

UNISOURCE ENERGY CORP

Form 11-K

July 13, 2009

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 11-K**

(Mark One)

- ANNUAL REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For The Fiscal Year Ended December 31, 2008
OR
- TRANSITION REPORT PURSUANT TO SECTION 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____.
Commission File No: 001-13739

A. Full title of the plan and the address of the plan, if different from that of the issuer named below:

Tucson Electric Power Company 401(k) Plan

B. Name of issuer of the securities held pursuant to the plan and the address of its principal executive office:

UniSource Energy Corporation
One South Church Avenue, Suite 100
Tucson, AZ 85701

Tucson Electric Power Company
401(k) Plan
Index
December 31, 2008 and 2007

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Exhibit

Exhibit 23 - Consent of Independent Registered Public Accounting Firm

Note: Other schedules required by Section 2520.103-10 of the Department of Labor's Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974 have been omitted because they are not applicable.

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REQUIRED INFORMATION

The Tucson Electric Power Company 401(k) Plan (the Plan) is subject to the Employee Retirement Income Security Act of 1974 (ERISA). Therefore, in lieu of the requirements of Items 1 – 3 of Form 11-K, the financial statements and schedule of the Plan for the fiscal year ended December 31, 2008, which have been prepared in accordance with the financial reporting requirements of ERISA, are filed herewith and incorporated herein by this reference.

The written consent of PricewaterhouseCoopers LLP with respect to the financial statements of the Plan is filed as Exhibit 23 to this Annual Report.

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Report of Independent Registered Public Accounting Firm

To the Participants and Administrator of
the Tucson Electric Power Company 401(k) Plan:

In our opinion, the accompanying statements of net assets available for benefits and the related statements of changes in net assets available for benefits present fairly, in all material respects, the net assets available for benefits of the Tucson Electric Power Company 401(k) Plan (the Plan) at December 31, 2008 and December 31, 2007, and the changes in net assets available for benefits for the years then ended in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Plan s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental Schedule of Assets (Held at End of Year) at December 31, 2008 is presented for the purpose of additional analysis and is not a required part of the basic financial statements but is supplementary information required by the Department of Labor s Rules and Regulations for Reporting and Disclosure under the Employee Retirement Income Security Act of 1974. The supplemental schedule is the responsibility of the Plan s management. The supplemental schedule has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

/s/ PricewaterhouseCoopers LLP

Phoenix, AZ

July 2, 2009

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**Tucson Electric Power Company
401(k) Plan
Statements of Net Assets Available for Benefits
December 31, 2008 and 2007**

| | 2008 | 2007 |
|--|----------------|-------------|
| | -in thousands- | |
| Assets | | |
| Investments at fair value (note 3) | \$ 126,988 | \$ 175,614 |
| Receivables: | | |
| Employer contributions | 217 | 181 |
| Participant contributions | 490 | 425 |
| Other receivables | 91 | 1 |
| Total receivables | 798 | 607 |
| Net assets available for benefits, at fair value | 127,786 | 176,221 |
| Adjustment from fair value to contract value for fully benefit-responsive investment contracts | 380 | 57 |
| Net assets available for benefits | \$ 128,166 | \$ 176,278 |

The accompanying notes are an integral part of these financial statements.

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**Tucson Electric Power Company
401(k) Plan
Statements of Changes in Net Assets Available for Benefits
Years Ended December 31, 2008 and 2007**

| | 2008 | 2007 |
|--|----------------|-------------|
| | -in thousands- | |
| Additions (Reductions) to net assets attributed to: | | |
| Investment income (loss): | | |
| Interest and dividend income | \$ 1,110 | \$ 1,238 |
| Net appreciation (depreciation) in fair value of investments | (54,119) | 14,528 |
| | | |
| Total investment income (loss) | (53,009) | 15,766 |
| | | |
| Contributions: | | |
| Employer contributions | 4,498 | 4,241 |
| Participant contributions | 10,247 | 10,018 |
| Participant rollovers | 531 | 229 |
| | | |
| Total contributions | 15,276 | 14,488 |
| | | |
| Total additions (reductions) | (37,733) | 30,254 |
| | | |
| Deductions from net assets attributed to: | | |
| Benefits paid to participants | 10,368 | 18,622 |
| Administrative expenses | 11 | 7 |
| | | |
| Total deductions | 10,379 | 18,629 |
| | | |
| Net increase (decrease) | (48,112) | 11,625 |
| | | |
| Net assets available for benefits: | | |
| Beginning of year | 176,278 | 164,653 |
| | | |
| End of year | \$ 128,166 | \$ 176,278 |

The accompanying notes are an integral part of these financial statements.

