and the officer's certificate supplementing the indenture and establishing the terms of the notes (which we collectively refer to herein as the indenture), will be governed by, and construed in accordance with, the laws of the State of New York.

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RISK FACTORS

Before investing in the notes, you should carefully consider the risks described below, as well as the other information contained in this prospectus supplement, the accompanying prospectus or incorporated by reference herein from our filings with the SEC, to which we refer you for more detailed information on our business, industry, and financial and corporate operations and structure. These are risks we consider to be material to your decision whether to invest in the notes. There may be risks that you view in a different way than we do, and we may omit a risk that we consider immaterial, but you consider important. If any of the following risks occur, our business, financial condition or results of operations could be materially harmed. In that case, the value or trading price of the notes could decline, and you could lose part or all of your investment.

RISKS RELATED TO OUR BUSINESS AND INDUSTRY

For a discussion of these risks please see the risk factors contained under the caption **Item 1A. Risk Factors** in our Annual Report on Form 10-K for the year ended December 31, 2010, as amended.

RISKS RELATED TO THIS OFFERING

We may be able to issue substantially more debt.

The indenture does not limit the amount of unsecured indebtedness we may issue. The indenture also permits us to incur additional secured debt, subject to certain limitations, as described further under **Description of Notes Limitation on Secured Debt** herein.

In the event of a bankruptcy or insolvency, holders of our secured indebtedness and other secured obligations will have a prior secured claim to any collateral securing such indebtedness or other obligations.

Holders of our secured indebtedness, including our mortgage bonds, will have claims that are prior to your claims as holders of the notes to the extent of the value of the assets securing that other indebtedness. Under our mortgage indenture we have issued secured debt and may issue additional secured debt. Substantially all of our utility plant assets are subject to the lien and security interest created by our mortgage indenture. We have \$578 million aggregate principal amount of mortgage bonds outstanding under our mortgage indenture and may, subject to the conditions of the mortgage indenture and the limitations described under **Description of Notes Limitation on Secured Debt**, issue additional mortgage bonds.

Accordingly, in the event of any distribution or payment of our assets in any foreclosure, dissolution, winding-up, liquidation, reorganization, or other bankruptcy proceeding, holders of secured indebtedness will have a prior claim to those of our assets that constitute their collateral. Holders of the notes will participate ratably with all holders of our unsecured and unsubordinated indebtedness that is deemed to be of the same class as the notes, and potentially with all our other general creditors, based upon the respective amounts owed to each holder or creditor, in our remaining assets. In any of the foregoing events, we cannot assure you that there will be sufficient assets to pay amounts due on the notes.

If an active trading market does not develop for the notes, you may be unable to sell the notes or to sell them at a price you deem sufficient.

The notes will be new securities for which there is no established trading market. We do not intend to apply for listing of the notes on any national securities exchange or to arrange for the notes to be quoted on any automated system. We provide no assurance as to:

the liquidity of any trading market that may develop for the notes;

the ability of holders to sell their notes; or

the price at which holders would be able to sell their notes.

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Even if a trading market develops, the notes may trade at higher or lower prices than their principal amount or purchase price. If a market for the notes does not develop, purchasers may be unable to resell the notes for an extended period of time. Consequently, a holder of notes may not be able to liquidate its investment readily, and the notes may not be readily accepted as collateral for loans. In addition, market-making activities will be subject to restrictions under the Securities Act of 1933, as amended, or the Securities Act, and the Securities Exchange Act of 1934, as amended, or the Exchange Act.

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You should read the information set forth below as to our consolidated capitalization in conjunction with our historical financial statements and the related notes and other financial information contained in the documents incorporated by reference into this prospectus supplement. As discussed in Note 1 to our condensed consolidated financial statements contained in our Quarterly Report on Form 10-Q for the quarter ended September 30, 2011, certain of our historical financial statements have been revised to correct errors deemed to be not material.

	September 30, 2011	
	(Dollars in thousands)	
	(Unaudited)	
Common Stockholder's Equity	\$ 792,451	37%
Capital Lease Obligations	350,912	16%
Long-Term Debt	1,003,615	47%
Total Capitalization	\$ 2,146,978	100%

SELECTED FINANCIAL DATA

You should read our selected financial data set forth below in conjunction with our historical consolidated financial statements and the related notes and other financial information contained in the documents incorporated by reference into this prospectus supplement. As noted above under Capitalization, certain of our historical financial statements have been revised.

