ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY

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ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

UNS Gas, Inc.
Attn: Melissa Morales
PO BOX 711, Mailstop HQE910
Tucson, AZ 85702

☐ **Please click here if pre-printed Company name on this form is not your current Company name or dba name is not included.**

Please list current Company name including dba here:

ANNUAL REPORT
Gas

FOR YEAR ENDING

12	31	2020

FOR COMMISSION USE

ANN 02	20

COMPANY INFORMATION

Company Name (Business Name) ____________UNS Gas, Inc.________________________________

Mailing Address ______P.O. Box 711, Mailstop HQE910____________________________________
(Street)

__________Tucson____________________________________Arizona________________85702_____
(City) (State) (Zip)

___520-884-3680________________________520-884-3601____________________N/A_____________
Telephone No. (Include Area Code) Fax No. (Include Area Code) Cell No. (Include Area Code)

Email Address_______THixon@tep.com____

Local Office Mailing Address _______________Same as above____________________________________
(Street)

____
(City) (State) (Zip)

___________520-623-7711____________________________________N/A_______________________
Local Customer Service Phone No. (Include Area Code) (1-800 or other long distance Customer Service Phone No.)

Email Address ________N/A___________________ Website address www.tep.com

MANAGEMENT INFORMATION

☐**Regulatory Contact:**

☐**Management Contact:**________Todd Hixon___________________________Senior VP, General Counsel
(Name) (Title)

_P.O. Box 771, Mailbox HQE910_________________________Tucson __________________________AZ_______________85702___
(Street) (City) (State) (Zip)

520-884-3667 520-884-2601 N/A
Telephone No. (Include Area Code) Fax No. (Include Area Code) Cell No. (Include Area Code)

Email Address____

On Site Manager:_____Martin Anya____
(Name)

2901 W. Shamrell Blvd. Suite 110 Flagstaff Arizona 86001
(Street) (City) (State) (Zip)

928-226-2266 520-7795338 N/A
Telephone No. (Include Area Code) Fax No. (Include Area Code) Cell No. (Include Area Code)

Email Address**: manya@ueaz.com** ____

Statutory Agent: Todd Hixon
(Name)

P.O. Box 711, Mailstop HQE910 | Tucson | AZ | 85702
(Street) | (City) | (State) | (Zip)

520-884-3667 | 520-884-2601 | N/A
Telephone No. (Include Area Code) | Fax No. (Include Area Code | Cell No. (Include Area Code)

Attorney: Amy Welander
(Name)

P.O. Box 711, Mailstop HQE910 | Tucson | AZ | 85702
(Street) | (City) | (State) | (Zip)

520-884-3655 | N/A | N/A
Telephone No. (Include Area Code) | Fax No. (Include Area Code) | Cell No. (Include Area Code)

Email Address N/A

OWNERSHIP INFORMATION

Check the following box that applies to your company:

- ☐ **Sole Proprietor (S)**
- ☒ **C Corporation (C) (Other than Association/Co-op)**
- ☐ **Partnership (P)**
- ☐ **Subchapter S Corporation (Z)**
- ☐ **Bankruptcy (B)**
- ☐ **Association/Co-op (A)**
- ☐ **Receivership (R)**
- ☐ **Limited Liability Company**
- ☐ **Other (Describe)**__________

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

- ☐ **STATEWIDE**

☒ **APACHE**	☐ **COCHISE**	☒ **COCONINO**
☐ **GILA**	☐ **GRAHAM**	☐ **GREENLEE**
☐ **LA PAZ**	☐ **MARICOPA**	☒ **MOHAVE**
☒ **NAVAJO**	☐ **PIMA**	☐ **PINAL**
☒ **SANTA CRUZ**	☒ **YAVAPAI**	☐ **YUMA**

SERVICES AUTHORIZED TO PROVIDE

Check the following box(es) for the services that you are authorized to provide:

☒ **Gas**

☒ Natural Gas
☐ Propane

☐ **Other** (Specify)____________________

STATISTICAL INFORMATION

GAS UTILITIES ONLY

Total number of customers	162,779
Residential	149,793
Commercial	12,940
Industrial	41
Irrigation	5
Resale	0
Total therms sold	154,071,955 therms
Residential	81,353,394
Commercial	36,991,303
Industrial	16,419
Irrigation	0
Resale	

UTILITY SHUTOFFS/DISCONNECTS

MONTH		Termination without Notice R14-2-509.B	Termination with Notice R14-2-509.C	OTHER
January		2	270	
February		1	244	
March		0	117	
April		3	2	
May		1	0	
June		2	0	
July		0	0	
August		0	0	
September		1	0	
October		1	0	
November		0	0	
December		1	0	
TOTALS →		12	633	

OTHER (description):

VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only

VERIFICATION

STATE OF Arizona	**COUNTY OF (COUNTY NAME)** Pima
I, THE UNDERSIGNED	**NAME (OWNER OR OFFICIAL) TITLE** Frank P. Marino, Sr. VP & CFO
OF THE	**COMPANY NAME** UNS Gas Inc.

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2020

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2020 WAS:

Arizona Intrastate Gross Operating Revenues Only ($)

$_ 118,126,830

(THE AMOUNT IN BOX ABOVE INCLUDES $ 10,353,999 IN SALES TAXES BILLED, OR COLLECTED)

****REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)**

SIGNATURE OF OWNER OR OFFICIAL

520 745-3448

TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF COUNTY NAME

THIS ____ **DAY OF** MONTH , 20__

(SEAL)

SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES__________________

VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
INTRASTATE REVENUES ONLY

STATE OF ARIZONA — COUNTY OF (COUNTY NAME): Pima

I, THE UNDERSIGNED — NAME (OWNER OR OFFICIAL): Frank P. Marino — TITLE: Sr. VP & CFO

OF THE — COMPANY NAME: UNS Gas Inc.

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2020

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2020 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES

$ 77,330,080

(THE AMOUNT IN BOX AT LEFT INCLUDES $ 6,778,101 IN SALES TAXES BILLED, OR COLLECTED

***RESIDENTIAL REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED.**

SIGNATURE OF OWNER OR OFFICIAL

520 745-3448
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS ______ **DAY OF**

NOTARY PUBLIC NAME

COUNTY NAME

MONTH , 20___

(SEAL)

MY COMMISSION EXPIRES

SIGNATURE OF NOTARY PUBLIC

FINANCIAL INFORMATION

Attach to this annual report a copy of the company's year-end (Calendar Year 2020) financial statements. If you do not compile these reports, the Utilities Division will supply you with blank financial statements for completion and filing. **ALL INFORMATION MUST BE ARIZONA-SPECIFIC AND REFLECT OPERATING RESULTS IN ARIZONA.**

UNS Gas, Inc.
FINANCIAL STATEMENTS

December 31, 2020

UniSourceEnergy SERVICES

Deloitte.

Deloitte & Touche LLP
2901 N. Central Ave.
#1200
Phoenix, AZ 85012
USA

Tel: 602-044-04444
www.deloitte.com

INDEPENDENT AUDITORS' REPORT

To the Stockholder and the Board of Directors of
UNS Gas, Inc.

We have audited the accompanying balance sheets of UNS Gas, Inc. (the "Company") as of December 31, 2020 and 2019, and the related statements of income, changes in stockholder's equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively referred to as the "financial statements").

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of UNS Gas, Inc. as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Deloitte & Touche LLP

February 19, 2021

UNS GAS, INC.
STATEMENTS OF INCOME
(Amounts in thousands)

	Years Ended December 31, 2020	Years Ended December 31, 2019
Operating Revenues	**$ 111,117**	$ 118,352
Operating Expenses		
Purchased Energy	**47,097**	52,974
Increase (Decrease) to Reflect PGA Recovery Treatment	**965**	(1,228)
Total Purchased Energy	**48,062**	51,746
Operations and Maintenance	**27,789**	28,115
Depreciation	**12,376**	11,964
Amortization	**(795)**	(863)
Taxes Other Than Income Taxes	**4,736**	4,565
Total Operating Expenses	**92,168**	95,527
Operating Income	**18,949**	22,825
Other Income (Expense)		
Interest Expense	**(4,736)**	(4,748)
Allowance For Borrowed Funds	**6**	17
Allowance For Equity Funds	**10**	14
Other, Net	**(74)**	(223)
Total Other Income (Expense)	**(4,794)**	(4,940)
Income Before Income Tax Expense	**14,155**	17,885
Income Tax Expense	**3,303**	4,228
Net Income	**$ 10,852**	$ 13,657

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

UNS GAS, INC.
STATEMENTS OF CASH FLOWS
(Amounts in thousands)

	Years Ended December 31, 2020	2019
Cash Flows from Operating Activities		
Net Income	**$ 10,852**	$ 13,657
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation Expense	**12,376**	11,964
Amortization Expense	**(795)**	(863)
Amortization of Debt Issuance Costs	**90**	90
Deferred Income Taxes	**423**	1,808
Pension and Other Postretirement Benefits Expense	**995**	1,016
Pension and Other Postretirement Benefits Funding	**(2,291)**	(1,184)
Allowance for Equity Funds Used During Construction	**(10)**	(14)
Regulatory Deferral, ACC Refund Order	**(674)**	674
Changes in Current Assets and Current Liabilities:		
Accounts Receivable	**1,504**	(2,425)
Materials and Supplies	**417**	122
Regulatory Assets	**(964)**	(493)
Other Current Assets	**48**	(134)
Accounts Payable and Accrued Charges	**2,588**	(3,005)
Regulatory Liabilities	**934**	(1,702)
Other, Net	**1,673**	805
Net Cash Flows—Operating Activities	**27,166**	20,316
Cash Flows from Investing Activities		
Capital Expenditures	**(26,252)**	(25,402)
Contributions in Aid of Construction	**2,758**	3,100
Net Cash Flows—Investing Activities	**(23,494)**	(22,302)
Cash Flows from Financing Activities		
Proceeds from Borrowings, Revolving Credit Facility	**1,000**	5,000
Repayments of Borrowings, Revolving Credit Facility	**(5,000)**	—
Dividend Paid to Parent	**(4,000)**	(5,000)
Other	**544**	96
Net Cash Flows—Financing Activities	**(7,456)**	96
Net Decrease in Cash and Cash Equivalents	**(3,784)**	(1,890)
Cash and Cash Equivalents, Beginning of Period	**5,740**	7,630
Cash and Cash Equivalents, End of Period	**$ 1,956**	$ 5,740

