

SECURITIES AND EXCHANGE COMMISSION

FORM 8-K

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UNISOURCE ENERGY CORP

CIK: 941138 | IRS No.: 860786732 | State of Incorporation: AZ | Fiscal Year End: 1231
Type: 8-K | Act: 34 | File No.: 001-13739 | Film No.: 98669628
SIC: 4911 Electric services

Mailing Address
220 WEST SIXTH STREET
P O BOX 711
TUCSON AZ 85702

Business Address
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TUCSON ELECTRIC POWER CO

CIK: 100122 | IRS No.: 860062700 | State of Incorporation: AZ | Fiscal Year End: 1231
Type: 8-K | Act: 34 | File No.: 001-05924 | Film No.: 98669629
SIC: 4911 Electric services

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220 W 6TH ST
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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): July 21, 1998

Commission File Number -----	Registrant; State of Incorporation; Address; and Telephone Number -----	IRS Employer Identification Number -----
1-13739	UNISOURCE ENERGY CORPORATION (An Arizona Corporation) 220 West Sixth Street Tucson, AZ 85701 (520) 571-4000	86-0786732
1-5924	TUCSON ELECTRIC POWER COMPANY (An Arizona Corporation) 220 West Sixth Street Tucson, AZ 85701 (520) 571-4000	86-0062700

Item 5. Other Events

On July 21, 1998, UniSource Energy Corporation (NYSE: UNS) reported second quarter earnings of \$1.1 million, or \$0.03 per share of common stock, for the quarter ended June 30, 1998. This result compares to net income of \$29.9 million, or \$0.93 per share for the same period in 1997. The second quarter earnings decrease was primarily attributable to lower tax benefit recognition,

nonrecurring items, and lower retail sales due to mild weather conditions at its principal subsidiary, Tucson Electric Power Company (TEP), as well as startup costs of new unregulated energy affiliates.

Second quarter 1997 results benefited from (i) a \$15 million net income tax benefit related to prior period net operating loss (NOL) carryforwards which were recognized by the Company, and (ii) a \$10.2 million pretax reversal of loss provision resulting from the dissolution of former investment subsidiaries. The Company did not realize similar benefits in the 1998 second quarter.

Despite steady retail customer growth of 1.8%, moderate weather conditions contributed to TEP's retail sales being 3.6% lower than in the prior year's quarter. As a result, TEP's retail revenues decreased by \$8.6 million, or 5.4%. Wholesale revenues, however, helped offset the decline in retail revenues, growing by \$8.3 million, or 40.3%, in the second quarter. The stepped-up activity in competitive bulk power markets resulted in a 38.4% boost in total kilowatt-hour (KWH) sales to other utilities and wholesale customers, and a related 10.1% increase in fuel and purchased power expenses.

Retail electricity sales, however, have rebounded notably over the past month. Beginning in late-June 1998 and continuing into July, rising summer temperatures and increased humidity returned to TEP's service territory. On July 14, TEP set an all-time record for retail electricity sold in a 24-hour period, distributing 32,960 megawatt-hours to its retail customers, a 3.9 percent increase over the previous record set in 1997. In addition, on July 16, 1998, TEP experienced a new record peak demand of 1,786 megawatts (MW), an increase of 7.7 percent over the previous record of 1,659 MW set on August 10, 1997.

For the six-month period year-to-date, UniSource Energy's total operating revenues improved slightly (1.0%) over the comparable six-month period in 1997 due to an \$11.8 million, or 29.6%, increase in wholesale revenues. Total kilowatt-hour sales also increased 10.5% during this period, including a 2.9% increase in retail KWH sales. Revenues from sales were offset partially by a non-cash decrease in regulatory revenues of \$8.1 million from the completion of the amortization of the MSR Option Gain Regulatory Liability in May 1997.

For the 12 months ended June 30, 1998, the Company earned \$36.2 million, or \$1.13 per average share of common stock. The results compare to net income of \$151.5 million or \$4.72 per average share of common stock for the same period in 1997. Again, lower recognition of non-cash NOL tax benefits by \$92.8 million, or \$2.89 per share, was the primary factor affecting the decline

in earnings.

TEP has refinanced \$476 million of variable rate tax-exempt debt with fixed rate debt and obtained a new bank facility over the past 15 months. Consequently, total interest expense over the 12-month period ended June 30, 1998, increased \$9.2 million (or 8.8%). The refinancings, however, have reduced TEP's exposure to variable interest rates while assuring future interest payment stability. In addition, the maturities of the debt were extended, thus reducing refinancing risk and further improving liquidity.

UniSource Energy's unregulated affiliates reported 1998 second quarter losses totaling \$5.7 million, or \$0.18 per share, compared to \$0.5 million of net income, or \$0.02 per share, for the second quarter of 1997. Start-up costs associated with the Company's expansion into additional regions of the country, and other subsidiary development activities were the principal factors affecting this year's results for the Company's unregulated businesses.

In addition to TEP, UniSource Energy's other subsidiaries include New Energy Ventures, LLC, a buyer's agent, providing electric load aggregation and advisory services to retail purchasers of electric energy; Nations Energy Corporation, an independent power developer; Advanced Energy Technologies, Inc., a developer of renewable energy and distributed generation technologies; Southwest Energy Solutions, and SWPP Investment Co.