	Year Ended December 31,					Nine Months Ended
	2006	2007	2008	2009	2010	September 30, 2011
	(Dollars in thousands)					
Operating Revenues	\$ 988,994	\$ 1,070,789	\$ 1,092,148	\$ 1,099,338	\$ 1,125,267	\$ 904,666
Operating Income	210,757	187,317	107,215	217,333	254,031	201,767
Net Income	67,306	55,591	7,206	90,688	108,260	83,773
Total Assets	2,623,852	2,587,810	2,847,407	2,922,063	3,075,978	3,129,846
Long-Term Debt and Capital Lease Obligations	1,409,594	1,213,585	1,416,985	1,391,926	1,432,689	1,354,527

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USE OF PROCEEDS

We estimate that our net proceeds from the issuance and sale of the notes, after deducting the underwriting discount and estimated expenses, will be approximately \$247.3 million. We intend to use the net proceeds from this offering to (i) purchase or redeem up to \$150 million of our tax-exempt variable rate debt (the "variable rate debt") with maturity dates from 2018 to 2020, (ii) redeem \$22 million of our debt bearing an interest rate of 6.1% and maturing in 2025 and (iii) repay approximately \$75 million on our revolving credit facility (the "revolver"), with any remaining proceeds to be applied to general corporate purposes. During the first nine months of 2011, the average interest rate on the variable rate debt ranged from 0.05% to 0.33% and on the revolver ranged from 2.06% to 2.48%. As of November 1, 2011, the average interest rate on the variable rate debt was 0.13% and on the revolver was 4.125%. The variable rate debt is supported by \$155 million of letters of credit which will be terminated following the purchase or redemption of the debt. During the first nine months of 2011, the average fees on such letters of credit were 2.14% per annum of the amount thereof. Our reimbursement obligations in respect of such letters of credit are secured by \$155 million of mortgage bonds, which will be cancelled upon the termination of the letters of credit.

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DESCRIPTION OF NOTES

The following description is a summary of certain of the terms of the notes and the indenture. The summary does not purport to be complete and is subject in all respects to the provisions of, and is qualified in its entirety by reference to, the indenture and the form of certificates evidencing the notes, which are available upon request from us, and the Trust Indenture Act of 1939, as amended. Capitalized terms that are used in the following summary but not defined have the meanings given to those terms in the indenture. The numerical references appearing in parentheses in the following summary are to sections of the indenture.

In this Description of Notes section, references to we, our and us mean Tucson Electric Power Company excluding, unless otherwise expressly stated, its subsidiaries.

General

We are offering \$250 million aggregate principal amount of our 5.15% notes due November 15, 2021.

We will issue the notes as a series of debt securities under the indenture. The notes and all other debt securities issued under the indenture are collectively referred to herein as Indenture Securities. The specific terms of each series of Indenture Securities, including the notes, will be established by an officer's certificate or a supplemental indenture. For the purposes of this section, any reference to the indenture shall generally mean the indenture as supplemented by the officer's certificate relating to the notes.

The indenture permits us to issue an unlimited amount of Indenture Securities from time to time in one or more series. All Indenture Securities of any one series need not be issued at the same time, and, unless restricted, a series may be reopened for issuances of additional Indenture Securities of such series. This means that we may from time to time, without the consent of the holders of the outstanding notes, create and issue further Indenture Securities having the same terms and conditions as the notes in all respects, except for issue date, price to public and, if applicable, the initial interest payment. These additional Indenture Securities will be consolidated with, and will form a single series with, the previously outstanding notes.

The notes will be issued in fully registered form without coupons in denominations of \$1,000 and integral multiples of \$1,000 in excess thereof. The notes will be denominated and payable in U.S. dollars.

The notes will be issued in book-entry form and will be evidenced by a registered global certificate or certificates without coupons, which we sometimes refer to as the global securities, registered in the name of Cede & Co., as nominee for DTC. Holders of interests in global securities will not be entitled to receive notes in definitive certificated form registered in their names except in the limited circumstances described below. See Book-Entry Only Issuance The Depository Trust Company for a summary of selected provisions applicable to the depository arrangements.

The notes will not be subject to a sinking fund and will not be subject to redemption or purchase by us prior to maturity at the option of holders. The indenture does not contain any provisions that are intended to protect holders of notes in the event of a highly-leveraged or similar transaction involving us, whether or not in connection with a change of control. Except for the limitations on the issuance of secured debt described under Limitation on Secured Debt below, the indenture does not limit the incurrence of debt by us or any of our subsidiaries.

