



0000049605

ORIGINAL

Jana Van Ness
Manager
Regulatory Compliance

Tel 602/250-2310
Fax 602/250-3003
e-mail: Jana.VanNess@aps.com
<http://www.apsc.com>

Mail Station 9908
P.O. Box 53999
Phoenix, AZ 85072-3999

Arizona Corporation Commission
DOCKETED

May 29, 2003

MAY 29 2003

Mr. Ernest Johnson
Director, Utilities Division
ARIZONA CORPORATION COMMISSION
1200 West Washington
Phoenix, Arizona 85007

DOCKETED BY *CAJ*

RECEIVED
2003 MAY 29 P 3:00
AZ CORP COMMISSION
DOCUMENT CONTROL

Re: ^E Docket No. ~~D~~-01345A-02-0707 (Decision No. 65796)
Arizona Public Service Company Financing Documents

Dear Mr. Johnson:

On May 12, 2003, Arizona Public Service Company ("APS") issued and sold \$300,000,000 aggregate principal amount of its 4.650% Notes due 2015 and \$200,000,000 aggregate principal amount of its 5.625% Notes due 2033 (collectively, the "Notes"), pursuant to Arizona Corporation Commission ("Commission") Decision No. 65796, dated April 4, 2003 (the "Financing Order"). Pursuant to the requirements of the Financing Order, APS is hereby filing with the Commission copies of the executed financing documents setting forth the terms of such financing (the "Financing Documents"). The following Financing Documents are attached hereto:

- Copy of the 4.650% Note due 2015;
- Copy of the 5.625% Note due 2033;
- Copy of the Indenture dated as of January 15, 1998, between APS and JPMorgan Chase Bank (formerly known as "The Chase Manhattan Bank"), as trustee, and the Seventh Supplemental Indenture thereto, dated as of May 1, 2003, pursuant to which the Notes were issued;
- Prospectus Supplement, dated May 7, 2003, to the Prospectus dated September 19, 2002;
- Evidence of Ratings from Moody's Investors Service;
- Evidence of Ratings from Standard & Poor's;
- Secured Promissory Note of Pinnacle West Energy Corporation ("PWEC") to APS;
- Amendment No. 1 to Deed of Trust and Fixture Filing (With Assignment of Rents and Security Agreement), dated December 4, 2002 (Redhawk Units 1 and 2);
- Amendment No. 1 to Deed of Trust and Fixture Filing (With Assignment of Rents and Security Agreement), dated December 4, 2002 (Saguaro Power Plant);

Page 2

- Amendment No. 1 to Deed of Trust and Fixture Filing (With Assignment of Rents and Security Agreement), dated December 4, 2002 (West Phoenix Units 4 and 5); and
- Secured Promissory Note Interest Determination Certificate setting forth the method of calculation of the interest rate to be paid on the Pinnacle West Energy Corporation Secured Promissory Note.

If you need any additional information regarding the transaction or the Financing Documents, please feel free to call me.

Sincerely,



Jana Van Ness
Manager
Regulatory Compliance

Attachment

JVN/vld

Cc: Manager, Compliance & Enforcement
Docket Control (Original + 13 copies)

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO ARIZONA PUBLIC SERVICE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

ARIZONA PUBLIC SERVICE COMPANY

4.650% Note due 2015

No. 1

\$300,000,000

CUSIP No. 040555 CE 2

Arizona Public Service Company, a corporation duly organized and existing under the laws of Arizona (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of Three Hundred Million Dollars on May 15, 2015, and to pay interest thereon from May 12, 2003 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually in arrears on May 15 and November 15 in each year, commencing November 15, 2003, at the rate of 4.650%, until the principal hereof is paid or made available for payment.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be May 1 or November 1, as the case may be, immediately preceding the Interest Payment Date (whether or not a Business Day). Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

Payment of the principal of (and premium, if any) and any interest on this Security will be made at the office or agency of the Company maintained for that purpose in the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

FROM

15:10

PINNACLE WEST LAW DEPT → 91212623616759455168

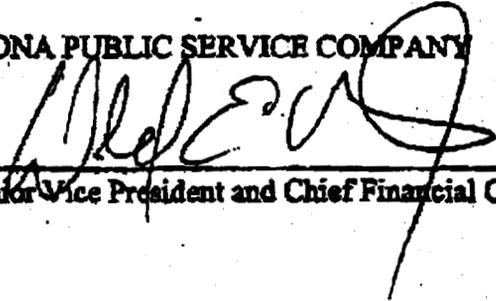
NO. 342

003

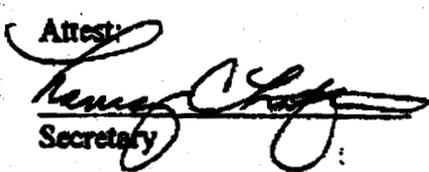
Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

ARIZONA PUBLIC SERVICE COMPANY

By 
Senior Vice President and Chief Financial Officer

Attest:


Secretary

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of January 15, 1998 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof, which is unlimited in aggregate principal amount.

The Securities of this series are subject to redemption upon not less than 30 days' notice by mail at the option of the Company, in whole or in part, from time to time at a Redemption Price equal to the greater of (a) the principal amount of the Securities (or portion thereof) of this series to be redeemed plus interest (if any) accrued to the Redemption Date or (b) the Make-Whole Amount (as defined below) with respect to the Securities of this series to be redeemed (the "Redemption Price").

If notice has been given as provided in the Indenture and funds for the redemption of any Securities (or any portion thereof) called for redemption shall have been made available on the Redemption Date referred to in such notice, such Securities (or any portion thereof) will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holders of such Securities will be to receive payment of the Redemption Price.