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

UNS GAS, INC.
BALANCE SHEETS
(Amounts in thousands, except share data)

	December 31, 2020	December 31, 2019
ASSETS		
Utility Plant		
Plant in Service	**$ 405,565**	$ 388,008
Construction Work in Progress	**3,057**	2,456
Total Utility Plant	**408,622**	390,464
Accumulated Depreciation and Amortization	**(88,231)**	(81,319)
Total Utility Plant, Net	**320,391**	309,145
Current Assets		
Cash and Cash Equivalents	**1,956**	5,740
Accounts Receivable (Net of Allowance for Credit Losses of $729 and $406)	**20,003**	21,566
Materials and Supplies	**2,037**	2,454
Regulatory Assets	**2,162**	3,481
Derivative Instruments	**1,987**	837
Other	**658**	706
Total Current Assets	**28,803**	34,784
Regulatory and Other Assets		
Regulatory Assets	**8,441**	7,680
Derivative Instruments	**1,455**	908
Lease Assets and Other	**2,153**	2,917
Total Regulatory and Other Assets	**12,049**	11,505
Total Assets	**$ 361,243**	$ 355,434

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

(Continued)

UNS GAS, INC.
BALANCE SHEETS
(Amounts in thousands, except share data)

	December 31, 2020	December 31, 2019
CAPITALIZATION AND OTHER LIABILITIES		
Capitalization		
Common Stock Equity:		
Common Stock (No Par Value, 1,000 Shares Authorized, 1,000 Shares Outstanding as of December 31, 2020 and 2019)	**$ 67,978**	$ 67,978
Retained Earnings	**52,552**	45,700
Total Common Stock Equity	**120,530**	113,678
Long-Term Debt, Net	**94,485**	94,444
Total Capitalization	**215,015**	208,122
Current Liabilities		
Borrowings Under Credit Agreement	**1,000**	5,000
Accounts Payable	**13,018**	11,420
Accrued Taxes Other than Income Taxes	**5,071**	4,885
Accrued Employee Expenses	**1,975**	1,586
Accrued Interest	**1,781**	1,810
Regulatory Liabilities	**7,610**	5,414
Customer Deposits	**1,644**	2,196
Derivative Instruments	**852**	2,901
Other	**3,709**	2,899
Total Current Liabilities	**36,660**	38,111
Regulatory and Other Liabilities		
Deferred Income Taxes, Net	**33,402**	32,679
Regulatory Liabilities	**65,626**	64,387
Customer Advances for Construction	**3,800**	4,760
Pension and Other Postretirement Benefits	**4,253**	4,235
Derivative Instruments	**447**	977
Lease Liabilities and Other	**2,040**	2,163
Total Regulatory and Other Liabilities	**109,568**	109,201
Commitments and Contingencies		
Total Capitalization and Other Liabilities	**$ 361,243**	$ 355,434

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

(Concluded)

UNS GAS, INC.
STATEMENTS OF CHANGES IN STOCKHOLDER'S EQUITY
(Amounts in thousands)

	Common Stock	Retained Earnings	Total Stockholder's Equity
Balances as of December 31, 2018	**$ 67,978**	**$ 37,043**	**$ 105,021**
Net Income		13,657	13,657
Dividend Declared to Parent		(5,000)	(5,000)
Balances as of December 31, 2019	**$ 67,978**	**$ 45,700**	**$ 113,678**
Net Income		10,852	10,852
Dividend Declared to Parent		(4,000)	(4,000)
Balances as of December 31, 2020	**$ 67,978**	**$ 52,552**	**$ 120,530**

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

NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

UNS Gas, Inc. (UNS Gas) is a regulated natural gas distribution company which services approximately 163,000 retail customers in Mohave, Yavapai, Coconino, Navajo, and Santa Cruz counties in Arizona. UNS Gas is a wholly owned subsidiary of UniSource Energy Services, Inc. (UES), an intermediate holding company that is wholly owned by UNS Energy Corporation (UNS Energy). UNS Energy, a utility services holding company, is an indirect wholly owned subsidiary of Fortis Inc. (Fortis).

BASIS OF PRESENTATION

UNS Gas' financial statements and disclosures are presented in accordance with Generally Accepted Accounting Principles in the United States of America (GAAP), including specific accounting guidance for regulated operations. Certain amounts from prior periods have been reclassified to conform to the current year presentation.

Accounting for Regulated Operations

UNS Gas applies accounting standards that recognize the economic effects of rate regulation. As a result, UNS Gas capitalizes certain costs that would be recorded as expense or in Accumulated Other Comprehensive Income (AOCI) by unregulated companies. Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in rates designed to allow a regulated utility recovery of its costs of providing services and an opportunity to earn a reasonable return on its investment (Retail Rates) charged to retail customers. Regulatory liabilities generally represent expected future costs that have already been collected from customers or amounts that are expected to be returned to customers through billing reductions in future periods.

Estimates of recovering deferred costs and returning deferred credits are based on specific ratemaking decisions or precedent for each item. Regulatory assets and liabilities are amortized consistent with the treatment in the rate setting process. UNS Gas evaluates regulatory assets and liabilities each period and believes future recovery or settlement is probable. If future recovery of costs ceases to be probable, the assets would be written off as a charge to current period earnings or AOCI. See Note 2 for additional information regarding regulatory matters.

UNS Gas applies regulatory accounting as the following conditions exist:

- An independent regulator sets rates;
- The regulator sets the rates to recover the specific enterprise's costs of providing service; and
- Rates are set at levels that will recover the entity's costs and can be charged to and collected from ratepayers.

NEW ACCOUNTING STANDARDS ISSUED AND ADOPTED

The following new authoritative accounting guidance issued by the Financial Accounting Standards Board (FASB) has been adopted as of January 1, 2020. Unless otherwise indicated, adoption of the new guidance in each instance had an insignificant impact on UNS Gas' financial position, results of operations, cash flows, and disclosures.

Credit Losses

UNS Gas early adopted accounting guidance that requires entities to incorporate reasonable and supportable forecasts in an entity's estimates of credit losses and recognition of expected losses upon the initial recognition of a financial instrument, in addition to using past events and current conditions. The new guidance also requires quantitative and qualitative disclosures regarding the activity in the allowance for credit losses for financial assets within the scope of the guidance. See Note 5 for additional disclosure about UNS Gas' allowance for credit losses.

NEW ACCOUNTING STANDARDS ISSUED AND NOT YET ADOPTED

New authoritative accounting guidance issued by the FASB was assessed and either determined to not be applicable or is expected to have an insignificant impact on UNS Gas' financial position, results of operations, cash flows, and disclosures.

USE OF ACCOUNTING ESTIMATES

Management uses estimates and assumptions when preparing financial statements according to GAAP. These estimates and assumptions affect:

- assets and liabilities in the balance sheet at the dates of the financial statements;

- disclosures about contingent assets and liabilities at the dates of the financial statements; and
- revenues and expenses in the income statement during the periods presented.

Because these estimates involve judgments based upon management's evaluation of relevant facts and circumstances, actual results may differ from these estimates.

Contingencies

Reserves for specific legal proceedings are established when the likelihood of an unfavorable outcome is probable and the amount of loss can be reasonably estimated. Significant judgment is required in predicting the outcome of these suits and claims, many of which take years to complete. UNS Gas identifies certain other legal matters where the Company believes an unfavorable outcome is reasonably possible or no estimate of possible losses can be made. All contingencies are regularly reviewed to determine whether the likelihood of loss has changed and to assess whether a reasonable estimate of the loss or range of loss can be made.

CASH AND CASH EQUIVALENTS

UNS Gas considers all highly liquid investments with a remaining maturity of three months or less at acquisition to be cash equivalents.

ALLOWANCE FOR CREDIT LOSSES

UNS Gas records an allowance for credit losses to reduce accounts receivable for amounts estimated to be uncollectible. The allowance is estimated based on historical credit loss patterns, sales, current conditions, and reasonable and supportable forecasts. Accounts receivable are written-off in the period in which the receivable is deemed uncollectible. See Note 5 for information regarding collection activity and adjustments to the allowance for credit losses related to the Coronavirus Disease 2019 (COVID-19) pandemic.

INVENTORY

UNS Gas values materials and supplies at the lower of weighted average cost and net realizable value. Materials and supplies consist of transmission and distribution construction and repair materials. The majority of UNS Gas' inventory will be recovered in rates charged to ratepayers. Handling and procurement costs (such as labor, overhead costs, and transportation costs) are capitalized as part of the cost of the inventory.

UTILITY PLANT

Utility plant includes the business property and equipment that supports natural gas services, consisting primarily of transmission and distribution facilities. Utility plant is reported at original cost. Original cost includes materials and labor, contractor services, construction overhead (when applicable), and an Allowance for Funds Used During Construction (AFUDC), less contributions in aid of construction.