Interest and Interest Payment Dates

Interest on the notes will:

be paid at the rate of 5.15% per annum;

be payable in U.S. dollars;

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be payable semi-annually in arrears on May 15 and November 15 of each year, commencing May 15, 2012, and at maturity;

be computed on the basis of a 360-day year consisting of twelve 30-day months and for any interest period shorter than a full month, on the basis of the actual number of days elapsed in such period;

originally accrue from, and include, the interest accrual date set forth on the cover of this prospectus supplement; and

be paid to the Persons in whose names the notes are registered at the close of business on the Business Day immediately preceding such interest payment date so long as all of the notes of that series remain in book-entry only form, or on the 15th calendar day immediately preceding each interest payment date with respect to any notes that do not remain in book-entry only form.

We have agreed to pay interest on any overdue principal and, if such payment is enforceable under applicable law, on any overdue installment of interest on the notes at the applicable rate then borne by the notes to holders of record at the close of business on the Business Day immediately preceding our payment of such interest.

If an interest payment date, a redemption date or the maturity date falls on a day that is not a Business Day, then the payment of principal, premium, if any, or interest, as the case may be, due on that date need not be made on that date, but may be made on the next succeeding Business Day with the same force and effect as if made on that interest payment date, redemption date or maturity date, as the case may be, and no interest will accrue for the period after that date.

Ranking

The notes will be our direct unsecured and unsubordinated general obligations and will rank equally with all of our other existing and future unsecured and unsubordinated debt, will be senior in right of payment to any subordinated debt that we may issue in the future and will be junior to any of our existing and future secured debt, including our mortgage bonds, to the extent of the value of the collateral securing such secured debt. Substantially all of our utility plant assets are subject to the lien and security interest created by our mortgage indenture. We have \$578 million of mortgage bonds outstanding under the mortgage indenture. The existing and any future mortgage bonds are senior to the notes. The indenture does not limit the amount of debt that may be issued under the indenture or the amount of any other debt that would rank pari passu with the notes. Limitations on the issuance of secured debt are described under **Limitation on Secured Debt** below.

Optional Redemption

At any time prior to August 15, 2021, we may redeem the notes, in whole or in part, on not less than 30 nor more than 60 days' notice, at a redemption price equal to the greater of:

100% of the principal amount of the notes being redeemed, and

as determined by the Independent Investment Banker the sum of the present values of the remaining scheduled payments of principal of and interest on the notes being redeemed (excluding the portion of any such interest accrued to the redemption date), discounted (for purposes of determining such present values) to the redemption date on a semi-annual basis (assuming a 360-day year consisting of twelve 30-day months) at the Adjusted Treasury Rate plus 0.50%,

plus, in each case, accrued and unpaid interest thereon to the redemption date.

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At any time on or after August 15, 2021, we may redeem the notes, in whole or in part, on not less than 30 nor more than 60 days' notice, at a redemption price equal to 100% of the principal amount of the notes to be redeemed, plus accrued and unpaid interest thereon to the redemption date.

If less than all of the notes are to be redeemed at our option, the trustee will select, in a manner it deems fair and appropriate, the notes or portions of the notes to be redeemed. However, if, as indicated in an officer's certificate, we have offered to purchase all or any principal amount of the notes then outstanding, and less than all of the notes as to which such offer was made have been tendered to us for such purchase, the trustee, if so directed by us, will select for redemption all or any principal amount of such notes which have not been so tendered.

Upon payment of the redemption price, on and after the redemption date, interest will cease to accrue on the notes or portions thereof called for redemption.

Certain Definitions

Adjusted Treasury Rate means, with respect to any redemption date:

(1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated H.15(519) or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption Treasury Constant Maturities, for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the remaining term of the notes, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month); or

(2) if such release (or any successor release) is not published during the week preceding the calculation date for the Adjusted Treasury Rate or does not contain such yields, the rate per annum equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date.

The Adjusted Treasury Rate shall be calculated on the third Business Day preceding the redemption date.

Business Day means any day other than a Saturday or a Sunday or a day on which banking institutions in The City of New York are authorized or required by law or executive order to remain closed or a day on which the corporate trust office of the trustee is closed for business.