Notice of any optional redemption of Securities of this series (or any portion thereof) will be given to Holders at their addresses, as shown in the Security Register for such Securities, not more than 60 nor less than 30 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the Redemption Price or, if not then known, the manner of calculation thereof, and the principal amount of the Securities of this series held by such Holder to be redeemed. If less than all of the Securities of this series are to be redeemed at the option of the Company, the Trustee shall select, in such manner as it shall deem fair and appropriate, the portion of such Securities to be redeemed in whole or in part.

As used herein:

"Make-Whole Amount" means the sum, as determined by a Quotation Agent, of the present values of the principal amount of the Securities of this series to be redeemed, together with scheduled payments of interest (exclusive of interest to the Redemption Date) from the Redemption Date to the Stated Maturity of the Securities of this series, in each case discounted to the Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Adjusted Treasury Rate, plus accrued interest (if any) on the principal amount of the Securities of this series being redeemed to the Redemption Date.

"Adjusted Treasury Rate" means, with respect to any Redemption Date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15 (519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the remaining term of the Securities of this series,

yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date, in each case calculated on the third Business Day preceding the Redemption Date, plus in each case 0.150%.

"Comparable Treasury Issue" means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term from the Redemption Date to the Stated Maturity of the Securities of this series that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Securities of this series.

"Quotation Agent" means the Reference Treasury Dealer selected by the Trustee after consultation with the Company.

"Reference Treasury Dealer" means each primary U.S. Government securities dealer selected by the Company.

"Comparable Treasury Price" means, with respect to any Redemption Date, if clause (ii) of the definition of Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Trustee, Reference Treasury Dealer Quotations for such Redemption Date.

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

The Securities of this series will not be subject to any sinking fund.

In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee

without the consent of such Holders in certain limited circumstances or with the consent of the Holders of 66-2/3% in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Dated: May 12, 2003

JPMORGAN CHASE BANK
As Trustee

By *Kathleen Perry*
Authorized Officer

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO ARIZONA PUBLIC SERVICE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

ARIZONA PUBLIC SERVICE COMPANY

5.625% Note due 2033

No. 1

\$200,000,000

CUSIP No. 040555 CF 9

Arizona Public Service Company, a corporation duly organized and existing under the laws of Arizona (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of Two Hundred Million Dollars on May 15, 2033, and to pay interest thereon from May 12, 2003 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually in arrears on May 15 and November 15 in each year, commencing November 15, 2003, at the rate of 5.625%, until the principal hereof is paid or made available for payment.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be May 1 or November 1, as the case may be, immediately preceding the Interest Payment Date (whether or not a Business Day). Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

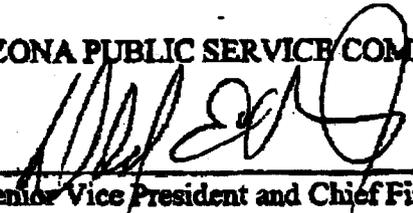
Payment of the principal of (and premium, if any) and any interest on this Security will be made at the office or agency of the Company maintained for that purpose in the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

ARIZONA PUBLIC SERVICE COMPANY

By 
Senior Vice President and Chief Financial Officer

Attest:

Secretary

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of January 15, 1998 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof, which is unlimited in aggregate principal amount.

The Securities of this series are subject to redemption upon not less than 30 days' notice by mail at the option of the Company, in whole or in part, from time to time at a Redemption Price equal to the greater of (a) the principal amount of the Securities (or portion thereof) of this series to be redeemed plus interest (if any) accrued to the Redemption Date or (b) the Make-Whole Amount (as defined below) with respect to the Securities of this series to be redeemed (the "Redemption Price").

If notice has been given as provided in the Indenture and funds for the redemption of any Securities (or any portion thereof) called for redemption shall have been made available on the Redemption Date referred to in such notice, such Securities (or any portion thereof) will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holders of such Securities will be to receive payment of the Redemption Price.

Notice of any optional redemption of Securities of this series (or any portion thereof) will be given to Holders at their addresses, as shown in the Security Register for such Securities, not more than 60 nor less than 30 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the Redemption Price or, if not then known, the manner of calculation thereof, and the principal amount of the Securities of this series held by such Holder to be redeemed. If less than all of the Securities of this series are to be redeemed at the option of the Company, the Trustee shall select, in such manner as it shall deem fair and appropriate, the portion of such Securities to be redeemed in whole or in part.

As used herein:

"Make-Whole Amount" means the sum, as determined by a Quotation Agent, of the present values of the principal amount of the Securities of this series to be redeemed, together with scheduled payments of interest (exclusive of interest to the Redemption Date) from the Redemption Date to the Stated Maturity of the Securities of this series, in each case discounted to the Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Adjusted Treasury Rate, plus accrued interest (if any) on the principal amount of the Securities of this series being redeemed to the Redemption Date.

"Adjusted Treasury Rate" means, with respect to any Redemption Date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15 (S19)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the remaining term of the Securities of this series,

yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date, in each case calculated on the third Business Day preceding the Redemption Date, plus in each case 0.150%.

"Comparable Treasury Issue" means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term from the Redemption Date to the Stated Maturity of the Securities of this series that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Securities of this series.

"Quotation Agent" means the Reference Treasury Dealer selected by the Trustee after consultation with the Company.

"Reference Treasury Dealer" means each primary U.S. Government securities dealer selected by the Company.

"Comparable Treasury Price" means, with respect to any Redemption Date, if clause (ii) of the definition of Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Trustee, Reference Treasury Dealer Quotations for such Redemption Date.

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

The Securities of this series will not be subject to any sinking fund.