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Tucson Electric Power Company

401(k) Plan

Notes to Financial Statements

December 31, 2008 and 2007

1. Description of Plan

The following description of the Tucson Electric Power Company 401(k) Plan (the Plan) provides only general information. Participants should refer to the Plan agreement for a more complete description of the Plan s provisions.

General

All regular employees of Tucson Electric Power Company and participating subsidiaries of UniSource Energy Corporation (UniSource Energy), the parent company of the Plan sponsor, (collectively, the Company), who are employed by the Company on or after January 1, 1985 are eligible to participate. The Plan is subject to the provisions of the Employee Retirement Income Security Act of 1974 (ERISA).

Administration

The Company s Pension Committee (the Plan Administrator), comprised of three or more employees, administers the Plan. Fidelity Pricing and Cash Management Services (the Trustee) serves as trustee of all Plan investments. Fidelity Investments Institutional Operations Company, Inc. serves as recordkeeper for the Plan. The Company funds the Plan s administrative costs, except for loan administrative fees and brokerage account fees, which are paid directly by the participants out of their accounts.

Contributions

Upon admission to the Plan, participants may contribute, by way of payroll deductions, a percentage of their pre-tax compensation, up to but not in excess of the lesser of Plan limits or Internal Revenue Code (IRC) limits (\$15,500 in 2008). Additional catch-up contributions by participants age 50 and above may not exceed IRC limits (\$5,000 in 2008). Participants may direct their contributions to be invested entirely into any one of the individual investment funds or, in multiples of 1%, into any combination of these funds. Contributions are subject to certain limitations.

The Plan also allows for rollovers from participants other external qualified plans described in Sections 401(a) and 403(a) of the IRC and certain types of Individual Retirement Accounts (Qualified Rollovers) into the Plan. Qualified Rollovers are accounted for as participant contributions in a separate account of the participant, and are directed in the same manner as discussed above for participant contributions.

For each payroll period during the two years ended December 31, 2008, the Company made matching contributions to each participant s account in an amount equal to a percentage of the participant s compensation as defined by the Plan for that payroll period subject to certain limitations. Participants direct the investment of such Company contributions in the same manner as discussed above for participant contributions. The Board of Directors of Tucson Electric Power Company has the discretion each year to establish the formula for Company matching contributions subject to the provisions of the Plan.

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Tucson Electric Power Company

401(k) Plan

Notes to Financial Statements

December 31, 2008 and 2007

Loans to Participants

Loan amounts shall not exceed the lesser of \$50,000 or 50% of the vested balance of the participant's accounts at the date of the loan. Loan terms may not exceed five years, except that loans used to purchase a principal residence may have a term up to 15 years. Loan repayments are made every two weeks through payroll deductions and are considered to be in default if all payments are not made for any three-month period. If a participant fails to repay a loan in full, the Plan Administrator may immediately reduce the value of the participant's account by the amount of unpaid principal and interest and/or reduce any distribution by the amount of the remaining unpaid principal and interest. Each loan is secured by the balance of the participant's account and bears a fixed rate of interest of the prime rate at loan origination plus 2.00%. Interest rates for the years ended December 31, 2008 and 2007 ranged from 4.25% to 11.50% and 4.00% to 11.50%, respectively. Loan transactions are treated as a transfer to (from) the investment fund from (to) the participant loans fund.

Distributions

A participant's account becomes distributable upon termination of employment, total disability, death or retirement. The amount distributable to a participant or beneficiary is equal to the balance in the account valued as of the most recent date preceding such distribution as the Trustee can determine. Benefits payable to a participant or the beneficiary are generally paid in a cash lump sum, although distributions of investments in UniSource Energy Stock Fund may be taken in the form of UniSource Energy common stock.

Under certain conditions, a participant may withdraw all or a portion of his or her account while still employed by the Company. Withdrawals from a participant's account are only permitted (i) once per plan year for participants who have attained age 59-1/2 or (ii) in the event of a participant's financial hardship as defined in the Plan. The amount which may be withdrawn in the case of a participant's financial hardship may not exceed the amount needed and is subject to the approval of the Plan Administrator.

Investments

Participants may direct the investment of their compensation deferral contributions, Company matching contributions, and rollover contributions in a variety of investment vehicles comprised of common stocks, mutual funds, money market funds and common/collective funds. The Plan is intended to comply with Section 404(c) of ERISA.