The cost of repairs and maintenance are expensed to Operations and Maintenance Expense on the Statements of Income as costs are incurred.

When UNS Gas retires a unit of regulated property, accumulated depreciation is reduced by the original cost plus removal costs less any salvage value. There is no impact to the income statement.

AFUDC and Capitalized Interest

AFUDC reflects the cost of debt and equity funds used to finance construction and is capitalized as part of the cost of regulated utility plant. AFUDC amounts are capitalized and amortized through depreciation expense as a recoverable cost in Retail Rates. The capitalized interest that relates to debt is recorded in Allowance For Borrowed Funds on the Statements of Income. The capitalized cost for equity funds is recorded in Allowance For Equity Funds on the Statements of Income.

The average AFUDC rates on regulated construction expenditures are included in the table below:

	2020	2019
Average AFUDC Rates	4.94 %	5.45 %

Depreciation

Depreciation is recorded for owned utility plant on a group method straight-line basis at depreciation rates based on the economic lives of the assets and include estimates for salvage value and removal costs. See Note 3 for additional information regarding utility plant. The Arizona Corporation Commission (ACC) approves all depreciation rates.

Below are the summarized average annual depreciation rates for all utility plant:

	2020	2019
Average Annual Depreciation Rates	2.63 %	2.62 %

Computer Software and Cloud Computing Costs

Costs incurred to purchase and develop internal use computer software and cloud computing arrangements that include a software license are capitalized and amortized over the estimated economic life of the product. Implementation costs incurred in a cloud computing arrangement that is a service contract are included in Regulatory and Other Assets—Other on the Balance Sheets and amortized over the life of the service agreement. Amortization expense is presented in Operations and Maintenance Expense on the Statements of Income. If the associated software is no longer useful or impaired, the carrying value is reduced and recorded as an expense on the income statement.

EVALUATION OF ASSETS FOR IMPAIRMENT

Long-lived assets and investments are evaluated for impairment whenever events or changes in circumstances indicate that an asset's carrying amount may not be recoverable. If estimated future undiscounted cash flows are less than the carrying amount, the Company estimates the fair value and records an impairment for the amount by which the carrying value exceeds the fair value. For these estimates, UNS Gas may consider data from multiple valuation methods, including data from market participants. The Company exercises judgment to: (i) estimate the future cash flows and the useful lives of long-lived assets; and (ii) determine the Company's intent to use the assets. UNS Gas' intent to use or dispose of assets is subject to re-evaluation and can change over time.

DEFERRED FINANCING COSTS

Costs to issue debt are deferred and amortized to interest expense on a straight-line basis over the life of the debt. Deferred debt issuance costs are presented in the balance sheet as a direct deduction from the carrying value of the associated debt liability. These costs include underwriters' commissions, discounts or premiums, and other costs such as legal, accounting, regulatory fees, and printing costs.

UNS Gas accounts for debt issuance costs related to credit facility arrangements as an asset.

The gains and losses on reacquired debt associated with regulated operations are deferred and amortized to interest expense over the remaining life of the original debt.

LEASES

When a contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration, a right-of-use asset and lease liability are recognized. UNS Gas measures the right-of-use asset and lease liability at the present value of future lease payments, excluding variable payments based on usage or performance. UNS Gas calculates the present value using the rate implicit in the lease or a lease-specific secured interest rate based on the lease term. UNS Gas has lease agreements with lease components (e.g., rent, real estate taxes and insurance costs) and non-lease components (e.g., common area maintenance costs), which are accounted for as a single lease component. UNS Gas includes options to extend a lease in the lease term when it is reasonably certain that the option will be exercised. Leases with an initial term of twelve months or less are not recorded on the balance sheet.

OPERATING REVENUES

UNS Gas earns the majority of its revenues from the sale of natural gas to retail customers based on regulator-approved tariff rates. Most of the Company's contracts have a single performance obligation, the delivery of natural gas. UNS Gas satisfies the performance obligation over time as natural gas is delivered and control is transferred to the customer. The Company bills for natural gas sales based on the reading of meters on a systematic basis throughout the month. In general, UNS Gas' contracts have payment terms of 10 to 20 days from the date the bill is rendered. UNS Gas considers any payment not received by the due date delinquent and charges the customer a late payment fee with the exception of service disconnection moratoriums. Generally, customers are not charged a late payment fee when a service disconnection moratorium is in effect. No component of the transaction price is allocated to unsatisfied performance obligations. See Note 4 for the disaggregation of UNS Gas' Operating Revenues.

PURCHASED GAS ADJUSTMENT CLAUSE

UNS Gas recovers actual gas costs incurred through a Purchased Gas Adjustor (PGA) mechanism that adjusts monthly. Gas cost over-recoveries are deferred as regulatory liabilities and cost under-recoveries are deferred as regulatory assets. See Note 2 for additional information regarding regulatory matters.

ENERGY EFFICIENCY PROGRAMS

UNS Gas is required to implement cost-effective Demand Side Management (DSM) programs to comply with the ACC's Energy Efficiency Standards (EE Standards). The EE Standards provide regulated utilities a DSM surcharge to recover from retail customers the costs to implement DSM programs. The EE Standards required increasing annual targeted retail therm savings equal to 6% by 2020. As of February 19, 2021, the ACC has not set annual target retail kWh or therm savings requirements for future years. The associated lost revenues attributable to meeting this target are partially recovered through the Lost Fixed Cost Recovery (LFCR) mechanism.

The DSM surcharges collected above or below the costs incurred to implement the plans are deferred and reflected in the balance sheet as a regulatory liability or asset. UNS Gas recognizes DSM surcharge revenue in Operating Revenues on the Statements of Income in amounts necessary to offset recognized qualifying expenditures.

TAXES OTHER THAN INCOME TAXES

UNS Gas acts as a conduit or collection agent for sales taxes, utility taxes, franchise fees, and regulatory assessments. Trade receivables are recorded as the Company bills customers for these taxes and assessments. Simultaneously, liabilities payable to governmental agencies are recorded in the balance sheet for these taxes and assessments. These amounts are not reflected in the income statement.

Payroll Tax

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act was signed into law on March 27, 2020 (CARES Act). As permitted by the CARES Act, UNS Gas deferred payment of the employer's portion of social security taxes. In 2020, UNS Gas recorded total deferred deposits of $0.5 million in Accrued Taxes Other than Income Taxes and in Lease Liabilities and Other on the Balance Sheets. UNS Energy expects the total deferred deposits to be paid to the Internal Revenue Service (IRS) in equal payments in 2021 and 2022.

INCOME TAXES

Due to the difference between GAAP and income tax laws, many transactions are treated differently for income tax purposes than for financial statement presentation purposes. Temporary differences are accounted for by recording deferred income tax assets and liabilities on the balance sheet. These assets and liabilities are recorded using enacted income tax rates expected to be in effect when the deferred tax assets and liabilities are realized or settled. UNS Gas reduces deferred tax assets by a valuation allowance when, in the opinion of management, it is more likely than not that some portion, or the entire deferred income tax asset, will not be realized.

Tax benefits are recognized when it is more likely than not that a tax position will be sustained upon examination by the tax authorities based on the technical merits of the position. The tax benefit recorded is the largest amount that is more than 50% likely to be realized upon ultimate settlement with the tax authority, assuming full knowledge of the position and all relevant facts. Interest expense accruals relating to income tax obligations are recorded in Interest Expense on the Statements of Income.

UNS Gas records income tax liabilities based on its taxable income as reported in the consolidated tax return of FortisUS Inc., a Fortis intermediate holding company (FortisUS).

PENSION AND OTHER POSTRETIREMENT BENEFITS

UES sponsors a noncontributory, defined benefit pension plan for substantially all employees of UES. Benefits are based on years of service and average compensation. The Company also provides limited healthcare and life insurance benefits for retirees.

UES recognizes the underfunded status of the defined benefit pension plan as a liability in the balance sheet. The underfunded status is measured as the difference between the fair value of the pension plan's assets and the projected benefit obligation for the pension plan. UES recognizes a regulatory asset to the extent these future costs are probable of recovery in the rates charged to retail customers. The Company expects recovery of these costs over the estimated service lives of employees.

Pension and other postretirement benefit expenses are determined by actuarial valuations based on assumptions that the Company evaluates annually. See Note 10 for additional information regarding the employee benefit plan.

FAIR VALUE

As defined under GAAP, fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Adjustments to transaction prices or quoted market prices may be required in illiquid or disorderly markets in order to estimate fair value. Different valuation techniques may be appropriate under the circumstances to determine the value that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange, and not under duress. Nonperformance or credit risk is considered in determining fair value. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange. See Note 12 for additional information regarding fair value.

DERIVATIVE INSTRUMENTS

The Company uses various physical and financial derivative instruments, including forward contracts, financial swaps, and call and put options, to: (i) meet forecasted load and reserve requirements; and (ii) reduce exposure to energy commodity price volatility. Derivative instruments that do not meet the normal purchase or normal sale scope exception are recognized as either assets or liabilities on the balance sheet and are measured at fair value. The accounting for changes in the fair value of a derivative depends on the intended use of the derivative and the resulting designation.

Commodity derivatives used in normal business operations that are settled by physical delivery, among other criteria, are eligible for, and may be designated as, normal purchases or normal sales. Normal purchases or normal sales contracts are not recorded at fair value and settled amounts are recognized as cost of energy on the income statement.

For derivatives not designated as hedging contracts, the settled amount is generally included in regulated rates. Accordingly, the net unrealized gains and losses associated with interim price movements on contracts that are accounted for as derivatives and probable of inclusion in regulated rates are recorded as regulatory assets and liabilities. See Note 12 for additional information regarding derivative instruments.