In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee

without the consent of such Holders in certain limited circumstances or with the consent of the Holders of 66-2/3% in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Dated: May 12, 2003

JP MORGAN CHASE BANK

As Trustee

By Kathleen Perry
Authorized Officer

ARIZONA PUBLIC SERVICE COMPANY

TO

THE CHASE MANHATTAN BANK

Trustee

Indenture

Dated as of January 15, 1998

(For Senior Securities)

**Certain Sections of this Indenture relating to Sections 310 through 318,
inclusive, of the Trust Indenture Act of 1939:**

| Trust Indenture Act Section | Indenture Section |
|--------------------------------|-------------------|
| § 310(a)(1) | 609 |
| (a)(2) | 609 |
| (a)(3) | Not Applicable |
| (a)(4) | Not Applicable |
| (b) | 608 |
| | 610 |
| § 311(a) | 613 |
| (b) | 613 |
| § 312(a) | 701 |
| | 702 |
| (b) | 702 |
| (c) | 702 |
| § 313(a) | 703 |
| (b) | 703 |
| (c) | 703 |
| (d) | 703 |
| § 314(a) | 704 |
| (a)(4) | 101 |
| | 1004 |
| (b) | Not Applicable |
| (c)(1) | 102 |
| (c)(2) | 102 |
| (c)(3) | Not Applicable |
| (d) | Not Applicable |
| (e) | 102 |
| § 315(a) | 601 |
| (b) | 602 |
| (c) | 601 |
| (d) | 601 |
| (e) | 514 |
| § 316(a) | 101 |
| (a)(1)(A) | 502 |
| | 512 |
| (a)(1)(B) | 513 |
| (a)(2) | Not Applicable |
| (b) | 508 |
| (c) | 104 |
| § 317(a)(1) | 503 |
| (a)(2) | 504 |

| | |
|----------------|------|
| (b) | 1003 |
| § 318(a) | 107 |

NOTE: This reconciliation and tie shall not, for any purpose, be deemed to be a part of the Indenture.

TABLE OF CONTENTS

Page

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS
OF GENERAL APPLICATION 1

Section 101. *Definitions* 1
Section 102. *Compliance Certificates and Opinions* 7
Section 103. *Form of Documents Delivered to Trustee* 8
Section 104. *Acts of Holders; Record Dates* 9
Section 105. *Notices, Etc., to Trustee and Company* 11
Section 106. *Notice to Holders; Waiver* 11
Section 107. *Conflict with Trust Indenture Act* 12
Section 108. *Effect of Headings and Table of Contents* 12
Section 109. *Successors and Assigns* 12
Section 110. *Separability Clause* 12
Section 111. *Benefits of Indenture* 13
Section 112. *Governing Law* 13
Section 113. *Legal Holidays* 13

ARTICLE TWO

SECURITY FORMS 13

Section 201. *Forms Generally* 13
Section 202. *Form of Face of Security* 14
Section 203. *Form of Reverse of Security* 16
Section 204. *Form of Legend for Global Securities* 20
Section 205. *Form of Trustee's Certificate of Authentication* 20

ARTICLE THREE

THE SECURITIES 21

Section 301. *Amount Unlimited; Issuable in Series* 21
Section 302. *Denominations* 24
Section 303. *Execution, Authentication, Delivery and Dating* 24
Section 304. *Temporary Securities* 26
Section 305. *Registration, Registration of Transfer and Exchange* 27

| | | |
|--------------|---|----|
| Section 306. | <i>Mutilated, Destroyed, Lost and Stolen Securities</i> | 29 |
| Section 307. | <i>Payment of Interest; Interest Rights Preserved</i> | 30 |
| Section 308. | <i>Persons Deemed Owners</i> | 31 |
| Section 309. | <i>Cancellation</i> | 31 |
| Section 310. | <i>Computation of Interest</i> | 32 |
| Section 311. | <i>CUSIP Numbers</i> | 32 |

ARTICLE FOUR

SATISFACTION AND DISCHARGE 33

| | | |
|--------------|--|----|
| Section 401. | <i>Satisfaction and Discharge of Indenture</i> | 33 |
| Section 402. | <i>Application of Trust Money</i> | 34 |

ARTICLE FIVE

REMEDIES 34

| | | |
|--------------|--|----|
| Section 501. | <i>Events of Default</i> | 34 |
| Section 502. | <i>Acceleration of Maturity; Rescission and Annulment</i> | 36 |
| Section 503. | <i>Collection of Indebtedness and Suits for Enforcement by Trustee</i> | 37 |
| Section 504. | <i>Trustee May File Proofs of Claim</i> | 38 |
| Section 505. | <i>Trustee May Enforce Claims Without Possession of Securities</i> | 39 |
| Section 506. | <i>Application of Money Collected</i> | 39 |
| Section 507. | <i>Limitation on Suits</i> | 40 |
| Section 508. | <i>Unconditional Right of Holders to Receive Principal, Premium and Interest</i> | 40 |
| Section 509. | <i>Restoration of Rights and Remedies</i> | 41 |
| Section 510. | <i>Rights and Remedies Cumulative</i> | 41 |
| Section 511. | <i>Delay or Omission Not Waiver</i> | 41 |
| Section 512. | <i>Control by Holders</i> | 42 |
| Section 513. | <i>Waiver of Past Defaults</i> | 42 |
| Section 514. | <i>Undertaking for Costs</i> | 43 |
| Section 515. | <i>Waiver of Usury, Stay or Extension Laws</i> | 43 |