Vesting

A participant's interest in each of his or her accounts is 100% vested at all times.

Plan Termination

Although it has not expressed any intent to do so, the Company has the right under the Plan to terminate the Plan. Upon termination of the Plan, the accounts under the Plan will be valued and distributed to participants at the time of such termination, subject to the provisions of ERISA.

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Tucson Electric Power Company

401(k) Plan

Notes to Financial Statements

December 31, 2008 and 2007

2. Summary of Accounting Policies

Basis of Accounting

The financial statements of the Plan are prepared using the accrual basis of accounting and in accordance with accounting principles generally accepted in the United States of America.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates.

Investment Valuation and Income Recognition

Investments are reported at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. See Note 3 for discussion of fair value measurements.

Investment contracts held by a defined-contribution plan are required to be reported at fair value. However, contract value is the relevant measurement attribute for that portion of the net assets available for benefits of a defined-contribution plan attributable to fully benefit-responsive investment contracts because contract value is the amount participants would receive if they were to initiate permitted transactions under the terms of the plan. The Statement of Net Assets Available for Benefits presents the fair value of the investment contracts as well as the adjustment of the fully benefit-responsive investment contracts from fair value to contract value. The Statement of Changes in Net Assets Available for Benefits is prepared on a contract value basis.

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date. Net appreciation (depreciation) includes the Plan's gains and losses on investments bought and sold as well as held during the year. Employer and participant contributions are recognized on an accrual basis.

Payment of Benefits

Benefits are recorded when paid.

Table of Contents**Tucson Electric Power Company****401(k) Plan****Notes to Financial Statements****December 31, 2008 and 2007****3. Fair Value Measurements**

Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standard (SFAS) No. 157, *Fair Value Measurements*, establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under SFAS 157 are summarized as follows:

Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the plan has the ability to access.

Level 2 Inputs to the valuation methodology include

- quoted market prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The following valuation methodologies are used for the Plan's assets measured at fair value. Common stocks and corporate bonds are valued at the closing market price on which the individual securities are traded. Mutual funds and unit investment trusts are valued at the net asset value of the shares held by the Plan at year-end. Certificates of deposit are short term in nature and are valued based on replacement cost that approximates fair value. Participant loans are valued at their amortized cost, which approximates fair value.

Common/collective trust funds (CCTs) are composed of a non-benefit-responsive investment fund and fully benefit-responsive investment contracts. Investment in the non-benefit-responsive investment fund is valued based upon the quoted redemption value of units owned by the Plan at year end. The fair value of fully benefit-responsive investment contracts is calculated using a discounted cash flow model. CCTs are not available in an exchange and active market, however, the fair value is determined based on the underlying investments as traded in an exchange and active market.

The following summarizes the Plan's December 31, 2008 investments by classification and method of valuation in accordance with the requirements of SFAS 157:

| | Level 1 | Level 2 | Level 3 | Total |
|-------------------------|------------|----------------|---------|------------|
| | | -in thousands- | | |
| Mutual funds | \$ 106,416 | \$ | \$ | \$ 106,416 |
| Common stock | 6,997 | | | 6,997 |
| Cash | 1,390 | | | 1,390 |
| Certificates of deposit | | 457 | | 457 |
| Corporate bonds | | 4 | | 4 |
| Common collective trust | | 7,039 | | 7,039 |
| Unit investment trusts | | 98 | | 98 |
| Participant loans | | | 4,587 | 4,587 |

| | | | | |
|----------------------------|------------|----------|----------|------------|
| Total Assets at Fair Value | \$ 114,803 | \$ 7,598 | \$ 4,587 | \$ 126,988 |
|----------------------------|------------|----------|----------|------------|

Table of Contents**Tucson Electric Power Company****401(k) Plan****Notes to Financial Statements****December 31, 2008 and 2007**

The table below sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the year ended December 31, 2008:

| | Level 3 Assets |
|--|-----------------------|
| | -in thousands- |
| Participant Loans as of January 1, 2008 | \$ 4,372 |
| Issuances, repayments and settlements, net | 215 |
| Participant Loans as of December 31, 2008 | \$ 4,587 |

4. Investments

The following investments represent 5% or more of the Plan's net assets as of December 31:

| | 2008 | 2007 |
|---|----------------|-------------|
| | -in thousands- | |
| Fidelity Growth Company Fund 394,581 and 429,657 units, respectively | \$ 19,319 | \$ 35,653 |
| Fidelity Retirement Money Market Portfolio 18,553,807 and 14,735,204 units, respectively | 18,554 | 14,735 |
| Fidelity Magellan Fund 273,277 and 278,173 units, respectively | 12,532 | 26,112 |
| Fidelity Equity Income Fund 344,792 and 368,383 units, respectively | 10,644 | 20,320 |
| Fidelity Managed Income Portfolio 7,418,402 and 5,353,285 units, respectively | 7,418 | ** |
| Fidelity Diversified International Fund 238,554 and 276,866 units, respectively | * | 11,047 |
| Fidelity Low-Price Stock Fund 227,540 and 226,473 units, respectively | * | 9,315 |

* Fair value was below 5% of Plan net assets as of 12/31/2008.