SUBSEQUENT EVENTS

UNS Gas evaluates events or transactions that occur after the balance sheet date but before the financial statements are issued for potential recognition or disclosure in the financial statements. UNS Gas has evaluated subsequent events through February 19, 2021, the date the financial statements were issued.

NOTE 2. REGULATORY MATTERS

The ACC and the Federal Energy Regulatory Commission (FERC) each regulate portions of the utility accounting practices and rates of UNS Gas. The ACC regulates rates charged to retail customers, the issuance of securities, transactions with affiliated parties, and other utility matters. The ACC also enacts other regulations and policies that can affect the Company's business decisions and accounting practices. The FERC regulates the terms and rates of wholesale transport and purchases of natural gas for UNS Gas.

2012 ACC RATE ORDER

Provisions of the 2012 ACC Rate Order, which were effective May 1, 2012, included, but are not limited to a base rate increase of $2.7 million.

FEDERAL TAX LEGISLATION

In December 2017, the ACC opened a docket requesting that all regulated utilities submit proposals to address passing the benefits of the Tax Cuts and Jobs Act (TCJA) through to customers. In 2018, the ACC approved UNS Gas' proposal to return savings from the Company's federal corporate income tax rate under the TCJA to its customers through a combination of customer bill credits and a regulatory liability deferral that reflects the return of a portion of the savings, effective in the second quarter of 2018 (ACC Refund Order). The ACC Refund Order was based on the reduction in the federal corporate income tax rate and an estimate of Excess Deferred Income Tax (EDIT) amortization that would be trued-up annually for actual results. The bill credit was designed to return the refund amount to customers based on forecasted therm sales for the calendar year. Any over or under collected amounts were deferred to a regulatory liability or asset and were used to adjust the following year's bill credit amounts.

The table below summarizes the regulatory asset (liability) over or under collected balance related to the ACC Refund Order:

(in thousands)	Years Ended December 31, 2020	2019
Beginning of Period	$ 751	$ 495
ACC Approved Refund (Reduction in Operating Revenues)	(3,077)	(2,921)
Amount Returned to Customers Through Bill Credits	3,933	2,503
Regulatory Deferral	—	674
End of Period	$ 1,607	$ 751

UNS Gas filed an informational filing with the ACC to establish a 2020 customer refund of $3.1 million. The refund was returned to customers through a combination of a customer bill credit and a regulatory liability through April 2020. In May 2020, the ACC issued an order that accelerated the return of UNS Gas' regulatory liability, previously deferred until its next rate case, through customer bill credits to help mitigate the financial impact of COVID-19 in its service territories. A total of $1.3 million was returned to customers in the form of bill credits over the June billing cycle. The ACC ordered UNS Gas to discontinue its deferral of TCJA customer refunds and pass all benefits back to customers, effective May 1, 2020.

See Note 13 for additional information regarding the TCJA.

COST RECOVERY MECHANISMS

UNS Gas has received regulatory decisions that allow for more timely recovery of certain costs through the recovery mechanisms described below.

Purchased Gas Adjustor

The PGA mechanism allows UNS Gas to adjust Retail Rates to recover fluctuations in natural gas costs. UNS Gas records deferrals for recovery or refund to the extent actual natural gas costs vary from the PGA rate. The PGA rate reflects a weighted, 12-month rolling average of the natural gas costs incurred by UNS Gas. The PGA rate automatically adjusts monthly, but is restricted from rising or falling more than $0.15 per therm in a 12-month period. UNS Gas is required to request a credit or notify the ACC if the PGA balance is over-collected by $10.0 million or more.

The table below summarizes the PGA regulatory asset (liability) balance:

	Years Ended December 31,	
(in thousands)	2020	2019
Beginning of Period	$ (4,602)	$ (5,856)
Deferred Purchased Gas Costs	38,713	44,301
PGA Recoveries [1]	(39,708)	(43,047)
End of Period	$ (5,597)	$ (4,602)

(1) In October 2018, the ACC approved a PGA credit effective November 1, 2018 to April 30, 2019.

Energy Efficiency Standards

Under the EE Standards, the ACC requires natural gas utilities to implement cost-effective programs to reduce customers' energy consumption. The EE Standards require increasing cumulative annual targeted retail therm savings equal to 6% by 2020. UNS Gas is required to implement cost-effective DSM programs to comply with the ACC's EE Standards. The EE Standards provide regulated utilities a DSM surcharge to recover from retail customers the costs to implement DSM programs.

Lost Fixed Cost Recovery Mechanism

The LFCR mechanism provides for recovery of certain non-fuel costs that would go unrecovered due to reduced retail therm sales as a result of implementing ACC-approved energy efficiency programs. UNS Gas records a regulatory asset and recognizes LFCR revenues when amounts are verifiable regardless of when the lost retail therm sales occur. UNS Gas is required to make an annual filing with the ACC requesting recovery of LFCR revenues recognized in the prior year. The recovery is subject to a year-over-year increase cap of 1% of UNS Gas' applicable retail revenues.

The table below summarizes the LFCR revenues recognized in Operating Revenues on the Statements of Income:

	Years Ended December 31,	
(in thousands)	2020	2019
LFCR Revenues	$ 161	$ 122

REGULATORY ASSETS AND LIABILITIES

Regulatory assets and liabilities recorded in the balance sheet are summarized in the table below:

	December 31,	
(in thousands)	2020	2019
Regulatory Assets		
Pension and Other Postretirement Benefits (Note 10)	$ 6,342	$ 5,037
Income Taxes Recoverable through Future Rates [1]	2,145	2,535
Tax Reform Bill Credit	1,607	751
Derivatives (Note 12)	—	2,395
Other Regulatory Assets	509	443
Total Regulatory Assets	10,603	11,161
Less Current Portion	2,162	3,481
Total Non-Current Regulatory Assets	$ 8,441	$ 7,680
Regulatory Liabilities		
Net Cost of Removal [2]	$ 37,044	$ 35,451
Income Taxes Payable through Future Rates [1]	28,153	28,843
Purchased Gas Adjustor	5,597	4,602
Other Regulatory Liabilities	2,442	905
Total Regulatory Liabilities	73,236	69,801
Less Current Portion	7,610	5,414
Total Non-Current Regulatory Liabilities	$ 65,626	$ 64,387

(1) Amortized over the lives of the assets. See Note 13 for additional information regarding income taxes.

(2) Represents an estimate of the future cost of retirement net of salvage value. These are amounts collected through revenue for transmission, distribution, generation, and general and intangible plant which are not yet expended.

Regulatory assets are either being collected or are expected to be collected through Retail Rates. UNS Gas does not earn a return on regulatory assets. Regulatory liabilities represent items that UNS Gas either expects to pay to customers through billing reductions in future periods or plans to use for the purpose for which they were collected from customers. UNS Gas pays a return on the majority of its regulatory liability balances.

IMPACTS OF REGULATORY ACCOUNTING

If UNS Gas determines that it no longer meets the criteria for continued application of regulatory accounting, UNS Gas would be required to write off its regulatory assets and liabilities related to those operations not meeting the regulatory accounting requirements. Discontinuation of regulatory accounting could have a material impact on UNS Gas' financial statements.

NOTE 3. UTILITY PLANT

The following table shows Plant in Service on the Balance Sheets by major class:

($ in thousands)	Annual Depreciation Rate [1]	Average Remaining Life in Years [1]	December 31, 2020	December 31, 2019
Plant in Service				
Distribution Plant	2.37%	31	$ 358,311	$ 342,222
Transmission Plant	1.54%	44	17,542	17,542
General Plant	4.38%	0	29,188	27,860
Intangible Plant, Software Costs, and Other [2]	Various	Various	190	50
Plant Held for Future Use	—	—	334	334
Total Plant in Service [3]			$ 405,565	$ 388,008

(1) Represents a composite of the depreciation rates of assets within each major class of gas plant and is based on the 2011 depreciation study available for the major classes of Plant in Service, effective May 2012, as approved by the ACC as part of the 2012 ACC Rate Order.

(2) Primarily represents miscellaneous intangible assets which are amortized over an average service life of 15 to 25 years and have an average remaining life of less than one year.

(3) Includes plant acquisition adjustments of $(48.3) million as of December 31, 2020 and 2019.

NOTE 4. REVENUE

UNS Gas earns the majority of its revenues from the sale of natural gas to retail customers based on regulator-approved tariff rates. The Company's contracts have a single performance obligation, the delivery of natural gas.

DISAGGREGATION OF REVENUES

The following table presents the disaggregation of UNS Gas' Operating Revenues on the Statements of Income by type of service:

(in thousands)	Years Ended December 31, 2020	Years Ended December 31, 2019
Retail	$ 108,055	$ 113,103
Other Services	1,704	1,777
Revenues from Contracts with Customers	109,759	114,880
Alternative Revenues	161	122
Other	1,197	3,350
Total Operating Revenues	$ 111,117	$ 118,352

Retail Revenues

UNS Gas' tariff-based sales to residential, commercial, and industrial customers are regulated by the ACC and recognized when natural gas is delivered at the amount of consideration that the Company expects to receive in exchange. Retail revenues include an estimate for unbilled revenues from service that has been provided but not billed by the end of an accounting period. At the end of the month, amounts of natural gas delivered since the last meter reading are estimated and the corresponding unbilled revenue is calculated using anticipated Retail Rates. Unbilled revenues are dependent upon a number of factors that require management's judgment including estimates of retail sales, customer usage patterns, and pricing. Unbilled revenues primarily increase during the fall and winter months and decrease during the spring and summer months due to the seasonal fluctuations of UNS Gas' actual load. The timing of revenue recognition, billings, and cash collections results in billed and unbilled accounts receivable balances. See Note 5 for components of Accounts Receivable, Net on the Balance Sheets.

