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: Andrea Jacobo
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	2021

FOR COMMISSION USE

ANN 02	21

COMPANY INFORMATION

Company Name (Business Name) ________UNS Gas, Inc.____

Mailing Address _________P.O. Box 711, Mailstop HQE910______________________________________
(Street)

____Tucson____AZ______________________85702______
(City) (State) (Zip)

__(520) 918-8359__________________________(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______________________________1 (877) 837-4968_____________________________
Local Customer Service Phone No. (Include Area Code) (1-800 or other long distance Customer Service Phone No.)

Email Address ______N/A_______________________ Website address uesaz.com

MANAGEMENT INFORMATION

☐**Regulatory Contact:**

☐**Management Contact:**__Todd Hixon________________________________Sr VP, General Counsel___
(Name) (Title)

_P.O. Box 711, 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 Anaya____
(Name)

2901 W Shamrell Blvd, Suite 110 Flagstaff AZ 86001
(Street) (City) (State) (Zip)

(928) 226-2266 (520) 779-5338 N/A
Telephone No. (Include Area Code) Fax No. (Include Area Code) Cell No. (Include Area Code)

Email Address**:** MAnaya@uesaz.com____

Statutory Agent:_________Todd Hixon____
(Name)

P.O. Box 711, 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, 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	165,031
Residential	151,931
Commercial	13,052
Industrial	44
Irrigation	4
Resale	0
Total therms sold	158,677,083 therms
Residential	81,854,620
Commercial	38,771,494
Industrial	38,035,374
Irrigation	15,595
Resale	0

UTILITY SHUTOFFS/DISCONNECTS

MONTH		Termination without Notice R14-2-509.B	Termination with Notice R14-2-509.C	OTHER
January			0	
February			0	
March			376	
April			504	
May			281	
June			228	
July			174	
August			155	
September			120	
October			116	
November			119	
December			35	
TOTALS →			2,108	

OTHER (description):

UNS Gas Inc Sworn Statement 2022.pdf

DocVerify ID:	4AF6AA14-6684-4E07-8441-8CEB2D67D028
Created:	April 11, 2022 09:46:07 -8:00
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E-Signature Summary

E-Signature 1: Frank P. Marino (FPM)
April 11, 2022 14:03:12 -8:00 [E9B2C3F63A99] [216.84.89.211]
fmarino@tep.com (Principal) (Personally Known)

E-Signature Notary: kmartintep (kma)
April 11, 2022 14:03:12 -8:00 [6A609F88C826] [216.84.89.211]
kristin.martin@tep.com
I, kmartintep, did witness the participants named above electronically sign this document.

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 & Chief Financial Officer
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	2021

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 2021 WAS:

Arizona Intrastate Gross Operating Revenues Only ($)

$ 133,756,492

(THE AMOUNT IN BOX ABOVE INCLUDES $ 11,424,278 **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)**

Frank P. Marino
Signed on 2022/04/11 14:03:12 -8:00

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 PIMA COUNTY

THIS 11th **DAY OF** MONTH APRIL 2022

(SEAL)

Signed on 2022/04/11 14:03:12 -8:00

SIGNATURE OF NOTARY PUBLIC

MY COMMISSION EXPIRES 01/30/2024

Kristin E Martin
Commission # 577413
Notary Public - Arizona
Pima County
My Comm Expires Jan 30, 2024

Notary Stamp 2022/04/11 14:03:12 PST 6A609F88C826

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 and 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	2021

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 2021 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES

$ 79,523,240

(THE AMOUNT IN BOX AT LEFT INCLUDES $ 6,792,161 IN SALES TAXES BILLED, OR COLLECTED

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

Frank P. Marino
Signed on 2022/04/11 14:03:12 -8:00
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 11th **DAY OF**

NOTARY PUBLIC NAME: Kristin E. Martin

COUNTY NAME: PIMA COUNTY

MONTH: APRIL 2022

(SEAL)

MY COMMISSION
01/30/2024

Kristin E Martin
Commission # 577413
Notary Public - Arizona
Pima County
My Comm Expires Jan 30, 2024
Notary Stamp 2022/04/11 14:03:12 PST

SIGNATURE OF NOTARY PUBL
Signed on 2022/04/11 14:03:12 -8:00

communication

FINANCIAL INFORMATION

Attach to this annual report a copy of the company's year-end (Calendar Year 2021) 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, 2021

Deloitte.