ARTICLE SIX

THE TRUSTEE 43

| | | |
|--------------|--|----|
| Section 601. | <i>Certain Duties and Responsibilities</i> | 43 |
| Section 602. | <i>Notice of Defaults</i> | 44 |
| Section 603. | <i>Certain Rights of Trustee</i> | 44 |

| | | |
|--------------|--|----|
| Section 604. | <i>Not Responsible for Recitals or Issuance of Securities</i> | 45 |
| Section 605. | <i>May Hold Securities</i> | 45 |
| Section 606. | <i>Money Held in Trust</i> | 46 |
| Section 607. | <i>Compensation and Reimbursement</i> | 46 |
| Section 608. | <i>Conflicting Interests</i> | 47 |
| Section 609. | <i>Corporate Trustee Required; Eligibility</i> | 47 |
| Section 610. | <i>Resignation and Removal; Appointment of Successor</i> | 48 |
| Section 611. | <i>Acceptance of Appointment by Successor</i> | 49 |
| Section 612. | <i>Merger, Conversion, Consolidation or Succession to Business</i> | 50 |
| Section 613. | <i>Preferential Collection of Claims Against Company</i> | 51 |
| Section 614. | <i>Appointment of Authenticating Agent</i> | 51 |

ARTICLE SEVEN

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY 54

| | | |
|--------------|--|----|
| Section 701. | <i>Company to Furnish Trustee Names and Addresses of Holders</i> | 54 |
| Section 702. | <i>Preservation of Information; Communications to Holders</i> | 54 |
| Section 703. | <i>Reports by Trustee</i> | 55 |
| Section 704. | <i>Reports by Company</i> | 55 |

ARTICLE EIGHT

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE 55

| | | |
|--------------|---|----|
| Section 801. | <i>Company May Consolidate, Etc., Only on Certain Terms</i> | 55 |
| Section 802. | <i>Successor Substituted</i> | 56 |

ARTICLE NINE

SUPPLEMENTAL INDENTURES 57

| | | |
|--------------|---|----|
| Section 901. | <i>Supplemental Indentures Without Consent of Holders</i> | 57 |
| Section 902. | <i>Supplemental Indentures With Consent of Holders</i> | 58 |
| Section 903. | <i>Execution of Supplemental Indentures</i> | 59 |
| Section 904. | <i>Effect of Supplemental Indentures</i> | 60 |
| Section 905. | <i>Conformity with Trust Indenture Act</i> | 60 |
| Section 906. | <i>Reference in Securities to Supplemental Indentures</i> | 60 |

ARTICLE TEN

COVENANTS 61

Section 1001. *Payment of Principal, Premium and Interest* 61

Section 1002. *Maintenance of Office or Agency* 61

Section 1003. *Money for Securities Payments to Be Held in Trust* 61

Section 1004. *Statement by Officers as to Default* 62

Section 1005. *Existence* 63

Section 1006. *Maintenance of Properties* 63

Section 1007. *Payment of Taxes and Other Claims* 63

Section 1008. *Waiver of Certain Covenants* 64

Section 1009. *Calculation of Original Issue Discount* 64

ARTICLE ELEVEN

REDEMPTION OF SECURITIES 64

Section 1101. *Applicability of Article* 64

Section 1102. *Election to Redeem; Notice to Trustee* 64

Section 1103. *Selection by Trustee of Securities to Be Redeemed* 65

Section 1104. *Notice of Redemption* 66

Section 1105. *Deposit of Redemption Price* 67

Section 1106. *Securities Payable on Redemption Date* 67

Section 1107. *Securities Redeemed in Part* 67

ARTICLE TWELVE

SINKING FUNDS 68

Section 1201. *Applicability of Article* 68

Section 1202. *Satisfaction of Sinking Fund Payments with Securities* 68

Section 1203. *Redemption of Securities for Sinking Fund* 69

ARTICLE THIRTEEN

DEFEASANCE AND COVENANT DEFEASANCE 69

Section 1301. *Company's Option to Effect Defeasance or Covenant Defeasance* 69

Section 1302. *Defeasance and Discharge* 69

Section 1303. *Covenant Defeasance* 70

Section 1304. *Conditions to Defeasance or Covenant Defeasance* 70

Section 1305. *Deposited Money and U.S. Government Obligations to Be
Held in Trust; Miscellaneous Provisions* 73
Section 1306. *Reinstatement* 73

INDENTURE, dated as of January 15, 1998, between Arizona Public Service Company, a corporation duly organized and existing under the laws of the State of Arizona (herein called the "Company"), having its principal office at 400 North Fifth Street, Phoenix, Arizona 85004, and The Chase Manhattan Bank, a New York banking corporation, as Trustee (herein called the "Trustee").

RECITALS OF THE COMPANY

The Company has duly authorized the execution and delivery of this Indenture to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (herein called the "Securities"), to be issued in one or more series as in this Indenture provided.

All things necessary to make this Indenture a valid agreement of the Company, in accordance with its terms, have been done.

NOW, THEREFORE, THIS INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Securities by the Holders thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Securities or of series thereof, as follows:

ARTICLE ONE

DEFINITIONS AND OTHER PROVISIONS OF GENERAL APPLICATION

SECTION 101. *Definitions.*

For all purposes of this Indenture, except as otherwise expressly provided or unless the context otherwise requires:

- (1) the terms defined in this Article have the meanings assigned to them in this Article and include the plural as well as the singular;
- (2) all other terms used herein which are defined in the Trust Indenture Act, either directly or by reference therein, have the meanings assigned to them therein;
- (3) all accounting terms not otherwise defined herein have the meanings assigned to them in accordance with generally accepted accounting

principles, and, except as otherwise herein expressly provided, the term "generally accepted accounting principles" with respect to any computation required or permitted hereunder shall mean such accounting principles as are generally accepted in the United States of America;

(4) unless the context otherwise requires, any reference to an "Article" or a "Section" refers to an Article or a Section, as the case may be, of this Indenture; and

(5) the words "herein", "hereof" and "hereunder" and other words of similar import refer to this Indenture as a whole and not to any particular Article, Section or other subdivision.