Other Services Revenues

Other Services Revenues primarily includes revenue from gas transportation services and miscellaneous service connection fees.

Alternative Revenues

Alternative revenue programs allow utilities to adjust future rates in response to past activities or completed events if certain criteria established by a regulator are met. UNS Gas charges customers the ACC-authorized tariff price plus separate ACC-authorized surcharges. UNS Gas has identified its LFCR mechanism as an alternative revenue. The LFCR mechanism provides for recovery of certain non-fuel costs that would go unrecovered due to reduced therm sales as a result of implementing ACC-approved energy efficiency programs. The LFCR surcharge is assessed as a percentage of the customer's bill. Revenue recognition related to the LFCR mechanism creates a regulatory asset until such time as the revenue is collected. For recovery of the LFCR regulatory asset, UNS Gas is required to file an annual LFCR adjustment request with the ACC for the LFCR revenues recognized in the prior year. The recovery is subject to a year-over-year cap of applicable retail revenues of 1%. See Note 2 for additional information regarding these cost recovery mechanisms.

Other Revenues

Other Revenues primarily includes the resale of purchased energy, derivative revenue and related party revenue. See Note 6 for information regarding related party revenue. See Note 12 for information regarding derivative instruments.

NOTE 5. ACCOUNTS RECEIVABLE

The following table presents the components of Accounts Receivable on the Balance Sheets:

	December 31,	
(in thousands)	2020	2019
Retail	$ 9,856	$ 9,427
Retail, Unbilled	9,785	10,793
Retail, Allowance for Credit Losses [1]	(729)	(406)
Wholesale	—	196
Due from Affiliates (Note 6)	494	1,298
Other	597	258
Accounts Receivable	$ 20,003	$ 21,566

[1] In 2019, prior to adoption of the current expected credit loss guidance, this line was presented as Allowance for Doubtful Accounts. See Note 1 for information regarding the adoption of the current expected credit loss guidance.

ALLOWANCE FOR CREDIT LOSSES

UNS Gas separately evaluates retail and other accounts receivable for credit losses and has not recorded an allowance for credit losses for non-retail accounts receivable. The following table presents the change in the balance of Retail, Allowance for Credit Losses included in Accounts Receivable on the Balance Sheets:

	December 31,	
(in thousands)	2020	2019
Beginning of Period	$ (406)	$ (398)
Credit Loss Expense	(506)	(190)
Write-offs	205	222
Recoveries	(22)	(40)
End of Period	$ (729)	$ (406)

Service Disconnection Moratorium

UNS Gas voluntarily suspended service disconnections and late fees beginning March 2020 for all customers who would have otherwise been disconnected and continued the moratorium through December 31, 2020. In December 2020, UNS Gas voluntarily created payment arrangements for gas residential and commercial customers who are behind on their gas bills as a result of the COVID-19 pandemic. For qualifying customers the program included an automatic enrollment into an eight-month payment plan.

As a result of the moratorium, UNS Gas has increased its credit loss reserve by $0.3 million as of December 31, 2020, compared to December 31, 2019. UNS Gas is continuing to monitor collection activity and adjusting its allowance for credit losses as needed.

NOTE 6. RELATED PARTY TRANSACTIONS

UNS Gas engages in various transactions with Fortis, UNS Energy, and affiliated subsidiaries of UNS Energy including Tucson Electric Power Company (TEP), UNS Electric, Inc. (UNS Electric), and Southwest Energy Solutions, Inc. (SES) (collectively UNS Energy Affiliates). These transactions include: (i) the sale and purchase of natural gas and transportation services; (ii) common cost allocations; and (iii) the provision of corporate and other labor-related services.

The following table presents the components of related party balances included in Accounts Receivable and Accounts Payable on the Balance Sheets:

	December 31,	
(in thousands)	2020	2019
Receivables from Related Parties		
UNS Electric	$ 392	$ 489
TEP	102	203
UNS Energy	—	606
Total Due from Related Parties	$ 494	$ 1,298
Payables to Related Parties		
TEP	$ 1,422	$ 1,657
UNS Energy	433	28
UNS Electric	75	93
SES	25	40
Total Due to Related Parties	$ 1,955	$ 1,818

The following table presents the components of related party transactions included in the Statements of Income:

	Years Ended December 31,	
(in thousands)	2020	2019
Goods and Services Provided by UNS Gas to Affiliates		
Sale and Transportation of Gas, UNS Electric [(1)]	$ 5,011	$ 4,643
Capacity Charges, TEP [(2)]	205	947
Capacity Charges, UNS Electric [(1)]	68	316
Corporate Services, UNS Energy Affiliates [(3)]	207	24
Goods and Services Provided by Affiliates to UNS Gas		
Common Costs, TEP [(4)]	8,880	9,046
Supplemental Workforce, SES [(5)]	79	247
Corporate Services, UNS Energy [(6)]	1,250	1,174
Corporate Services, UNS Energy Affiliates [(3)]	4,012	4,183
Corporate Services, Fortis Affiliates [(7)]	6	5

(1) UNS Gas charges UNS Electric for natural gas and transportation to Black Mountain Generating Station (BMGS) and Valencia Generating Station. See Note 9 for detail of costs related to certain agreements.

(2) UNS Gas charges TEP for natural gas capacity used to supply one of TEP's generation facilities.

(3) Costs for corporate and other administrative services between UNS Energy Affiliates are directly assigned to the benefiting entity at a fully burdened cost when possible.

(4) Common costs (information systems, facilities, etc.) are allocated on a cost-causative basis. The method of allocation is deemed reasonable by management and is reviewed by the ACC as part of the rate case process.

(5) SES provided supplemental workforce and meter-reading services to UNS Gas based on related party service agreements. The charges were based on cost of services performed and deemed reasonable by management.

(6) Costs for corporate services at UNS Energy are allocated to its subsidiaries using the Massachusetts Formula, an industry accepted method of allocating common costs to affiliated entities. UNS Gas' allocation is approximately 6% of UNS Energy's allocated costs. Corporate Services, UNS Energy includes legal, audit, and Fortis management fees.

(7) Fortis affiliates provide non-tariffed goods and services to UNS Energy Affiliates at the higher of fully burdened cost or fair market value.

SHARE-BASED COMPENSATION

2020 FORTIS RESTRICTED STOCK UNIT PLAN

The Fortis Board of Directors ratified the 2020 Restricted Stock Unit Plan (2020 Plan) effective January 2020. Under the 2020 Plan, executive officers of Fortis and its subsidiaries may be granted time-based Restricted Share Units (RSU) annually, which may be settled in cash or shares. Each RSU granted is valued based on one share of Fortis common stock traded on the Toronto Stock Exchange, converted to U.S. dollars. UNS Energy allocates the obligation and expense for this plan to its subsidiaries based on the Massachusetts Formula. Fortis accounts for forfeitures as they occur.

The following table represents RSUs awarded by Fortis for UNS Energy:

	2020
RSUs	15,751

The awards are initially classified as liability awards because: (i) executive officers have the option to elect the cash or share settlement feature; and (ii) this election is contingent on an event within the executive officers' control. The liability awards may be reclassified as equity awards if the executive officers elect the share settlement feature on the modification date. Liability awards are measured at their fair value at the end of each reporting period and will fluctuate based on the price of Fortis' common stock. The awards are payable on the third anniversary of the grant date. UNS Gas' allocated share of probable payout was not material as of December 31, 2020.

UNS Gas' allocated portion of compensation expense is recognized in Operations and Maintenance Expense on the Statements of Income. Compensation expense associated with unvested RSUs is recognized on a straight-line basis over the minimum required service period in an amount equal to the fair value on the measurement date or each reporting period. UNS Gas recorded $0.1 million in 2020 based on its share of UNS Energy's compensation expense.

2015 Share Unit Plan

The Human Resources and Governance Committee of UNS Energy approved and UNS Energy's Board of Directors ratified the 2015 Share Unit Plan (2015 Plan) effective January 2015. Under the 2015 Plan, key employees, including executive officers of UNS Energy and its subsidiaries, may be granted long-term incentive awards of Performance-Based Share Units (PSU) and time-based RSU annually. Each PSU and RSU granted is valued based on one share of Fortis common stock traded on the Toronto Stock Exchange, converted to U.S. dollars. UNS Energy allocates the obligation and expense for this plan to its subsidiaries based on the Massachusetts Formula. UNS Energy accounts for forfeitures as they occur.

The following table represents PSUs and RSUs awarded by UNS Energy:

	2020	2019
PSUs	35,328	66,978
RSUs	1,918	33,489

The awards are classified as liability awards based on the cash settlement feature. Liability awards are measured at their fair value at the end of each reporting period and will fluctuate based on the price of Fortis' common stock as well as the level of achievement of the financial performance criteria. The awards are payable on the third anniversary of the grant date. UNS Gas' allocated share of probable payout was $0.7 million and $0.9 million as of December 31, 2020 and 2019, respectively.

UNS Gas' allocated portion of compensation expense is recognized in Operations and Maintenance Expense on the Statements of Income. Compensation expense associated with unvested PSUs and RSUs is recognized on a straight-line basis over the minimum required service period in an amount equal to the fair value on the measurement date or each reporting period. UNS Gas recorded $0.2 million in 2020 and $0.3 million in 2019 based on its share of UNS Energy's compensation expense.