Deloitte & Touche LLP
2901 North Central Avenue
Suite 1200
Phoenix, AZ 85012-2799
USA

Tel: 1 602 234 5100
Fax: 1 602 234 5186
www.deloitte.com

INDEPENDENT AUDITOR'S REPORT

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

Opinion

We have audited the financial statements of UNS Gas, Inc. (the "Company"), which comprise the balance sheets as of December 31, 2021 and 2020, 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").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Deloitte & Touche LLP

February 18, 2022

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

	Years Ended December 31, 2021	2020
Operating Revenues	**$ 130,127**	$ 111,117
Operating Expenses		
Purchased Energy	**75,554**	47,097
Increase (Decrease) to Reflect PGA Recovery Treatment	**(7,871)**	965
Total Purchased Energy	**67,683**	48,062
Operations and Maintenance	**28,551**	27,789
Depreciation	**12,818**	12,376
Amortization	**(796)**	(795)
Taxes Other Than Income Taxes	**5,015**	4,736
Total Operating Expenses	**113,271**	92,168
Operating Income	**16,856**	18,949
Other Income (Expense)		
Interest Expense	**(4,704)**	(4,736)
Allowance For Borrowed Funds	**12**	6
Allowance For Equity Funds	**3**	10
Other, Net	**144**	(74)
Total Other Income (Expense)	**(4,545)**	(4,794)
Income Before Income Tax Expense	**12,311**	14,155
Income Tax Expense	**2,695**	3,303
Net Income	**$ 9,616**	$ 10,852

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, 2021	2020
Cash Flows from Operating Activities		
Net Income	**$ 9,616**	$ 10,852
Adjustments to Reconcile Net Income to Net Cash Flows from Operating Activities:		
Depreciation Expense	**12,818**	12,376
Amortization Expense	**(796)**	(795)
Amortization of Debt Issuance Costs	**91**	90
Deferred Income Taxes	**1,233**	423
Pension and Other Postretirement Benefits Expense	**935**	995
Pension and Other Postretirement Benefits Funding	**(1,117)**	(2,291)
Allowance for Equity Funds Used During Construction	**(3)**	(10)
Regulatory Deferral, ACC Refund Order	**—**	(674)
Changes in Current Assets and Current Liabilities:		
Accounts Receivable	**(5,399)**	1,504
Materials and Supplies	**295**	417
Regulatory Assets	**(1,013)**	(964)
Other Current Assets	**(812)**	48
Accounts Payable and Accrued Charges	**3,423**	2,588
Regulatory Liabilities	**(5,688)**	934
Other, Net	**(22)**	1,673
Net Cash Flows—Operating Activities	**13,561**	27,166
Cash Flows from Investing Activities		
Capital Expenditures	**(24,835)**	(26,252)
Contributions in Aid of Construction	**3,286**	2,758
Net Cash Flows—Investing Activities	**(21,549)**	(23,494)
Cash Flows from Financing Activities		
Proceeds from Borrowings, Revolving Credit Facility	**20,000**	1,000
Repayments of Borrowings, Revolving Credit Facility	**(11,000)**	(5,000)
Dividend Paid to Parent	**—**	(4,000)
Payment of Debt Issuance Costs	**(225)**	—
Other	**380**	544
Net Cash Flows—Financing Activities	**9,155**	(7,456)
Net Increase (Decrease) in Cash and Cash Equivalents	**1,167**	(3,784)
Cash and Cash Equivalents, Beginning of Period	**1,956**	5,740
Cash and Cash Equivalents, End of Period	**$ 3,123**	$ 1,956