"Act", when used with respect to any Holder, has the meaning specified in Section 104.

"Affiliate" of any specified Person means any other Person directly or indirectly controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, "control" when used with respect to any specified Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms "controlling" and "controlled" have meanings correlative to the foregoing.

"Authenticating Agent" means any Person authorized by the Trustee pursuant to Section 614 to act on behalf of the Trustee to authenticate Securities of one or more series.

"Board of Directors" means either the board of directors of the Company or any duly authorized committee of that board.

"Board Resolution" means a copy of a resolution certified by the Secretary or an Assistant Secretary of the Company to have been duly adopted by the Board of Directors and to be in full force and effect on the date of such certification, and delivered to the Trustee.

"Business Day", when used with respect to any Place of Payment, means each Monday, Tuesday, Wednesday, Thursday and Friday which is not a day on which banking institutions in that Place of Payment are authorized or obligated by law or executive order to close.

"Commission" means the Securities and Exchange Commission, from time to time constituted, created under the Exchange Act, or, if at any time after the execution of this instrument such Commission is not existing and performing the duties now assigned to it under the Trust Indenture Act, then the body performing such duties at such time.

"Company" means the Person named as the "Company" in the first paragraph of this instrument until a successor Person shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Company" shall mean such successor Person.

"Company Request" or "Company Order" means a written request or order signed in the name of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President or a Vice President, and by its Treasurer, an Assistant Treasurer, its Secretary or an Assistant Secretary, and delivered to the Trustee.

"Corporate Trust Office" means the office of the Trustee in the City of New York, New York at which at any particular time its corporate trust business shall be principally administered, which office at the date hereof is located at 450 West 33rd Street, New York, New York 10001.

"corporation" means a corporation, association, company, joint-stock company or business trust.

"Covenant Defeasance" has the meaning specified in Section 1303.

"Defaulted Interest" has the meaning specified in Section 307.

"Defeasance" has the meaning specified in Section 1302.

"Depository" means, with respect to Securities of any series issuable in whole or in part in the form of one or more Global Securities, a clearing agency registered under the Exchange Act that is designated to act as Depository for such Securities as contemplated by Section 301.

"Event of Default" has the meaning specified in Section 501.

"Exchange Act" means the Securities Exchange Act of 1934 and any statute successor thereto, in each case as amended from time to time.

"Expiration Date" has the meaning specified in Section 104.

"Global Security" means a Security that evidences all or part of the Securities of any series and bears the legend set forth in Section 204 (or such legend as may be specified as contemplated by Section 301 for such Securities).

"Holder" means a Person in whose name a Security is registered in the Security Register.

"Indenture" means this instrument as originally executed and as it may from time to time be supplemented or amended by one or more indentures supplemental hereto entered into pursuant to the applicable provisions hereof, including, for all purposes of this instrument and any such supplemental indenture, the provisions of the Trust Indenture Act that are deemed to be a part of and govern this instrument and any such supplemental indenture, respectively. The term "Indenture" shall also include the terms of particular series of Securities established as contemplated by Section 301.

"interest", when used with respect to an Original Issue Discount Security which by its terms bears interest only after Maturity, means interest payable after Maturity.

"Interest Payment Date", when used with respect to any Security, means the Stated Maturity of an instalment of interest on such Security.

"Investment Company Act" means the Investment Company Act of 1940 and any statute successor thereto, in each case as amended from time to time.

"Maturity", when used with respect to any Security, means the date on which the principal of such Security or an instalment of principal becomes due and payable as therein or herein provided, whether at the Stated Maturity or by declaration of acceleration, call for redemption or otherwise.

"Notice of Default" means a written notice of the kind specified in Section 501(4).

"Officers' Certificate" means a certificate signed by the Chairman of the Board, a Vice Chairman of the Board, the President or a Vice President, and by the Treasurer, an Assistant Treasurer, the Secretary or an Assistant Secretary, of the Company, and delivered to the Trustee. One of the officers signing an Officers' Certificate given pursuant to Section 1004 shall be the principal executive, financial or accounting officer of the Company.

"Opinion of Counsel" means a written opinion of counsel, who may be counsel for the Company; or other counsel who shall be acceptable to the Trustee.

"Original Issue Discount Security" means any Security which provides for an amount less than the principal amount thereof to be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502.

"Outstanding", when used with respect to Securities, means, as of the date of determination, all Securities theretofore authenticated and delivered under this Indenture, *except:*

(1) Securities theretofore canceled by the Trustee or delivered to the Trustee for cancellation;

(2) Securities for whose payment or redemption money in the necessary amount has been theretofore deposited with the Trustee or any Paying Agent (other than the Company) in trust or set aside and segregated in trust by the Company (if the Company shall act as its own Paying Agent) for the Holders of such Securities; *provided* that, if such Securities are to be redeemed, notice of such redemption has been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee has been made;

(3) Securities as to which Defeasance has been effected pursuant to Section 1302; and