NOTE 7. DEBT AND CREDIT AGREEMENT

DEBT

Long-term debt matures more than one year from the date of debt issuance. The following table presents the components of Long-Term Debt, Net on the Balance Sheets:

			December 31,	
($ in thousands)	Interest Rate	Maturity Date	2020	2019
Notes				
2011 Senior Notes	5.39%	2026	$ 50,000	$ 50,000
2015 Senior Notes	4.00%	2045	45,000	45,000
Total Long-Term Debt (1)			95,000	95,000
Less Debt Issuance Costs			515	556
Total Long-Term Debt, Net			$ 94,485	$ 94,444

(1) As of December 31, 2020, all of UNS Gas' debt is unsecured.

CREDIT AGREEMENT

In October 2015, UNS Gas and UNS Electric entered into a shared unsecured credit agreement with a maturity date of October 2022 that provides for revolving credit commitment and letter of credit (LOC) facility (2015 Credit Agreement). Terms are as follows:

(in thousands)	Capacity	Sub-Limit LOC	Borrowed	Available	Weighted Average Interest Rate	Pricing [(2)]	
					December 31, 2020		
Credit Facility [(1)]	$100,000	$ 50,000	$ 1,000	$ 99,000	3.25 %	LIBOR + 1.000%	or ABR + 0.00%
(in thousands)					December 31, 2019		
Credit Facility [(1)]	$100,000	$ 50,000	$ 40,000	$ 60,000	2.79 %	LIBOR + 1.000%	or ABR + 0.00%

(1) The maximum borrowings outstanding at any one time for UNS Gas or UNS Electric under their shared agreement may not exceed 80% of the aggregate of the commitments and each is liable for only their own individual borrowings. UNS Gas borrowings outstanding were $1.0 million and $5.0 million as of December 31, 2020 and 2019, respectively.

(2) Interest rates and fees under the credit facility are based on a pricing grid tied to the respective entity's credit ratings.

Amounts borrowed under the 2015 Credit Agreement will be used for working capital and other general corporate purposes. An LOC will be issued from time to time to support energy procurement and hedging transactions.

As of February 19, 2021, there was $100.0 million available under the shared revolving credit commitments and LOC facility.

NOTE 8. LEASES

UNS Gas' leases are included on the balance sheet as follows:

(in thousands)	Lease Type	December 31, 2020	2019
Lease Assets			
Regulatory and Other Assets, Lease Assets and Other	Operating	$ 2,025	$ 2,632
Lease Liabilities			
Current Liabilities, Other	Operating	630	588
Regulatory and Other Liabilities, Lease Liabilities and Other	Operating	1,435	2,065

OPERATING LEASES

UNS Gas leases office facilities with remaining terms of two to three years. Most leases include one or more options to renew with renewal terms that may extend a lease term for up to 20 years. Certain lease agreements include rental payments adjusted periodically for inflation or require UNS Gas to pay real estate taxes, insurance, maintenance, or other operating expenses associated with the lease premises.

LEASE COST

The following table presents the components of UNS Gas' lease cost:

(in thousands)	Years Ended December 31, 2020	2019
Operating	$ 691	$ 686
Variable	122	114
Short Term	—	6
Total Lease Cost	$ 813	$ 806

MATURITY ANALYSIS OF LEASE LIABILITIES

As of December 31, 2020, UNS Gas' future minimum lease payments, excluding payments to lessors for variable costs follow:

(in thousands)	Operating Leases
2021	$ 693
2022	685
2023	572
2024	239
2025	—
Thereafter	—
Total Lease Payments	2,189
Less Imputed Interest	124
Total Lease Obligations	2,065
Less Current Portion	630
Total Non-Current Lease Obligations	$ 1,435

LEASE TERMS AND DISCOUNT RATES

The following table presents UNS Gas' lease terms and discount rates related to its leases:

	Years Ended December 31,	
	2020	2019
Weighted-Average Remaining Lease Term (years)		
Operating Leases	3	4
Weighted-Average Discount Rate		
Operating Leases	3.5 %	3.5 %

LEASE CASH FLOWS

The following table presents cash paid for amounts included in the measurement of lease liabilities:

	Years Ended December 31,	
(in thousands)	2020	2019
Operating Cash Flows used for Operating Leases	$ 672	$ 600

See Note 11 for non-cash transactions that resulted in recognition of right-of-use assets in exchange for lease liabilities.

NOTE 9. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

As of December 31, 2020, UNS Gas had the following commitments:

(in thousands)	2021	2022	2023	2024	2025	Thereafter	Total
Minimum Purchase Commitments							
Fuel, Including Transportation	$ 15,780	$ 15,759	$ 12,407	$ 3,843	$ 3,230	$ 2,858	$ 53,877

The cost of natural gas purchases is recoverable from customers through the PGA. See Note 2 for information on ACC approved cost recovery mechanisms.

Minimum Purchase Commitments

Fuel, Including Transportation

UNS Gas purchases natural gas from various suppliers at market prices. UNS Gas' forward purchase contracts expire through the first quarter of 2021. Certain of these contracts are at a fixed price per million British thermal units (MMBtu) and others are indexed to natural gas prices. The commitment amounts included in the table above are based on projected market prices as of December 31, 2020.

UNS Gas has firm transportation agreements with capacity sufficient to meet its load requirements. These agreements expire in various years between August 2023 and October 2035.

Related Party Agreements

UNS Gas has related party agreements for natural gas supply and pipeline capacity with UNS Electric for BMGS through March 2028. As of December 31, 2020, UNS Electric's commitment under these contracts totaled $8.0 million and does not reduce the balance in the table above. Natural gas is supplied as needed to meet UNS Electric’s load requirements. See Note 6 for more information on UNS Gas' related party transactions.

CONTINGENCIES

UNS Gas is party to a variety of legal actions arising out of the normal course of business. Plaintiffs occasionally seek punitive or exemplary damages. The Company believes such normal and routine litigation will not have a material impact on its operations or financial results.

NOTE 10. EMPLOYEE BENEFIT PLANS

PENSION BENEFITS PLAN

UNS Gas does not maintain a separate pension plan. The pension plan maintained by UES covers the majority of UNS Gas' employees. UNS Gas and UNS Electric fund the plan by contributing at least the minimum amount required under IRS regulations. UES allocates net periodic benefit cost based on service cost for participating employees. UNS Gas recognizes its share of the underfunded status of the UES defined benefit pension plan as a liability in the balance sheet.

OTHER POSTRETIREMENT BENEFITS PLAN

UNS Gas provides other postretirement medical benefits for certain retirees. UNS Gas' active employees are not eligible for retiree medical benefits.

REGULATORY RECOVERY

UNS Gas records its share of changes in the pension and other postretirement defined benefit plans, not yet reflected in net periodic benefit cost, as a regulatory asset or liability, as such amounts are probable of future recovery or refund in rates charged to retail customers.

The following table presents pension and other postretirement benefit amounts (excluding tax balances) included on the balance sheet:

(in thousands)	Pension Benefits December 31, 2020	Pension Benefits 2019	Other Postretirement Benefits 2020	Other Postretirement Benefits 2019
Regulatory Assets	$ 5,836	$ 4,451	$ 506	$ 586
Accrued Employee Expenses	—	—	(30)	(38)
Pension and Other Postretirement Benefits	(3,986)	(3,916)	(267)	(319)
Net Amount Recognized	$ 1,850	$ 535	$ 209	$ 229

OBLIGATIONS AND FUNDED STATUS

The Company measured the actuarial present values of all defined benefit pension and other postretirement benefit obligations as of December 31, 2020 and 2019. The table below presents the status of the UES pension plan as a whole and UES' share of the TEP other postretirement benefits plan.

The plans have projected benefit obligations in excess of the fair value of plan assets for each period presented:

(in thousands)	Pension Benefits Years Ended December 31, 2020	Pension Benefits 2019	Other Postretirement Benefits 2020	Other Postretirement Benefits 2019
Change in Benefit Obligation				
Beginning of Period	$ 43,207	$ 34,363	$ 623	$ 682
Actuarial (Gain) Loss	7,077	6,541	23	48
Interest Cost	1,417	1,480	15	26
Service Cost	2,296	1,894	—	—
Participant Contributions	—	—	27	27
Benefits Paid	(3,662)	(1,071)	(126)	(160)
End of Period	50,335	43,207	562	623
Change in Fair Value of Plan Assets				
Beginning of Period	35,398	27,465	4	5
Actual Return on Plan Assets	6,015	6,788	—	—
Benefits Paid	(3,662)	(1,071)	(126)	(160)
Employer Contributions [(1)]	4,468	2,216	99	132
Participant Contributions	—	—	27	27
End of Period	42,219	35,398	4	4
Funded Status at End of Period	$ (8,116)	$ (7,809)	$ (558)	$ (619)

(1) UNS Gas expects to contribute $1.0 million to the pension plan in 2021.

As of December 31, 2020, UNS Gas' proportionate share of the pension plan's total funded status is approximately 49%.

The $7.1 million increase in the pension benefit obligation was driven by a significant decrease in the discount rates as a result of a decrease in interest rates. The $6.8 million increase in the pension plan assets was due to positive equity returns and fixed income returns as a result of the decline in interest rates.