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

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

	December 31, 2021	December 31, 2020
ASSETS		
Utility Plant		
Plant in Service	**$ 413,758**	$ 405,565
Construction Work in Progress	**5,437**	3,057
Total Utility Plant	**419,195**	408,622
Accumulated Depreciation and Amortization	**(87,057)**	(88,231)
Total Utility Plant, Net	**332,138**	320,391
Current Assets		
Cash and Cash Equivalents	**3,123**	1,956
Accounts Receivable (Net of Allowance for Credit Losses of $474 and $729)	**25,402**	20,003
Materials and Supplies	**1,741**	2,037
Regulatory Assets	**3,094**	2,162
Derivative Instruments	**13,732**	1,987
Other	**1,466**	658
Total Current Assets	**48,558**	28,803
Regulatory and Other Assets		
Regulatory Assets	**7,388**	8,441
Derivative Instruments	**5,717**	1,455
Lease Assets and Other	**1,653**	2,153
Total Regulatory and Other Assets	**14,758**	12,049
Total Assets	**$ 395,454**	$ 361,243

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, 2021	December 31, 2020
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, 2021 and 2020)	**$ 67,978**	$ 67,978
Retained Earnings	**62,168**	52,552
Total Common Stock Equity	**130,146**	120,530
Long-Term Debt, Net	**94,527**	94,485
Total Capitalization	**224,673**	215,015
Current Liabilities		
Borrowings Under Credit Agreement	**10,000**	1,000
Accounts Payable	**18,539**	13,018
Accrued Taxes Other than Income Taxes	**5,543**	5,071
Accrued Employee Expenses	**1,814**	1,975
Accrued Interest	**1,756**	1,781
Regulatory Liabilities	**12,097**	7,610
Customer Deposits	**1,097**	1,644
Derivative Instruments	**1,709**	852
Other	**3,336**	3,709
Total Current Liabilities	**55,891**	36,660
Regulatory and Other Liabilities		
Deferred Income Taxes, Net	**35,118**	33,402
Regulatory Liabilities	**70,411**	65,626
Customer Advances for Construction	**4,061**	3,800
Pension and Other Postretirement Benefits	**3,328**	4,253
Derivative Instruments	**1,124**	447
Lease Liabilities and Other	**848**	2,040
Total Regulatory and Other Liabilities	**114,890**	109,568
Commitments and Contingencies		
Total Capitalization and Other Liabilities	**$ 395,454**	$ 361,243

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, 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**
Net Income		9,616	9,616
Balances as of December 31, 2021	**$ 67,978**	**$ 62,168**	**$ 130,146**

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 165,000 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. The ACC establishes rates that are designed to allow a regulated utility recovery of its cost of providing services and an opportunity to earn a reasonable return on its investment (Retail Rates). Regulatory assets represent incurred costs that have been deferred because they are probable of future recovery in Retail Rates charged to customers or in 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 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 legal proceedings 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:

	2021	2020
Average AFUDC Rates	1.81 %	4.94 %

Depreciation

Depreciation is recorded for owned utility plant on a group method straight-line basis, excluding software intangible plant, at depreciation rates based on the economic lives of the assets, including 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:

	2021	2020
Average Annual Depreciation Rates	2.67 %	2.63 %

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 three to five years. Amortization expense is presented in Operations and Maintenance Expense on the Statements of Income. If the associated software is 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, except during service disconnection moratoriums. Generally, customers are not charged a late payment fee when service disconnection moratoriums are 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. As of February 18, 2022, 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 Gas paid $0.3 million in December 2021 and expects to pay the remaining deferred deposits to the Internal Revenue Service (IRS) in 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 18, 2022, 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

Beginning in 2018, UNS Gas began returning savings from the reduction in the federal corporate income tax rate and an estimate of Excess Deferred Income Taxes (EDIT) amortization under the Tax Cuts and Jobs Act (TCJA) to its customers through a combination of bill credits and a regulatory liability deferral (ACC Refund Order). The bill credit is designed to return the refund amount to customers based on forecasted therm sales for the calendar year. Any over or under collected amounts are deferred to a regulatory liability or asset and are 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:

	Years Ended December 31,	
(in thousands)	2021	2020
Beginning of Period	$ 1,607	$ 751
ACC Refund (Reduction in Operating Revenues)	(2,973)	(3,077)
Amount Returned to Customers Through Bill Credits	1,819	3,933
End of Period	$ 453	$ 1,607

In October 2020, UNS Gas filed an informational filing with the ACC to establish 2021 customer refunds of $3.1 million. UNS Gas returned 100% of the refunds through customer bill credits in 2021. In October 2021, UNS Gas filed an informational filing with the ACC to establish a 2022 customer refund of $3.2 million.