(4) Securities which have been paid pursuant to Section 306 or in exchange for or in lieu of which other Securities have been authenticated and delivered pursuant to this Indenture, other than any such Securities in respect of which there shall have been presented to the Trustee proof satisfactory to it that such Securities are held by a bona fide purchaser in whose hands such Securities are valid obligations of the Company;

provided, however, that in determining whether the Holders of the requisite principal amount of the Outstanding Securities have given, made or taken any request, demand, authorization, direction, notice, consent, waiver or other action hereunder as of any date, (A) the principal amount of an Original Issue Discount Security which shall be deemed to be Outstanding shall be the amount of the principal thereof which would be due and payable as of such date upon acceleration of the Maturity thereof to such date pursuant to Section 502, (B) if, as of such date, the principal amount payable at the Stated Maturity of a Security is not determinable, the principal amount of such Security which shall be deemed to be Outstanding shall be the amount as specified or determined as contemplated by Section 301, (C) the principal amount of a Security denominated in one or more foreign currencies or currency units which shall be deemed to be Outstanding shall be the U.S. dollar equivalent, determined as of such date in the manner provided as contemplated by Section 301, of the principal amount of such Security (or, in the case of a Security described in Clause (A) or (B) above, of the amount determined as provided in such Clause), and (D) Securities owned by the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor shall be disregarded and deemed not to be Outstanding, except that, in determining whether the Trustee shall be protected in relying upon any such request, demand, authorization, direction, notice, consent, waiver or other action, only Securities which the Trustee actually knows to be so owned shall be so disregarded. Securities so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Securities and that the pledgee is not the Company or any other obligor upon the Securities or any Affiliate of the Company or of such other obligor.

"Paying Agent" means any Person authorized by the Company to pay the principal of or any premium or interest on any Securities on behalf of the Company.

"Person" means any individual, corporation, partnership, joint venture, trust, unincorporated organization or government or any agency or political subdivision thereof.

"Place of Payment", when used with respect to the Securities of any series, means the place or places where the principal of and any premium and interest on the Securities of that series are payable as specified as contemplated by Section 301.

"Predecessor Security" of any particular Security means every previous Security evidencing all or a portion of the same debt as that evidenced by such particular Security; and, for the purposes of this definition, any Security authenticated and delivered under Section 306 in exchange for or in lieu of a mutilated, destroyed, lost or stolen Security shall be deemed to evidence the same debt as the mutilated, destroyed, lost or stolen Security.

"Redemption Date", when used with respect to any Security to be redeemed, means the date fixed for such redemption by or pursuant to this Indenture.

"Redemption Price", when used with respect to any Security to be redeemed, means the price at which it is to be redeemed pursuant to this Indenture.

"Regular Record Date" for the interest payable on any Interest Payment Date on the Securities of any series means the date specified for that purpose as contemplated by Section 301.

"Responsible Officer", when used with respect to the Trustee, means the chairman or any vice-chairman of the board of directors, the chairman or any vice-chairman of the executive committee of the board of directors, the chairman of the trust committee, the president, any vice president, the secretary, any assistant secretary, the treasurer, any assistant treasurer, the cashier, any assistant cashier, any senior trust officer, any trust officer or assistant trust officer, the controller or any assistant controller or any other officer of the Trustee customarily performing functions similar to those performed by any of the above designated officers and also means, with respect to a particular corporate trust matter, any other officer to whom such matter is referred because of his knowledge of and familiarity with the particular subject.

"Securities" has the meaning stated in the first recital of this Indenture and more particularly means any Securities authenticated and delivered under this Indenture.

"Securities Act" means the Securities Act of 1933 and any statute successor thereto, in each case as amended from time to time.

"Security Register" and "Security Registrar" have the respective meanings specified in Section 305.

"Special Record Date" for the payment of any Defaulted Interest means a date fixed by the Trustee pursuant to Section 307.

"Stated Maturity", when used with respect to any Security or any instalment of principal thereof or interest thereon, means the date specified in such Security as the fixed date on which the principal of such Security or such instalment of principal or interest is due and payable.

"Subsidiary" means a corporation more than 50% of the outstanding voting stock of which is owned, directly or indirectly, by the Company or by one or more other Subsidiaries, or by the Company and one or more other Subsidiaries. For the purposes of this definition, "voting stock" means stock which ordinarily has voting power for the election of directors, whether at all times or only so long as no senior class of stock has such voting power by reason of any contingency.

"Trust Indenture Act" means the Trust Indenture Act of 1939 as in force at the date as of which this instrument was executed; *provided, however*, that in the event the Trust Indenture Act of 1939 is amended after such date, "Trust Indenture Act" means, to the extent required by any such amendment, the Trust Indenture Act of 1939 as so amended.

"Trustee" means the Person named as the "Trustee" in the first paragraph of this instrument until a successor Trustee shall have become such pursuant to the applicable provisions of this Indenture, and thereafter "Trustee" shall mean or include each Person who is then a Trustee hereunder, and if at any time there is more than one such Person, "Trustee" as used with respect to the Securities of any series shall mean the Trustee with respect to Securities of that series.

"U.S. Government Obligation" has the meaning specified in Section 1304.

"Vice President", when used with respect to the Company or the Trustee, means any vice president, whether or not designated by a number or a word or words added before or after the title "vice president".

SECTION 102. *Compliance Certificates and Opinions.*

Upon any application or request by the Company to the Trustee to take any action under any provision of this Indenture, the Company shall furnish to the Trustee such certificates and opinions as may be required under the Trust Indenture Act. Each such certificate or opinion shall be given in the form of an Officers' Certificate, if to be given by

an officer of the Company, or an Opinion of Counsel, if to be given by counsel, and shall comply with the requirements of the Trust Indenture Act and any other requirements set forth in this Indenture.

Every certificate or opinion with respect to compliance with a condition or covenant provided for in this Indenture shall include,

(1) a statement that each individual signing such certificate or opinion has read such covenant or condition and the definitions herein relating thereto;

(2) a brief statement as to the nature and scope of the examination or investigation upon which the statements or opinions contained in such certificate or opinion are based;

(3) a statement that, in the opinion of each such individual, he has made such examination or investigation as is necessary to enable him to express an informed opinion as to whether or not such covenant or condition has been complied with; and

(4) a statement as to whether, in the opinion of each such individual, such condition or covenant has been complied with.