Comparable Treasury Issue means the United States Treasury security selected by the Independent Investment Banker as having a maturity comparable to the remaining term of the notes that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the notes.

Comparable Treasury Price means, with respect to any redemption date, (1) the average of five Reference Treasury Dealer Quotations for such redemption date after excluding the highest and lowest such Reference Treasury Dealer Quotations or (2) if the Independent Investment Banker obtains fewer than five such Reference Treasury Dealer Quotations, the average of all such Reference Treasury Dealer Quotations.

Independent Investment Banker means one of the Reference Treasury Dealers that we appoint to act as the Independent Investment Banker from time to time or, if any of such firms are unwilling or unable to select the Comparable Treasury Issue, an independent investment banking institution of national standing appointed by us.

Reference Treasury Dealer means a primary U.S. Government securities dealer appointed by us.

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Reference Treasury Dealer Quotations means, with respect to each Reference Treasury Dealer and any redemption date, the average, as determined by the Independent Investment Banker, of the bid and asked prices for the Comparable Treasury Issue (expressed in each case as a percentage of its principal amount) quoted in writing to the Independent Investment Banker at 5:00 p.m., New York City time, on the third Business Day preceding such redemption date.

Conditional Notice of Redemption

If at the time notice of redemption is given, the redemption moneys are not on deposit with the trustee, then the redemption may be made subject to receipt of such monies by the trustee on or before the redemption date, and such notice shall be of no effect unless such moneys are received.

Payment and Paying Agents

Interest on the notes payable on each interest payment date will be paid to the Person in whose name that note is registered as of the close of business on the regular record date for the interest payment date, which will be the close of business on the Business Day immediately preceding such interest payment date so long as all of the notes of the same series as that note remain in book-entry only form, or on the 15th calendar day immediately preceding each interest payment date if any of the notes of that series do not remain in book-entry only form. However, interest payable at maturity will be paid to the Person to whom the principal is paid. If there has been a default in the payment of interest on any note, other than at maturity, the defaulted interest may be paid to the holder of such note as of the close of business on a date between 10 and 15 days before the date proposed by us for payment of such defaulted interest and not less than 10 days after receipt by the trustee of the notice of the proposed payment. (Indenture, Section 307.)

Principal, premium, if any, and interest on the notes at maturity will be payable upon presentation of the notes at the corporate trust office of U.S. Bank National Association, in The City of New York, as our paying agent. We may change the place of payment on the notes, and may appoint one or more additional paying agents (including ourselves) and may remove any paying agent, all at our discretion after giving prompt written notice to the trustee and prompt notice to the holders. (Indenture, Section 602.)

We will pay principal, premium, if any, and interest due on the notes in the form of global securities to DTC or its nominee in immediately available funds. DTC will then make payment to its participants for disbursement to the beneficial owners of the notes as described under Book-Entry Only Issuance The Depository Trust Company.

Registration and Transfer

The transfer of notes may be registered, and notes may be exchanged for other notes of the same series, of authorized denominations and with the same terms and principal amount, at the offices of the trustee in The City of New York. We may change the place for registration of transfer and exchange of the notes and may designate additional places for registration and exchange after giving prompt written notice to the trustee and prompt notice to the holders. (Indenture, Section 602.) No service charge will be made for any transfer or exchange of the notes. However, we may require payment to cover any tax or other governmental charge that may be imposed. We will not be required to execute or to provide for the registration of transfer of, or the exchange of, (a) any notes during the 15 days before giving any notice of redemption, (b) any note during the 15 days before an interest payment date or (c) any note selected for redemption except the unredeemed portion of any note being redeemed in part. (Indenture, Section 305.)

Limitation on Secured Debt

So long as any Indenture Securities of any series remain outstanding with respect to which this covenant is specified as benefitting, we will not create, issue, incur or assume any Secured Debt other than Permitted Secured Debt (in each case as defined below); provided, that this covenant will not prohibit the creation, issuance, incurrence or assumption of any Secured Debt if either:

(a) we make effective provision whereby all Indenture Securities then outstanding shall be secured equally and ratably with such Secured Debt through the Release Date (as defined below); or

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(b) we deliver to the trustee to hold through the Release Date bonds, notes or other evidences of indebtedness secured by the Lien (as defined below) which secures such Secured Debt in an aggregate principal amount equal to the aggregate principal amount of the Indenture Securities then outstanding and meeting certain other requirements set forth in the indenture.