Customer Bill Credits

In 2020, the ACC issued orders that accelerated the return of UNS Gas' regulatory liabilities, previously deferred until the next rate case, through customer bill credits to help mitigate the financial impact of COVID-19 in their service territories. A total of $1.3 million was returned to customers in the form of bill credits over the June 2020 billing cycle.

Additionally, 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 timely recovery of certain costs through recovery mechanisms. Cost recovery mechanisms that have a material impact on UNS Gas' operations or financial results are 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)	2021	2020
Beginning of Period	$ (5,597)	$ (4,602)
Deferred Purchased Gas Costs	54,681	38,713
PGA Recoveries	(46,822)	(39,708)
End of Period	$ 2,262	$ (5,597)

Lost Fixed Cost Recovery Mechanism

The LFCR mechanism provides for recovery of certain non-fuel costs that would go unrecovered between rate cases due to reduced retail therm sales as a result of implementing ACC-approved energy efficiency programs. The LFCR mechanism is adjusted in each rate case when the ACC approves new base rates. UNS Gas records a regulatory asset and recognizes LFCR revenues when amounts are verifiable regardless of when the lost retail therm sales occured. 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.

REGULATORY ASSETS AND LIABILITIES

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

(in thousands)	December 31, 2021	December 31, 2020
Regulatory Assets		
Pension and Other Postretirement Benefits (Note 10)	$ 5,605	$ 6,342
Purchased Gas Adjustor	2,262	—
Income Taxes Recoverable through Future Rates [(1)]	1,744	2,145
Tax Reform Bill Credit	453	1,607
Other Regulatory Assets	418	509
Total Regulatory Assets	10,482	10,603
Less Current Portion	3,094	2,162
Total Non-Current Regulatory Assets	$ 7,388	$ 8,441
Regulatory Liabilities		
Net Cost of Removal [(2)]	$ 38,549	$ 37,044
Income Taxes Payable through Future Rates [(1)]	27,269	28,153
Purchased Gas Adjustor	—	5,597
Derivatives (Note 12)	16,610	2,271
Other Regulatory Liabilities	80	171
Total Regulatory Liabilities	82,508	73,236
Less Current Portion	12,097	7,610
Total Non-Current Regulatory Liabilities	$ 70,411	$ 65,626

(1) Primarily amortized over the regulatory lives of the related 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, and general and intangible plant which are not yet expended.

UNS Gas does not earn a return on regulatory assets. 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, 2021	December 31, 2020
Plant in Service				
Distribution Plant	2.37%	30	$ 364,980	$ 358,311
Transmission Plant	1.54%	43	17,429	17,542
General Plant	4.38%	0	30,966	29,188
Intangible Plant, Software Costs, and Other [2]	Various	Various	49	190
Plant Held for Future Use	—	—	334	334
Total Plant in Service [3]			$ 413,758	$ 405,565

(1) 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 $(48.1) million and $(48.3) million as of December 31, 2021 and 2020, respectively.

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, 2021	Years Ended December 31, 2020
Retail	$ 124,486	$ 108,055
Other Services	1,210	1,704
Revenues from Contracts with Customers	125,696	109,759
Alternative Revenues	161	161
Other	4,270	1,197
Total Operating Revenues	$ 130,127	$ 111,117

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 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 has identified its LFCR mechanism as an alternative revenue. See Note 2 for additional information regarding this cost recovery mechanism.