SECTION 103. *Form of Documents Delivered to Trustee.*

In any case where several matters are required to be certified by, or covered by an opinion of, any specified Person, it is not necessary that all such matters be certified by, or covered by the opinion of, only one such Person, or that they be so certified or covered by only one document, but one such Person may certify or give an opinion with respect to some matters and one or more other such Persons as to other matters, and any such Person may certify or give an opinion as to such matters in one or several documents.

Any certificate or opinion of an officer of the Company may be based, insofar as it relates to legal matters, upon a certificate or opinion of, or representations by, counsel, unless such officer knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to the matters upon which his certificate or opinion is based are erroneous. Any such certificate or opinion of counsel may be based, insofar as it relates to factual matters, upon a certificate or opinion of, or representations by, an officer or officers of the Company stating that the information with respect to such factual matters is in the possession of the Company, unless such counsel knows, or in the exercise of reasonable care should know, that the certificate or opinion or representations with respect to such matters are erroneous.

Where any Person is required to make, give or execute two or more applications, requests, consents, certificates, statements, opinions or other instruments under this Indenture, they may, but need not, be consolidated and form one instrument.

SECTION 104. *Acts of Holders; Record Dates.*

Any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders may be embodied in and evidenced by one or more instruments of substantially similar tenor signed by such Holders in person or by agent duly appointed in writing; and, except as herein otherwise expressly provided, such action shall become effective when such instrument or instruments are delivered to the Trustee and, where it is hereby expressly required, to the Company. Such instrument or instruments (and the action embodied therein and evidenced thereby) are herein sometimes referred to as the "Act" of the Holders signing such instrument or instruments. Proof of execution of any such instrument or of a writing appointing any such agent shall be sufficient for any purpose of this Indenture and (subject to Section 601) conclusive in favor of the Trustee and the Company, if made in the manner provided in this Section.

The fact and date of the execution by any Person of any such instrument or writing may be proved by the affidavit of a witness of such execution or by a certificate of a notary public or other officer authorized by law to take acknowledgments of deeds, certifying that the individual signing such instrument or writing acknowledged to him the execution thereof. Where such execution is by a signer acting in a capacity other than his individual capacity, such certificate or affidavit shall also constitute sufficient proof of his authority. The fact and date of the execution of any such instrument or writing, or the authority of the Person executing the same, may also be proved in any other manner which the Trustee deems sufficient.

The ownership of Securities shall be proved by the Security Register.

Any request, demand, authorization, direction, notice, consent, waiver or other Act of the Holder of any Security shall bind every future Holder of the same Security and the Holder of every Security issued upon the registration of transfer thereof or in exchange therefor or in lieu thereof in respect of anything done, omitted or suffered to be done by the Trustee or the Company in reliance thereon, whether or not notation of such action is made upon such Security.

The Company may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to give, make or take any request, demand, authorization, direction, notice, consent, waiver or other action provided or permitted by this Indenture to be given, made or taken by Holders of Securities of such

series, *provided* that the Company may not set a record date for, and the provisions of this paragraph shall not apply with respect to, the giving or making of any notice, declaration, request or direction referred to in the next paragraph. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of the relevant series on such record date, and no other Holders, shall be entitled to take or revoke the relevant action, whether or not such Holders remain Holders after such record date; *provided* that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Company from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be canceled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Company, at its own expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Trustee in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 106.

The Trustee may set any day as a record date for the purpose of determining the Holders of Outstanding Securities of any series entitled to join in the giving or making of (i) any Notice of Default, (ii) any declaration of acceleration referred to in Section 502, (iii) any request to institute proceedings referred to in Section 507(2) or (iv) any direction referred to in Section 512, in each case with respect to Securities of such series. If any record date is set pursuant to this paragraph, the Holders of Outstanding Securities of such series on such record date, and no other Holders, shall be entitled to join in such notice, declaration, request or direction or to revoke the same, whether or not such Holders remain Holders after such record date; *provided* that no such action shall be effective hereunder unless taken on or prior to the applicable Expiration Date by Holders of the requisite principal amount of Outstanding Securities of such series on such record date. Nothing in this paragraph shall be construed to prevent the Trustee from setting a new record date for any action for which a record date has previously been set pursuant to this paragraph (whereupon the record date previously set shall automatically and with no action by any Person be canceled and of no effect), and nothing in this paragraph shall be construed to render ineffective any action taken by Holders of the requisite principal amount of Outstanding Securities of the relevant series on the date such action is taken. Promptly after any record date is set pursuant to this paragraph, the Trustee, at the Company's expense, shall cause notice of such record date, the proposed action by Holders and the applicable Expiration Date to be given to the Company in writing and to each Holder of Securities of the relevant series in the manner set forth in Section 106.

With respect to any record date set pursuant to this Section, the party hereto which sets such record dates may designate any day as the "Expiration Date" and from time to time

may change the Expiration Date to any earlier or later day; *provided* that no such change shall be effective unless notice of the proposed new Expiration Date is given to the other party hereto in writing, and to each Holder of Securities of the relevant series in the manner set forth in Section 106, on or prior to the existing Expiration Date. If an Expiration Date is not designated with respect to any record date set pursuant to this Section, the party hereto which set such record date shall be deemed to have initially designated the 180th day after such record date as the Expiration Date with respect thereto, subject to its right to change the Expiration Date as provided in this paragraph. Notwithstanding the foregoing, no Expiration Date shall be later than the 180th day after the applicable record date.