This covenant is included in the indenture solely for the benefit of series of Indenture Securities which are designated as *Benefitted Securities* as contemplated by the indenture. The notes being offered hereby will be designated as *Benefitted Securities*.

Certain Definitions

Capital Lease Obligations means obligations under any of our lease agreements (including any lease intended as security) which, under generally accepted accounting principles as in effect at the time such lease is entered, are required to be capitalized on our balance sheet and which shall include the Existing Capital Lease Obligations.

Debt means:

(i) our indebtedness for borrowed money evidenced by a bond, debenture, note or other written instrument or agreement by which we are obligated to repay such borrowed money;

(ii) any guaranty by us of any such indebtedness of another Person; and

(iii) Capital Lease Obligations.

Debt does not include, among other things, (x) our indebtedness under any installment sale or conditional sale agreement or any other agreement relating to indebtedness for the deferred purchase price of property or services, (y) our obligations under any lease agreement which are not Capital Lease Obligations, or (z) liabilities secured by any Lien on any property owned by us if and to the extent that we have not assumed or otherwise become liable for the payment thereof.

Excepted Property includes, among other things, cash, deposit accounts, securities accounts, securities entitlements, commodity accounts, securities; contracts, leases and other agreements of all kinds; contract rights, bills, notes and other instruments; revenues, accounts and accounts receivable and unbilled revenues, claims, demands and judgments; governmental and other licenses, permits, franchises, consents and allowances; certain intellectual property rights and other general intangibles; vehicles, movable equipment and aircraft; all goods, stock in trade, wares, merchandise and inventory held for sale or lease in the ordinary course of business; materials, supplies, inventory and other personal property consumable in the operation of any of our property; fuel; portable tools and equipment; furniture and furnishings; computers and data processing, telecommunications and other facilities used primarily for administrative or clerical purposes or are otherwise not necessary for the operation or maintenance of electric, gas or water utility facilities; coal, ore, gas, oil and other minerals and timber; electric energy, gas (natural or artificial), steam, water and other products generated, produced, manufactured, purchased or otherwise acquired by us; real property, gas wells, pipe lines, and other facilities used primarily for the production or gathering of natural gas; all property which is the subject of a lease agreement designating us as lessee and the our interest in such property and such lease agreement, except for the property which is subject to a lease agreement for which our obligations under such lease are Capital Lease Obligations; and all property that is not located in the State of Arizona or the State of New Mexico and is not used by us in the business of the generation, transmission and/or distribution of electric energy.

Existing Capital Lease Obligations means our obligations under the lease agreements which were capitalized on our consolidated balance sheet as of September 30, 2011.

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Lien means any mortgage, deed of trust, pledge, security interest, conditional sale or other title retention agreement or any lease in the nature thereof.

Mortgage Bonds means bonds, notes or other obligations issued under a Mortgage Indenture.

Mortgage Indenture means (i) our mortgage indenture, as such indenture has been heretofore and is hereafter amended and supplemented and (ii) any other indenture, mortgage and/or deed of trust (a) executed and delivered by us subsequent to the date of the indenture in which we grant a lien on our properties used in the generation, transmission and/or distribution of electric energy, whether such indenture, mortgage or deed of trust is in addition to, or in replacement of, our mortgage indenture and (b) which has been designated by us in a written notice to the trustee as a Mortgage Indenture .

Permitted Secured Debt means, as of any particular time, any of the following:

(i) Secured Debt which matures less than one year from the date of the issuance or incurrence thereof and is not extendible at the option of the issuer; and any refundings, refinancings and/or replacements of any such Secured Debt by or with similar Secured Debt;

(ii) Secured Debt secured by Purchase Money Liens or any other Liens existing or placed upon property at the time of, or within one hundred eighty (180) days after, the acquisition thereof by us, and any refundings, refinancings and/or replacements of any such Secured Debt; provided, however, that no such Purchase Money Lien or other Lien shall extend to or cover any of our property other than (A) the property so acquired and improvements, extensions and additions to such property and renewals, replacements and substitutions of or for such property or any part or parts thereof and (B) with respect to Purchase Money Liens, other property subsequently acquired by us;