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:

(in thousands)	December 31, 2021	December 31, 2020
Retail	$ 9,366	$ 9,856
Retail, Unbilled	11,176	9,785
Retail, Allowance for Credit Losses	(474)	(729)
Wholesale	530	—
Due from Affiliates (Note 6)	1,468	494
Other	3,336	597
Accounts Receivable	$ 25,402	$ 20,003

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 allowance is estimated based on historical collection patterns, sales, current conditions, and reasonable and supportable forecasts. The following table presents the change in the balance of Retail, Allowance for Credit Losses included in Accounts Receivable on the Balance Sheets:

(in thousands)	Years Ended December 31, 2021	Years Ended December 31, 2020
Beginning of Period	$ (729)	$ (406)
Credit Loss Expense	7	(506)
Write-offs	270	205
Recoveries	(22)	(22)
End of Period	$ (474)	$ (729)

Service Disconnection Moratorium

UNS Gas voluntarily suspended service disconnections and late fees from March 2020 through January 2021 for all customers who would have otherwise been eligible for disconnection. In December 2020, UNS Gas voluntarily created payment arrangements for gas residential and commercial customers affected by the COVID-19 pandemic. For qualifying customers the program included an automatic enrollment into an eight-month payment plan.

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)	2021	2020
Receivables from Related Parties		
TEP	$ 640	$ 102
UNS Electric	596	392
UNS Energy	232	—
Total Due from Related Parties	$ 1,468	$ 494
Payables to Related Parties		
TEP	$ 1,575	$ 1,422
UNS Electric	126	75
UNS Energy	64	433
SES	11	25
Total Due to Related Parties	$ 1,776	$ 1,955

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

	Years Ended December 31,	
(in thousands)	2021	2020
Goods and Services Provided by UNS Gas to Affiliates		
Sale and Transportation of Gas, UNS Electric (1)	$ 7,079	$ 5,011
Capacity Charges, TEP (2)	466	205
Capacity Charges, UNS Electric (1)	155	68
Corporate Services, UNS Energy Affiliates (3)	382	207
Goods and Services Provided by Affiliates to UNS Gas		
Common Costs, TEP (4)	9,910	8,880
Supplemental Workforce, SES (5)	—	79
Corporate Services, UNS Energy (6)	1,275	1,250
Corporate Services, UNS Energy Affiliates (3)	3,242	4,012
Corporate Services, Fortis Affiliates (7)	8	6

(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 services (e.g. finance, accounting, tax, legal, and information technology) and other labor services for 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. Effective January 1, 2021, TEP and UNS Electric hired SES' employees and UNS Gas will no longer utilize SES' services.

(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:

	2021	2020
RSUs	20,794	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 $0.1 million as of December 31, 2021, and 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 no compensation expense in 2021 and $0.1 million in 2020 based on its share of Fortis' 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 RSUs 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:

	2021	2020
PSUs	44,931	35,328
RSUs [1]	2,401	1,918

[1] Effective January 2020, executive officer RSU awards are issued through the 2020 Plan. Certain key employees will continue to be awarded RSUs through the 2015 Plan.

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 as of December 31, 2021 and 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 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 $0.3 million in 2021 and $0.2 million in 2020 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:

($ in thousands)	Interest Rate	Maturity Date	December 31, 2021	2020
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			473	515
Total Long-Term Debt, Net			$ 94,527	$ 94,485

(1) As of December 31, 2021, all of UNS Gas' debt is unsecured.

CREDIT AGREEMENT

In October 2021, UNS Gas and UNS Electric entered into a shared unsecured credit agreement that provides for revolving credit commitments with swingline and Letter of Credit (LOC) sublimits, due in October 2026, the termination date (2021 Credit Agreement). The final maturity date is subject to two one-year extensions if certain conditions are satisfied. The 2021 Credit Agreement amended and restated in its entirety the prior shared credit facility entered into on October 2015, and extended through October 2022, that provided for revolving credit commitments and LOC facility (2015 Credit Agreement).

Amounts borrowed under the credit agreement will be used for working capital and other general corporate purposes and are recorded in Borrowings Under Credit Agreement on the Balance Sheets.

- 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 entity is liable for only their own individual borrowings.
- Interest rates and fees are based on a pricing grids tied to the respective entity's credit ratings.

LOCs are issued from time to time to support energy procurement, hedging transactions, and other business activities. The credit agreement provides for transitions to alternative benchmark rates.

Terms are as follows:

(in thousands)	Capacity	Sub-Limit Swingline [2]	Sub-Limit LOC	Borrowed	Available	Weighted Average Interest Rate	Pricing
	December 31, 2021						
2021 Agreement[1]	$125,000	$ 10,000	$ 50,000	$ 27,000	$ 98,000	1.10 %	LIBOR + 1.000% or ABR + 0.00%

(1) UNS Gas borrowings outstanding were $10.0 million as of December 31, 2021.