** Fair value was below 5% of Plan net assets as of 12/31/2007.

During 2008 and 2007, the Plan's investments appreciated (depreciated) (including realized and unrealized gains (losses) on investments purchased and sold, as well as held during the year) in value as follows:

| | 2008 | 2007 |
|--|----------------|-------------|
| | -in thousands- | |
| Mutual funds | \$ (54,027) | \$ 15,032 |
| Common stock | (92) | (504) |
| Net appreciation (depreciation) in fair value of investments | \$ (54,119) | \$ 14,528 |

Table of Contents**Tucson Electric Power Company****401(k) Plan****Notes to Financial Statements****December 31, 2008 and 2007****5. Investment Risk**

At December 31, 2008 and 2007, the Plan's assets consist primarily of investments in financial instruments, money market funds, investment contracts, mutual funds, UniSource Energy common stock and participant loans. Investment securities are exposed to various risks such as interest rate, market, credit risks, and increases in defaults. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect participants' account balances and the amounts reported in the statement of net assets available for benefits.

6. Tax Status

The Plan is qualified under Section 401 of the IRC and is, therefore, considered to be exempt from federal income taxes under the provisions of Section 501(a). A tax qualification letter, dated December 3, 2003, has been received from the Internal Revenue Service. The Plan has since been amended. The Plan Administrator believes that the Plan, as amended, is designed and being operated in compliance with the applicable requirements of the IRC. Therefore, no provision for income taxes has been included in the Plan's financial statements.

7. Related Party Transactions

In 2008 and 2007, the Plan's investments in shares of mutual funds managed by the Trustee of \$105,825,506 and \$157,262,973, respectively, as well as in common stock of UniSource Energy in the amounts of \$5,582,369 and \$3,319,804, respectively, qualify as party-in-interest transactions for which a statutory exemption exists.

The Trustee invests in UniSource Energy common stock in accordance with the provisions of the Plan. The following is a summary of transactions in UniSource Energy common stock:

| | 2008 | 2007 |
|---------------------------|----------------|-------------|
| | -in thousands- | |
| Cost of shares purchased | \$ 3,086 | \$ 1,030 |
| Shares purchased | 110 | 31 |
| Proceeds from shares sold | \$ 733 | \$ 918 |
| Shares sold | 25 | 28 |

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Tucson Electric Power Company
401(k) Plan
Notes to Financial Statements
December 31, 2008 and 2007

8. Reconciliation of Financial Statements to Form 5500

The following reconciles investment income (loss) per the financial statements to the Form 5500:

| | 2008 | 2007 |
|--|----------------|-------------|
| | -in thousands- | |
| Investment income (loss) per financial statements | \$ (53,009) | \$ 15,766 |
| Add: Prior year adjustment from fair value to contract value for fully benefit-responsive investment contracts | 57 | 59 |
| Less: Adjustment from fair value to contract value for fully benefit-responsive investment contracts | (380) | (57) |
| Total investment income (loss) per Form 5500 | \$ (53,332) | \$ 15,768 |

The following reconciles net assets available for benefits per the financial statements to the Form 5500:

| | 2008 | 2007 |
|--|----------------|-------------|
| | -in thousands- | |
| Net assets available for benefits per financial statements | \$ 128,166 | \$ 176,278 |
| Less: Adjustment from contract value to fair value for fully benefit-responsive investment contracts | (380) | (57) |
| Net assets per Form 5500 | \$ 127,786 | \$ 176,221 |

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Supplemental Schedule

Table of Contents**Tucson Electric Power Company****401(k) Plan****Schedule H, Line 4(i) Schedule of Assets (Held at End of Year)****December 31, 2008**