TEP Second Quarter Earnings

TEP recorded net income of \$8.1 million for the second quarter of 1998, compared with net income of \$29.9 million in the second quarter of 1997. The second quarter earnings decrease was primarily attributable to lower tax benefit recognition, nonrecurring items, lower retail sales due to mild weather conditions, lower non-cash regulatory revenues and higher interest expense from refinancings. Second quarter 1997 results benefited from a \$15.0 million net income tax benefit related to prior period NOL carryforwards, and a \$10.2 million pretax reversal of loss provision resulting from the dissolution of former investment subsidiaries. TEP did not realize similar benefits in the 1998 second quarter. Earnings for the six-months ended June 30, 1998 were \$6.5 million, compared with net income of \$41.4 million for the same period in 1997. Earnings for the six-month period were affected by the same factors as discussed above for the second quarter.

The following is a summary of UniSource Energy consolidated results in thousands except per share data.

Quarter Ended June 30 -----	1998 ----	1997 ----
Utility Operating Revenues	\$179,603	\$182,970
Utility Operating Expenses	\$149,737	\$149,140
Utility Operating Income	\$ 29,866	\$ 33,830
Other Income	\$ 7,674	\$ 22,977
Net Income (loss) from Unregulated Energy Businesses	\$ (5,649)	\$ 487
Total Interest Expense	\$ 30,833	\$ 27,393
Net Income	\$ 1,058	\$ 29,901
Average Common Shares Outstanding (000)	32,138	32,138
Basic Earnings per Share	\$ 0.03	\$ 0.93
Diluted Earnings per Share	\$ 0.03	\$ 0.93
6 Months Ended June 30 -----	1998 ----	1997 ----
Utility Operating Revenues	\$340,544	\$337,251
Utility Operating Expenses	\$286,858	\$282,631
Utility Operating Income	\$ 53,686	\$ 54,620
Other Income	\$ 9,569	\$ 39,213
Net loss from Unregulated Energy Businesses	\$ (9,685)	\$ (445)
Total Interest Expense	\$ 59,547	\$ 51,995
Net Income (Loss)	\$ (5,977)	\$ 41,393
Average Common Shares Outstanding (000)	32,138	32,138
Basic Earnings per Share	\$ (0.19)	\$ 1.29
Diluted Earnings per Share	\$ (0.19)	\$ 1.29
12 Months Ended June 30 -----	1998 ----	1997 ----
Utility Operating Revenues	\$733,186	\$720,563
Utility Operating Expenses	\$600,096	\$592,606
Utility Operating Income	\$133,090	\$127,957
Other Income	\$ 31,140	\$130,354
Net Loss from Unregulated Energy Businesses	\$ (14,583)	\$ (2,486)
Total Interest Expense	\$113,445	\$104,287
Net Income	\$ 36,202	\$151,538
Average Common Shares Outstanding (000)	32,138	32,138

Basic Earnings per Share	\$ 1.13	\$ 4.72
Diluted Earnings per Share	\$ 1.12	\$ 4.70

Comparisons of kilowatt-hour sales and revenues are shown below:

Quarter Ended June 30			Increase (Decrease)	
Electric kWh Sales (000):	1998	1997	Amount	Pct.
Retail Customers	1,819,112	1,886,216	(67,104)	(3.6) %
Sales for Resale	1,036,756	749,074	287,682	38.4 %
Total	2,855,868	2,635,290	220,578	8.4 %

Electric Revenues (000):				
Retail Customers	\$150,652	\$159,249	\$ (8,597)	(5.4) %
Amortization of MSR Option				
Gain Regulatory Liability	0	3,092	(3,092)	(100.0) %
Sales for Resale	28,951	20,629	8,322	40.3 %
Total	\$179,603	\$182,970	\$ (3,367)	(1.8) %

6 Months Ended June 30			Increase (Decrease)	
Electric kWh Sales (000):	1998	1997	Amount	Pct.
Retail Customers	3,609,421	3,508,657	100,764	2.9 %
Sales for Resale	1,886,888	1,464,261	422,627	28.9 %
Total	5,496,309	4,972,918	523,391	10.5 %

Electric Revenues (000):				
Retail Customers	\$288,739	\$289,186	\$ (447)	(0.2) %
Amortization of MSR Option				
Gain Regulatory Liability	0	8,105	(8,105)	(100.0) %
Sales for Resale	51,805	39,960	11,845	29.6 %
Total	\$340,544	\$337,251	\$ 3,293	1.0 %

12 Months Ended June 30			Increase (Decrease)	
Electric kWh Sales (000):	1998	1997	Amount	Pct.
Retail Customers	7,571,178	7,327,925	243,253	3.3 %
Sales for Resale	3,852,082	3,435,337	416,745	12.1 %
Total	11,423,260	10,763,262	659,998	6.1 %

Electric Revenues (000):				
Retail Customers	\$623,774	\$613,500	\$ 10,274	1.7 %
Amortization of MSR Option				
Gain Regulatory Liability	0	18,131	(18,131)	(100.0) %
Sales for Resale	109,412	88,932	20,480	23.0 %
Total	\$733,186	\$720,563	\$ 12,623	1.8 %

SIGNATURE

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 reference to such company or its subsidiary.

UNISOURCE ENERGY CORPORATION

(Registrant)

Date: July 22, 1998

Karen G. Kissinger

Karen G. Kissinger
Principal Accounting Officer

TUCSON ELECTRIC POWER COMPANY

(Registrant)

Date: July 22, 1998

Karen G. Kissinger

Karen G. Kissinger
Principal Accounting Officer