(2) Swingline advances are Alternate Base Rate (ABR) Loans.

(in thousands)	Capacity	Sub-Limit LOC	Borrowed	Available	Weighted Average Interest Rate	Pricing
	December 31, 2020					
2015 Agreement [1]	$ 100,000	$ 50,000	$ 1,000	$ 99,000	3.25 %	LIBOR + 1.000% or ABR + 0.00%

(1) UNS Gas borrowings outstanding were $1.0 million as of December 31, 2020.

NOTE 8. LEASES

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

(in thousands)	Lease Type	December 31, 2021	December 31, 2020
Lease Assets			
Lease Assets and Other	Operating	$ 1,396	$ 2,025
Lease Liabilities			
Current Liabilities, Other	Operating	646	630
Lease Liabilities and Other	Operating	790	1,435

OPERATING LEASES

UNS Gas leases office facilities with remaining terms of one to two 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, 2021	Years Ended December 31, 2020
Operating	$ 691	$ 691
Variable	144	122
Total Lease Cost	$ 835	$ 813

MATURITY ANALYSIS OF LEASE LIABILITIES

As of December 31, 2021, UNS Gas' future minimum lease payments, excluding payments to lessors for variable costs follow:

(in thousands)	Operating Leases
2022	$ 685
2023	572
2024	239
2025	—
2026	—
Thereafter	—
Total Lease Payments	1,496
Less Imputed Interest	60
Total Lease Obligations	1,436
Less Current Portion	646
Total Non-Current Lease Obligations	$ 790

LEASE TERMS AND DISCOUNT RATES

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

	December 31, 2021	December 31, 2020
Weighted-Average Remaining Lease Term (years)		
Operating Leases	2	3
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)	2021	2020
Operating Cash Flows used for Operating Leases	$ 693	$ 672

NOTE 9. COMMITMENTS AND CONTINGENCIES

COMMITMENTS

As of December 31, 2021, UNS Gas had the following commitments:

(in thousands)	2022	2023	2024	2025	2026	Thereafter	Total
Minimum Purchase Commitments							
Fuel, Including Transportation	$ 15,850	$ 12,407	$ 3,843	$ 3,230	$ 1,106	$ 1,752	$ 38,188

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 has firm transportation agreements with capacity sufficient to meet its load requirements. These agreements expire in various years between 2022 and 2035.

UNS Gas has related party agreements for natural gas supply and pipeline capacity with UNS Electric for BMGS through 2028. As of December 31, 2021, UNS Electric's commitment under these contracts totaled $6.7 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:

	Pension Benefits		Other Postretirement Benefits	
	December 31,			
(in thousands)	2021	2020	2021	2020
Regulatory Assets	$ 5,079	$ 5,836	$ 526	$ 506
Accrued Employee Expenses	—	—	(28)	(30)
Pension and Other Postretirement Benefits	(3,065)	(3,986)	(263)	(267)
Net Amount Recognized	$ 2,014	$ 1,850	$ 235	$ 209

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, 2021 and 2020. 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:

	Pension Benefits		Other Postretirement Benefits	
	Years Ended December 31,			
(in thousands)	2021	2020	2021	2020
Change in Benefit Obligation				
Beginning of Period	$ 50,335	$ 43,207	$ 562	$ 623
Actuarial (Gain) Loss	34	7,077	133	23
Interest Cost	1,265	1,417	10	15
Service Cost	2,590	2,296	—	—
Participant Contributions	—	—	27	27
Benefits Paid	(3,844)	(3,662)	(181)	(126)
End of Period	50,380	50,335	551	562
Change in Fair Value of Plan Assets				
Beginning of Period	42,219	35,398	4	4
Actual Return on Plan Assets	3,674	6,015	—	—
Benefits Paid	(3,844)	(3,662)	(29)	(126)
Employer Contributions (1)	2,063	4,468	—	99
Participant Contributions	—	—	27	27
End of Period	44,112	42,219	2	4
Funded Status at End of Period	$ (6,268)	$ (8,116)	$ (549)	$ (558)

(1) UNS Gas expects to contribute $2.0 million to the pension plan in 2022.