The following table provides the components of UES' regulatory assets that have not been recognized as components of net periodic benefit cost as of the dates presented:

(in thousands)	Pension Benefits Years Ended December 31, 2020	Pension Benefits 2019	Other Postretirement Benefits 2020	Other Postretirement Benefits 2019
Net Loss	$ 13,134	$ 10,160	$ 920	$ 1,025
Prior Service Benefit	—	—	—	(1)

The pension plan had an accumulated benefit obligation in excess of plan assets as of the dates presented:

	December 31,	
(in thousands)	2020	2019
Accumulated Benefit Obligation	$ 42,623	$ 36,649
Fair Value of Plan Assets	42,219	35,398

The Company measures service and interest costs by applying the specific spot rates along the yield curve to the plans' liability cash flows. UES' net periodic benefit plan cost includes the following components:

	Pension Benefits		Other Postretirement Benefits	
	Years Ended December 31,			
(in thousands)	2020	2019	2020	2019
Service Cost	$ 2,296	$ 1,894	$ —	$ —
Non-Service Cost				
Interest Cost	1,417	1,480	15	26
Expected Return on Plan Assets	(2,472)	(1,932)	—	—
Amortization of Prior Service Credit	—	—	(1)	(3)
Amortization of Net Loss	560	521	128	—
Net Periodic Benefit Cost	$ 1,801	$ 1,963	$ 142	$ 23
Percent recognized by UNS Gas based on relative employee participation	51 %	51 %	54 %	45 %

The non-service components of net periodic benefit cost are included in Other, Net on the Statements of Income. In 2020 and 2019, UNS Gas capitalized 35% and 33%, respectively, of service cost as a cost of construction.

The changes in plan assets and benefit obligations recognized as regulatory assets were as follows:

	Pension Benefits		Other Postretirement Benefits	
(in thousands)	2020	2019	2020	2019
Current Year Actuarial (Gain) Loss	$ 3,534	$ 1,684	$ 23	$ 48
Amortization of Net Loss	(560)	(521)	—	—
Amortization of Prior Service Credit	—	—	1	3
Total Recognized (Gain) Loss	$ 2,974	$ 1,163	$ 24	$ 51

UNS Gas amortizes prior service costs on a straight-line basis over the average remaining service period of employees expected to receive benefits under the plan.

Net periodic benefit cost is subject to various assumptions and determinations, such as the discount rate, the rate of compensation increase, and the expected return on plan assets. Changes that may arise over time with regard to these assumptions and determinations will change amounts recorded in the future as net periodic benefit cost.

UNS Gas uses a combination of sources in selecting the expected long-term rate-of-return-on-assets assumption, including an investment return model. The model used provides a “best-estimate” range over 20 years from the 25th percentile to the 75th percentile. The model, used as a guideline for selecting the overall rate-of-return-on-assets assumption, is based on forward-looking return expectations only. The above method is used for all asset classes.

The following table includes the weighted average assumptions used to determine benefit obligations:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Discount Rate	3.0%	3.6%	2.6%	3.3%
Rate of Compensation Increase	2.8%	2.8%	N/A	N/A

The following table includes the weighted average assumptions used to determine net periodic benefit costs:

	Pension Benefits		Other Postretirement Benefits	
	2020	2019	2020	2019
Discount Rate, Service Cost	3.8%	4.6%	3.5%	4.5%
Discount Rate, Interest Cost	3.3%	4.3%	2.9%	4.0%
Rate of Compensation Increase	2.8%	2.8%	N/A	N/A
Expected Return on Plan Assets	7.0%	7.0%	N/A	N/A

Healthcare cost trend rates are assumed to decrease gradually from next year to the year the ultimate rate is reached:

	December 31,	
	2020	2019
Next Year (Pre-65)	6.1%	6.3%
Next Year (Post-65)	7.1%	7.5%
Ultimate Rate Assumed (Pre-65 and Post-65)	4.5%	4.5%
Year Ultimate Rate is Reached (Pre-65)	2037	2037
Year Ultimate Rate is Reached (Post-65)	2037	2037

PENSION PLAN ASSETS

UES calculates the fair value of plan assets on December 31, the measurement date. Pension plan asset allocations, by asset category, on the measurement date were as follows:

	December 31,	
	2020	2019
Asset Category		
Equity Securities	54 %	54 %
Fixed Income Securities	42 %	42 %
Real Estate	4 %	4 %
Total	100 %	100 %

The following tables present the fair value measurements of UES' pension plan assets by level within the fair value hierarchy:

(in thousands)	Level 1	Level 2	Total
		December 31, 2020	
Asset Category			
Equity Securities			
United States Large Cap	$ —	$ 6,044	$ 6,044
United States Small Cap	—	2,128	2,128
Non-United States	—	9,124	9,124
Global	—	5,481	5,481
Fixed Income	—	17,750	17,750
Real Estate	—	1,692	1,692
Total	$ —	$ 42,219	$ 42,219

(in thousands)		December 31, 2019	
Asset Category			
Cash Equivalents	$ 32	$ —	$ 32
Equity Securities			
United States Large Cap	—	5,171	5,171
United States Small Cap	—	1,773	1,773
Non-United States	—	7,623	7,623
Global	—	4,612	4,612
Fixed Income	—	14,751	14,751
Real Estate	—	1,436	1,436
Total	$ 32	$ 35,366	$ 35,398

- Level 1 cash equivalents are based on observable market prices and are comprised of the fair value of commercial paper, money market funds, and certificates of deposit.
- Level 2 investments comprise amounts held in commingled equity funds, United States bond funds, and real estate funds. Valuations are based on active market quoted prices for assets held by each respective fund.

Pension Plan Investments

Investment Goals

Asset allocation is the principal method for achieving each pension plan’s investment objectives while maintaining appropriate levels of risk. UNS Gas considers the projected impact on benefit security of any proposed changes to the current asset allocation policy. The expected long-term returns and implications for pension plan sponsor funding are reviewed in selecting policies to ensure that current asset pools are projected to be adequate to meet the expected liabilities of the pension plan. UNS Gas expects to use asset allocation policies weighted most heavily to equity and fixed income funds, while maintaining some exposure to real estate and opportunistic funds. Within the fixed income allocation, long-duration funds may be used to partially hedge interest rate risk.

Risk Management

UNS Gas recognizes the difficulty of achieving investment objectives in light of the uncertainties and complexities of the investment markets. The Company recognizes some risk must be assumed to achieve a pension plan’s long-term investment objectives. In establishing risk tolerances, the following factors affecting risk tolerance and risk objectives will be considered: (i) plan status; (ii) plan sponsor financial status and profitability; (iii) plan features; and (iv) workforce characteristics. UNS Gas determined that the pension plan can tolerate some interim fluctuations in market value and rates of return in order to achieve long-term objectives. UNS Gas tracks the pension plan’s portfolio relative to the benchmark through quarterly investment reviews. The reviews consist of a performance and risk assessment of all investment categories and on the portfolio as a whole. Investment managers for the pension plan may use derivative financial instruments for risk management purposes or as part of their investment strategy. Currency hedges may also be used for defensive purposes.

Relationship between Plan Assets and Benefit Obligations

The overall health of the plan will be monitored by comparing the value of plan obligations (both Accumulated Benefit Obligation and Projected Benefit Obligation) against the fair value of assets and tracking the changes in each. The frequency of this monitoring will depend on the availability of plan data, but will be no less frequent than annually via actuarial valuation.

Target Allocation Percentages

The current target allocation percentages for the major asset categories of the plan follow. The plan allows a variance of +/- 2% from targets before funds are automatically rebalanced.

	December 31, 2020
Equity Securities:	
United States Large Cap	14%
United States Small Cap	5%
Global Equity	32%
Global Infrastructure	3%
Fixed Income	42%
Real Estate	4%
Total	100%

Pension Fund Descriptions

For each type of asset category selected by the Pension Committee, UNS Gas' investment consultant assembles a group of third-party fund managers and allocates a portion of the total investment to each fund manager.

ESTIMATED FUTURE BENEFIT PAYMENTS

UES expects the following benefit payments to be made by the plans, which reflect future service, as appropriate.

(in thousands)	2021	2022	2023	2024	2025	2026-2030
Pension Benefits	$ 2,427	$ 2,671	$ 2,915	$ 2,704	$ 3,020	$ 16,677
Other Postretirement Benefits	68	64	59	55	50	187

DEFINED CONTRIBUTION PLAN

UNS Gas offers a defined contribution savings plan to all eligible employees. The plan meets the IRS required standards for 401(k) qualified plans. Participants direct the investment of contributions to certain funds in their account. The Company matches part of a participant's contributions to the plan. UNS Gas made matching contributions to the plan of $0.3 million in 2020 and 2019.

NOTE 11. SUPPLEMENTAL CASH FLOW INFORMATION

CASH TRANSACTIONS

	Years Ended December 31,	
(in thousands)	2020	2019
Interest Paid, Net of Amounts Capitalized	$ 4,564	$ 4,541
Income Taxes Paid	—	—

NON-CASH TRANSACTIONS

Other significant non-cash investing and financing activities that resulted in recognition of assets and liabilities but did not result in cash receipts or payments were as follows:

	Years Ended December 31,	
(in thousands)	2020	2019
Net Cost of Removal Increase (Decrease) [1]	$ 1,593	$ 1,306
Accrued Capital Expenditures	489	1,015
Operating Leases [2]	—	3,225

(1) Represents an accrual for future cost of retirement net of salvage values that does not impact earnings.

(2) In January 2019, UNS Gas adopted accounting guidance that requires lessees to recognize a lease liability and a right-of-use asset for all leases with a lease term greater than 12 months. UNS Gas applied the transition provisions of the new standard as of the adoption date and did not retrospectively adjust prior periods.

NOTE 12. FAIR VALUE MEASUREMENTS AND DERIVATIVE INSTRUMENTS

UNS Gas categorizes financial instruments into the three-level hierarchy based on inputs used to determine the fair value. Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in an active market. Level 2 inputs include quoted prices for similar assets or liabilities, quoted prices in non-active markets, and pricing models whose inputs are observable, directly or indirectly. Level 3 inputs are unobservable and supported by little or no market activity. UNS Gas has no financial instruments categorized as Level 3.