(in thousands)

| (a) | Identity of Issue, Borrower, (b) Lessor or Similar Party | Description of Investment Including Maturity Date, Rate of Interest, (c) Collateral, Par or Maturity Value | (d) Cost ** | (e) Current Value |
|-----|---|--|-------------|----------------------|
| * | Fidelity Growth Company Fund | 394,581 units of a mutual fund | | \$ 19,319 |
| * | Fidelity Magellan Fund | 273,277 units of a mutual fund | | 12,532 |
| * | Fidelity Equity Income Fund | 344,792 units of a mutual fund | | 10,644 |
| * | Fidelity Low-Price Stock Fund | 227,540 units of a mutual fund | | 5,261 |
| * | Fidelity Retirement Money Market Portfolio | 18,553,807 units of a mutual fund | | 18,554 |
| * | Fidelity Managed Income Portfolio | 7,418,402 units of an open ended commingled pool | | 7,039 |
| * | Fidelity Intermediate Bond Fund | 657,121 units of a mutual fund | | 5,973 |
| * | Fidelity Spartan U.S. Equity Index Fund | 105,197 units of a mutual fund | | 3,356 |
| | BrokerageLink Account | a self-directed investment fund | | 4,452 |
| * | UniSource Energy Common Stock | 190,051 shares of common stock | | 5,582 |
| * | Fidelity Diversified International Fund | 238,554 units of a mutual fund | | 5,131 |
| | Janus Flexible Bond Fund | 453,418 units of a mutual fund | | 4,398 |
| * | Fidelity Freedom 2010 | 258,908 units of a mutual fund | | 2,682 |
| | Franklin Utilities A | 141,180 units of a mutual fund | | 1,485 |
| | American Beacon Small Cap Value Fund | 83,942 units of a mutual fund | | 988 |
| * | Fidelity Small Cap Stock | 71,430 units of a mutual fund | | 700 |

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| | | |
|-------------------------|--------------------------------|-------|
| * Fidelity Freedom 2020 | 320,479 units of a mutual fund | 3,221 |
| * Fidelity Freedom 2015 | 455,226 units of a mutual fund | 3,897 |

Table of Contents**Tucson Electric Power Company****401(k) Plan****Schedule H, Line 4(i) Schedule of Assets (Held at End of Year)****December 31, 2008**

| Identity of Issue, Borrower, | | Description of Investment Including | | (e) Current |
|-------------------------------------|------------------------------------|--|--------------------|--------------------|
| | | Maturity Date, Rate of Interest, | | |
| (a) | (b) Lessor or Similar Party | (c) Collateral, Par or Maturity Value | (d) Cost ** | Value |
| * | Fidelity Freedom 2040 | 206,830 units of a mutual fund | | 1,156 |
| * | Fidelity Freedom 2025 | 309,302 units of a mutual fund | | 2,545 |
| * | Fidelity Freedom 2030 | 135,546 units of a mutual fund | | 1,323 |
| * | Fidelity Freedom 2035 | 119,998 units of a mutual fund | | 964 |
| * | Fidelity Freedom 2005 | 43,192 units of a mutual fund | | 362 |
| * | Fidelity Freedom Income | 22,726 units of a mutual fund | | 217 |
| * | Fidelity Freedom 2050 | 44,770 units of a mutual fund | | 289 |
| * | Fidelity Freedom 2045 | 34,288 units of a mutual fund | | 226 |
| | RS Investments Value Fund | 3,375 units of a mutual fund | | 50 |
| * | Fidelity Freedom 2000 | 5,460 units of a mutual fund | | 55 |
| * | Loans to participants | Loans with maturities ranging from 6 months to | | |
| | | 180 months and interest rates from 4.25% to 11.50% | | 4,587 |
| | | | | \$ 126,988 |

* Denotes party-in-interest

** Historical cost information is not

required for
participant-directed
investments.

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SIGNATURES

The Plan. Pursuant to the requirements of the Securities Exchange Act of 1934, the trustees (or other persons who administer the employee benefit plan) have duly caused this annual report to be signed on its behalf by the undersigned hereunto duly authorized.

TUCSON ELECTRIC POWER COMPANY 401(k) PLAN

By: Tucson Electric Power Company 401(k) Plan Administrative Committee

By: /s/ Kevin P. Larson

Date: July 2, 2009

Kevin P. Larson
Member of Plan Administrative Committee

By: /s/ Raymond S. Heyman

Date: July 2, 2009

Raymond S. Heyman
Member of Plan Administrative Committee

By: /s/ Michael J. DeConcini

Date: July 2, 2009

Michael J. DeConcini
Member of Plan Administrative Committee

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EXHIBIT INDEX

| Exhibit No. | Description |
|----------------|--|
| Exhibit 23 | Consent of Independent Registered Public Accounting Firm |