As of December 31, 2021, UNS Gas' proportionate share of the pension plan's total funded status is approximately 49%.

The increase in pension benefits plan assets was primarily due to positive equity returns.

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:

	Pension Benefits		Other Postretirement Benefits	
	Years Ended December 31,			
(in thousands)	2021	2020	2021	2020
Net Loss	$ 11,566	$ 13,134	$ 939	$ 920

The accumulated benefit obligation for the pension plan, as of December 31, 2021, was $42.3 million. The pension plan had plan assets in excess of the accumulated benefit obligation as of December 31, 2021; whereas the accumulated benefit obligation exceeded plan assets as of December 31, 2020. This change was due to an increase in discount rates and positive equity returns.

The following table includes information for the pension plans with accumulated benefit obligations in excess of plan assets:

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

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)	2021	2020	2021	2020
Service Cost	$ 2,590	$ 2,296	$ —	$ —
Non-Service Cost				
Interest Cost	1,265	1,417	10	15
Expected Return on Plan Assets	(2,832)	(2,472)	—	—
Amortization of Prior Service Credit	—	—	—	(1)
Amortization of Net Loss	760	560	114	128
Net Periodic Benefit Cost	$ 1,783	$ 1,801	$ 124	$ 142
Percent recognized by UNS Gas based on relative employee participation	49 %	51 %	54 %	54 %

The non-service components of net periodic benefit cost are included in Other, Net on the Statements of Income. In 2021 and 2020, UNS Gas capitalized 36% and 35%, 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)	2021	2020	2021	2020
Current Year Actuarial (Gain) Loss	$ (808)	$ 3,534	$ 133	$ 23
Amortization of Net Loss	(760)	(560)	(114)	—
Amortization of Prior Service Credit	—	—	—	1
Total Recognized (Gain) Loss	$ (1,568)	$ 2,974	$ 19	$ 24

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 25^{th} percentile to the 75^{th} 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	
	2021	2020	2021	2020
Discount Rate	3.2%	3.0%	3.0%	2.6%
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	
	2021	2020	2021	2020
Discount Rate, Service Cost	3.3%	3.8%	2.9%	3.5%
Discount Rate, Interest Cost	2.5%	3.3%	1.9%	2.9%
Rate of Compensation Increase	2.8%	2.8%	N/A	N/A
Expected Return on Plan Assets	6.8%	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,	
	2021	2020
Next Year (Pre-65)	6.5%	6.1%
Next Year (Post-65)	5.5%	7.1%
Ultimate Rate Assumed (Pre-65 and Post-65)	4.5%	4.5%
Year Ultimate Rate is Reached (Pre-65)	2031	2037
Year Ultimate Rate is Reached (Post-65)	2027	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,	
	2021	2020
Asset Category		
Equity Securities	58 %	54 %
Fixed Income Securities	41 %	42 %
Real Estate	— %	4 %
Other	1 %	— %
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, 2021		
Asset Category			
Cash Equivalents	$ 348	$ —	$ 348
Equity Securities			
United States Large Cap	—	6,799	6,799
United States Small Cap	—	2,179	2,179
Non-United States	—	9,307	9,307
Global	—	7,437	7,437
Fixed Income	—	18,042	18,042
Total	$ 348	$ 43,764	$ 44,112

(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

- 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, 2021
Equity Securities:	
United States Large Cap	15%
United States Small Cap	5%
Global Equity	35%
Global Infrastructure	3%
Fixed Income	42%
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)	2022	2023	2024	2025	2026	2027-2031
Pension Benefits	$ 2,507	$ 2,695	$ 2,631	$ 2,856	$ 3,251	$ 17,590
Other Postretirement Benefits	74	68	63	57	52	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 2021 and 2020.