FINANCIAL INSTRUMENTS MEASURED AT FAIR VALUE ON A RECURRING BASIS

The following tables present, by level within the fair value hierarchy, UNS Gas' assets and liabilities accounted for at fair value through net income on a recurring basis classified in their entirety based on the lowest level of input that is significant to the fair value measurement:

	Level 1	Level 2	Total
(in thousands)		December 31, 2020	
Assets			
Energy Derivative Contracts, Regulatory Recovery [1]	$ —	$ 3,223	$ 3,223
Energy Derivative Contracts, No Regulatory Recovery [1]	—	219	219
Total Assets	—	3,442	3,442
Liabilities			
Energy Derivative Contracts, Regulatory Recovery [1]	—	(953)	(953)
Energy Derivative Contracts, No Regulatory Recovery [1]	—	(346)	(346)
Total Liabilities	—	(1,299)	(1,299)
Total Assets (Liabilities), Net	$ —	$ 2,143	$ 2,143

(in thousands)	December 31, 2019		
Assets			
Cash Equivalents [2]	$ 2,000	$ —	$ 2,000
Energy Derivative Contracts, Regulatory Recovery [1]	—	1,297	1,297
Energy Derivative Contracts, No Regulatory Recovery [1]	—	448	448
Total Assets	2,000	1,745	3,745
Liabilities			
Energy Derivative Contracts, Regulatory Recovery [1]	—	(3,694)	(3,694)
Energy Derivative Contracts, No Regulatory Recovery [1]	—	(184)	(184)
Total Liabilities	—	(3,878)	(3,878)
Total Assets (Liabilities), Net	$ 2,000	$ (2,133)	$ (133)

(1) Energy Derivative Contracts include gas swap agreements entered into to reduce exposure to energy price risk, and certain customer supply contracts. These contracts are included in Derivative Instruments on the Balance Sheets.

(2) Cash Equivalents represent amounts held in money market funds valued at cost, including interest, which approximates fair market value. Cash Equivalents are included in Cash and Cash Equivalents on the Balance Sheets.

All energy derivative contracts, other than customer supply contracts, are subject to legally enforceable master netting arrangements to mitigate credit risk. UNS Gas presents derivatives on a gross basis on the balance sheet. The tables below present the potential offset of counterparty netting and cash collateral:

	Gross Amount Recognized in the Balance Sheets	Gross Amount Not Offset in the Balance Sheets		Net Amount
		Counterparty Netting of Energy Contracts	Cash Collateral Received/Posted	
(in thousands)	December 31, 2020			
Derivative Assets				
Energy Derivative Contracts	$ 3,442	$ 758	$ —	$ 2,684
Derivative Liabilities				
Energy Derivative Contracts	(1,299)	(758)	—	(541)

(in thousands)	December 31, 2019			
Derivative Assets				
Energy Derivative Contracts	$ 1,745	$ 1,300	$ —	$ 445
Derivative Liabilities				
Energy Derivative Contracts	(3,878)	(1,300)	—	(2,578)

DERIVATIVE INSTRUMENTS

UNS Gas enters into various derivative and non-derivative contracts to reduce exposure to energy price risk associated with its natural gas purchase requirements. The objectives for entering into such contracts include: (i) creating price stability; (ii) meeting load and reserve requirements; and (iii) reducing exposure to price volatility that may result from delayed recovery under the PGA mechanism.

UNS Gas primarily applies the market approach for recurring fair value measurements. When UNS Gas has observable inputs for substantially the full term of the asset or liability or uses quoted prices in an inactive market, it categorizes the instrument in Level 2. UNS Gas categorizes derivatives in Level 3 when an aggregate pricing service or published prices that represent a consensus reporting of multiple brokers is used.

For natural gas prices, UNS Gas obtains quotes from brokers, major market participants, exchanges, or industry publications and relies on its own price experience from active transactions in the market. UNS Gas primarily uses one set of quotations and then validates those prices using other sources. UNS Gas believes that the market information provided is reflective of market conditions as of the time and date indicated.

UNS Gas also considers the impact of counterparty credit risk using current and historical default and recovery rates, as well as its own credit risk using credit default swap data.

The inputs and the Company's assessments of the significance of a particular input to the fair value measurements require judgment and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels. UNS Gas reviews the assumptions underlying its price curves monthly.

Energy Derivative Contracts, Regulatory Recovery

UNS Gas enters into energy contracts that are considered derivatives and qualify for regulatory recovery. The realized gains and losses on these energy contracts are recovered through the PGA mechanism and the unrealized gains and losses are deferred as a regulatory asset or a regulatory liability. The table below presents the unrealized gains and losses recorded to a regulatory asset or a regulatory liability on the balance sheet:

	Years Ended December 31,	
(in thousands)	2020	2019
Unrealized Net Gain	$ 4,666	$ 670

Derivative Volumes

As of December 31, 2020, UNS Gas had energy contracts that will settle on various expiration dates through 2024. The following table presents volumes associated with the energy contracts:

	December 31,	
	2020	2019
Gas Contracts BBtu	17,181	18,065

CREDIT RISK

The use of contractual arrangements to manage the risks associated with changes in energy commodity prices creates credit risk exposure resulting from the possibility of non-performance by counterparties pursuant to the terms of their contractual obligations. UNS Gas enters into contracts for the physical delivery of natural gas which contain remedies in the event of non-performance by the supply counterparties. In addition, volatile natural gas prices can create significant credit exposure from natural gas market receivables and subsequent measurements at fair value.

UNS Gas has contractual agreements for energy procurement and hedging activities that contain certain provisions requiring UNS Gas and its counterparties to post collateral under certain circumstances. These circumstances include: (i) exposures in excess of unsecured credit limits due to the volume of trading activity; (ii) changes in natural gas prices; (iii) credit rating downgrades; or (iv) unfavorable changes in counterparties' assessment of UNS Gas' credit strength. In the event that such credit events were to occur, UNS Gas, or its counterparties, would have to provide certain credit enhancements in the form of cash, LOCs, or other acceptable security to collateralize exposure beyond the allowed amounts.

UNS Gas considers the effect of counterparty credit risk in determining the fair value of derivative instruments that are in a net asset position, after incorporating collateral posted by counterparties, and then allocates the credit risk adjustment to individual contracts. UNS Gas also considers the impact of its credit risk on instruments that are in a net liability position, after considering the collateral posted, and then allocates the credit risk adjustment to the individual contracts.

The value of all derivative instruments in net liability positions under contracts with credit risk-related contingent features, including contracts under the normal purchase normal sale exception, was $6.8 million as of December 31, 2020, compared with $8.6 million as of December 31, 2019. As of December 31, 2020, UNS Gas had no collateral posted with its counterparties. As of February 19, 2021, there was $4.3 million of cash posted as collateral to provide credit enhancement. If the credit risk contingent features were triggered on December 31, 2020, UNS Gas would have been required to post an additional $6.8 million of collateral of which $6.5 million relates to outstanding net payable balances for settled positions.

FINANCIAL INSTRUMENTS NOT CARRIED AT FAIR VALUE

The fair value of a financial instrument is the market price to sell an asset or transfer a liability at the measurement date. Due to the short-term nature of borrowings under revolving credit facilities approximating fair value, they have been excluded from the table below.

The use of different estimation methods and/or market assumptions may yield different estimated fair value amounts. The following table includes the net carrying value and estimated fair value of UNS Gas' long-term debt:

		Net Carrying Value		Fair Value	
		December 31,			
(in thousands)	Fair Value Hierarchy	2020	2019	2020	2019
Liabilities					
Long-Term Debt, including Current Maturities	Level 2	$ 94,485	$ 94,444	$ 118,946	$ 108,723

NOTE 13. INCOME TAXES

Income Tax Expense included on the Statements of Income consists of the following:

	Years Ended December 31,	
(in thousands)	2020	2019
Current Income Tax Expense		
Federal	$ 2,482	$ 2,130
State	398	290
Total Current Income Tax Expense	2,880	2,420
Deferred Income Tax Expense		
Federal	153	1,247
State	270	561
Total Deferred Income Tax Expense	423	1,808
Total Federal and State Income Tax Expense	$ 3,303	$ 4,228

The significant components of deferred income tax assets and liabilities consist of the following:

	December 31,	
(in thousands)	2020	2019
Gross Deferred Income Tax Assets		
Customer Advances	$ 945	$ 1,184
Contributions in Aid of Construction	4,867	4,179
Compensation and Benefits	507	429
Income Taxes Payable Through Future Rates	7,001	7,172
Other	830	769
Total Gross Deferred Income Tax Assets	14,150	13,733
Gross Deferred Income Tax Liabilities		
Plant, Net	(46,074)	(44,798)
Income Taxes Recoverable Through Future Rates	(533)	(630)
Other	(945)	(984)
Total Gross Deferred Income Tax Liabilities	(47,552)	(46,412)
Deferred Income Taxes, Net	$ (33,402)	$ (32,679)

UNS Gas recorded no valuation allowance against deferred income tax assets as of December 31, 2020 and 2019. Management believes that based on the historical pattern of taxable income, UNS Gas will produce sufficient taxable income in the future to realize its deferred tax assets.

Included in Accounts Receivable, Net and Accounts Payable are current income taxes receivable and payable that are due from and to affiliates, respectively. UNS Gas’ net intercompany income taxes were a payable of $0.4 million and a receivable of $0.5 million as of December 31, 2020 and 2019, respectively.

UNS Gas recorded no interest expense in 2020 and 2019. In addition, UNS Gas had no interest payable and no penalties accrued as of December 31, 2020 and 2019.

UNS Gas has been audited by the IRS through tax year 2010. The Company's 2011 to 2019 tax years are open for audit by federal and state tax agencies.