(iii) Secured Debt originally issued by an entity with or into which we merge or consolidate which is secured by a Lien existing at the time of such merger or consolidation, and any refundings, refinancings and/or replacements of any such Secured Debt; provided, however, that no such Lien shall extend to or cover any of our property (as constituted immediately prior to such merger or consolidation) other than the property subject to such Liens immediately prior to such merger or consolidation and improvements, extensions and additions to such property and renewals, replacements and substitutions of or for such property or any part or parts thereof;

(iv) the Mortgage Bonds issued and outstanding as of the date of the initial issuance of the first series of Benefitted Securities issued under the indenture and any refundings, refinancings and/or replacements of any such Mortgage Bonds within forty-five (45) days of the retirement of such Mortgage Bonds by or with other Mortgage Bonds (which Mortgage Bonds may evidence or secure our other Debt);

(v) the Existing Capital Lease Obligations;

(vi) Secured Debt relating to governmental obligations the interest on which is not included in gross income for purposes of federal income taxation, issued for the purpose of financing or refinancing, in whole or in part, costs of acquisition or construction of property to be used by us, to the extent that the Lien which secures such Secured Debt is required either by applicable law or by the issuer of such governmental obligations or is otherwise necessary in order to establish or maintain such exclusion from gross income; and any refundings, refinancings and/or replacements of any such Secured Debt by or with similar Secured Debt;

(vii) Secured Debt (A) which is related to the construction or acquisition of property not previously owned by us or (B) which is related to the financing of a project involving the development or expansion of our property and (C) in either case, the obligee in respect of which has no recourse to us or any of our property other than the property constructed or acquired with the proceeds of such transaction or the project financed with the proceeds of such transaction (or the proceeds of such property or such project); and any refundings, refinancings and/or replacements of any such Secured Debt by or with Secured Debt described in clause (C) above;

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(viii) Secured Debt permitted under clause (b) of the first paragraph under this heading **Limitation on Secured Debt** ; and

(ix) in addition to the Permitted Secured Debt described in clauses (i) through (viii) above, Secured Debt not otherwise permitted constituting **Permitted Secured Debt** in an aggregate principal amount not exceeding the greater of (a) 10% of our Tangible Assets and (b) 10% of Total Capitalization, each as shown on our consolidated balance sheet dated as of the end of our latest fiscal quarter prior to the date of the creation, issuance, incurrence or assumption of such Secured Debt. Based upon our consolidated balance sheet as of September 30, 2011, approximately \$312 million aggregate principal amount of Secured Debt would be permitted by the provisions described in this clause.

Person means any individual, corporation (as defined in the indenture), partnership, limited liability partnership, joint venture, trust or unincorporated organization or any governmental authority.

Purchase Money Lien means, with respect to any property being acquired by us, a Lien on such property which

(i) is taken or retained by the transferor of such property to secure all or part of the purchase price thereof;

(ii) is granted to one or more Persons other than the transferor which, by making advances or incurring an obligation, give value to enable the grantor of such Lien to acquire rights in or the use of such property;

(iii) is held by a trustee or agent for the benefit of one or more Persons described in clause (i) or (ii) above, provided that such Lien may be held, in addition, for the benefit of one or more other Persons which shall have theretofore given, or may thereafter give, value to or for the benefit or account of the grantor of such Lien for one or more other purposes; or

(iv) otherwise constitutes a purchase money mortgage or a purchase money security interest under applicable law;

and, without limiting the generality of the foregoing, for purposes of the indenture, the term **Purchase Money Lien** will be deemed to include any Lien described above whether or not such Lien (A) shall permit the issuance or other incurrence of additional indebtedness secured by such Lien on such property, (B) shall permit the subjection to such Lien of additional property and the issuance or other incurrence of additional indebtedness on the basis thereof and/or (C) shall have been granted prior to the acquisition of such property, shall attach to or otherwise cover property other than the property being acquired and/or shall secure obligations issued prior and/or subsequent to the issuance of the obligations delivered in connection with such acquisition.

Release Date means the date, if any, following the election by us of either of the alternatives described in clause (a) or (b) of the first paragraph under this heading **Limitation on Secured Debt** on which either no Benefitted Securities shall remain outstanding or no Secured Debt is then outstanding (other than the Indenture Securities) that, following the Release Date, will benefit from the Lien then securing the Indenture Securities or bonds, notes or other evidences of indebtedness described in such clause (b) held by the trustee.

San Carlos means San Carlos Resources Inc. At the date of this prospectus supplement, San Carlos is our direct, wholly-owned subsidiary which holds title to Un