NOTE 11. SUPPLEMENTAL CASH FLOW INFORMATION

CASH TRANSACTIONS

	Years Ended December 31,	
(in thousands)	2021	2020
Interest Paid, Net of Amounts Capitalized	$ 4,610	$ 4,564
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:

(in thousands)	Years Ended December 31, 2021	2020
Accrued Capital Expenditures	$ 1,638	$ 489
Net Cost of Removal Increase (Decrease) [1]	1,506	1,593

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

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 1 or 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:

(in thousands)	Level 2 December 31, 2021
Assets	
Energy Derivative Contracts, Regulatory Recovery [1]	$ 17,887
Energy Derivative Contracts, No Regulatory Recovery [1]	1,562
Total Assets	19,449
Liabilities	
Energy Derivative Contracts, Regulatory Recovery [1]	(1,277)
Energy Derivative Contracts, No Regulatory Recovery [1]	(1,556)
Total Liabilities	(2,833)
Total Assets (Liabilities), Net	$ 16,616

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

[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.

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, 2021			
Derivative Assets				
Energy Derivative Contracts	$ 19,449	$ 1,954	$ —	$ 17,495
Derivative Liabilities				
Energy Derivative Contracts	(2,833)	(1,954)	—	(879)
(in thousands)	December 31, 2020			
Derivative Assets				
Energy Derivative Contracts	$ 3,442	$ 758	$ —	$ 2,684
Derivative Liabilities				
Energy Derivative Contracts	(1,299)	(758)	—	(541)

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 for natural gas 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)	2021	2020
Unrealized Net Gain [(1)]	$ 14,339	$ 4,666

(1) Increase in unrealized net gain on regulatory recoverable derivative contracts is primarily due to increases in forward market prices of natural gas.

Derivative Volumes

As of December 31, 2021, UNS Gas had energy contracts that will settle on various expiration dates through 2025. The following table presents volumes associated with the energy contracts:

	December 31, 2021	December 31, 2020
Gas Contracts BBtu	19,678	17,181

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 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 parties' assessments of each other's 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 $10.1 million as of December 31, 2021, compared with $6.8 million as of December 31, 2020. As of December 31, 2021, UNS Gas had no collateral posted with its counterparties. If the credit risk contingent features were triggered on December 31, 2021, UNS Gas would have been required to post $10.1 million of collateral of which $11.5 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:

(in thousands)	Fair Value Hierarchy	Net Carrying Value December 31, 2021	Net Carrying Value December 31, 2020	Fair Value December 31, 2021	Fair Value December 31, 2020
Liabilities					
Long-Term Debt, including Current Maturities	Level 2	$ 94,527	$ 94,485	$ 110,448	$ 118,946

NOTE 13. INCOME TAXES

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

	Years Ended December 31,	
(in thousands)	2021	2020
Current Income Tax Expense		
Federal	$ 1,338	$ 2,482
State	124	398
Total Current Income Tax Expense	1,462	2,880
Deferred Income Tax Expense		
Federal	801	153
State	432	270
Total Deferred Income Tax Expense	1,233	423
Total Income Tax Expense	$ 2,695	$ 3,303

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

	December 31,	
(in thousands)	2021	2020
Gross Deferred Income Tax Assets		
Customer Advances	$ 1,010	$ 945
Contributions in Aid of Construction	5,187	4,867
Compensation and Benefits	147	507
Income Taxes Payable Through Future Rates	6,781	7,001
Other	548	830
Total Gross Deferred Income Tax Assets	13,673	14,150
Gross Deferred Income Tax Liabilities		
Plant, Net	(47,297)	(46,074)
PGA	(563)	—
Income Taxes Recoverable Through Future Rates	(434)	(533)
Other	(497)	(945)
Total Gross Deferred Income Tax Liabilities	(48,791)	(47,552)
Deferred Income Taxes, Net	$ (35,118)	$ (33,402)

UNS Gas recorded no valuation allowance against deferred income tax assets as of December 31, 2021 and 2020. 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 receivable of $0.2 million and a payable of $0.4 million as of December 31, 2021 and 2020, respectively.

UNS Gas recorded no interest expense in 2021 and 2020. In addition, UNS Gas had no interest payable and no penalties accrued as of December 31, 2021 and 2020.

UNS Gas has been audited by the IRS through tax year 2010. The Company's 2011 to 2020 tax years are open for audit by federal and state tax agencies.