Without limiting the foregoing, a Holder entitled hereunder to take any action hereunder with regard to any particular Security may do so with regard to all or any part of the principal amount of such Security or by one or more duly appointed agents each of which may do so pursuant to such appointment with regard to all or any part of such principal amount.

SECTION 105. *Notices, Etc., to Trustee and Company.*

Any request, demand, authorization, direction, notice, consent, waiver or Act of Holders or other document provided or permitted by this Indenture to be made upon, given or furnished to, or filed with,

(1) the Trustee by any Holder or by the Company shall be sufficient for every purpose hereunder if made, given, furnished or filed in writing to or with the Trustee at its Corporate Trust Office, Attention: Corporate Trustee Administration, or

(2) the Company by the Trustee or by any Holder shall be sufficient for every purpose hereunder (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to the Company addressed to it at the address of its principal office specified in the first paragraph of this instrument or at any other address previously furnished in writing to the Trustee by the Company.

SECTION 106. *Notice to Holders; Waiver.*

Where this Indenture provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and mailed, first-class postage prepaid, to each Holder affected by such event, at his address as it appears in the Security Register, not later than the latest date (if any), and not earlier than the earliest date (if any), prescribed for the giving of such notice. In any case where notice to Holders

is given by mail, neither the failure to mail such notice, nor any defect in any notice so mailed, to any particular Holder shall affect the sufficiency of such notice with respect to other Holders. Where this Indenture provides for notice in any manner, such notice may be waived in writing by the Person entitled to receive such notice, either before or after the event, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Trustee, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

In case by reason of the suspension of regular mail service or by reason of any other cause it shall be impracticable to give such notice by mail, then such notification as shall be made with the approval of the Trustee shall constitute a sufficient notification for every purpose hereunder.

SECTION 107. *Conflict with Trust Indenture Act.*

If any provision hereof limits, qualifies or conflicts with a provision of the Trust Indenture Act which is required under such Act to be a part of and govern this Indenture, the latter provision shall control. If any provision of this Indenture modifies or excludes any provision of the Trust Indenture Act which may be so modified or excluded, the latter provision shall be deemed to apply to this Indenture as so modified or to be excluded, as the case may be.

SECTION 108. *Effect of Headings and Table of Contents.*

The Article and Section headings herein and the Table of Contents are for convenience only and shall not affect the construction hereof.

SECTION 109. *Successors and Assigns.*

All covenants and agreements in this Indenture by the Company shall bind its successors and assigns, whether so expressed or not.

SECTION 110. *Separability Clause.*

In case any provision in this Indenture or in the Securities shall be invalid, illegal or unenforceable, the validity, legality and enforceability of the remaining provisions shall not in any way be affected or impaired thereby.

SECTION 111. *Benefits of Indenture.*

Nothing in this Indenture or in the Securities, express or implied, shall give to any Person, other than the parties hereto and their successors hereunder and the Holders, any benefit or any legal or equitable right, remedy or claim under this Indenture.

SECTION 112. *Governing Law.*

This Indenture and the Securities shall be governed by and construed in accordance with the law of the State of New York, without regard to conflicts of laws principles thereof.

SECTION 113. *Legal Holidays.*

In any case where any Interest Payment Date, Redemption Date or Stated Maturity of any Security shall not be a Business Day at any Place of Payment, then (notwithstanding any other provision of this Indenture or of the Securities (other than a provision of any Security which specifically states that such provision shall apply in lieu of this Section)) payment of interest or principal (and premium, if any) need not be made at such Place of Payment on such date, but may be made on the next succeeding Business Day at such Place of Payment with the same force and effect as if made on the Interest Payment Date or Redemption Date, or at the Stated Maturity.

ARTICLE TWO

SECURITY FORMS

SECTION 201. *Forms Generally.*

The Securities of each series shall be in substantially the form set forth in this Article, or in such other form as shall be established by or pursuant to a Board Resolution or in one or more indentures supplemental hereto, in each case with such appropriate insertions, omissions, substitutions and other variations as are required or permitted by this Indenture, and may have such letters, numbers or other marks of identification and such legends or endorsements placed thereon as may be required to comply with the rules of any securities exchange or Depositary therefor or as may, consistently herewith, be determined by the officers executing such Securities, as evidenced by their execution thereof. If the form of Securities of any series is established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the

Company Order contemplated by Section 303 for the authentication and delivery of such Securities.

The definitive Securities shall be printed, lithographed or engraved on steel engraved borders or may be produced in any other manner, all as determined by the officers executing such Securities, as evidenced by their execution of such Securities.

SECTION 202. *Form of Face of Security.*

[Insert any legend required by the Internal Revenue Code and the regulations thereunder.]

ARIZONA PUBLIC SERVICE COMPANY

No. _____

\$ _____

CUSIP No. _____

Arizona Public Service Company, a corporation duly organized and existing under the laws of Arizona (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to _____, or registered assigns, the principal sum of _____ Dollars on _____ [if the Security is to bear interest prior to Maturity, insert _ , and to pay interest thereon from _____ or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually on _____ and _____ in each year, commencing _____, at the rate of ___% per annum, until the principal hereof is paid or made available for payment [if applicable, insert _ , provided that any principal and premium, and any such instalment of interest, which is overdue shall bear interest at the rate of ___% per annum (to the extent that the payment of such interest shall be legally enforceable), from the dates such amounts are due until they are paid or made available for payment, and such interest shall be payable on demand]. The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be the _____ or _____. (whether or not a Business Day), as the case may be, next preceding such Interest Payment Date. Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not

inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture].

[If the Security is not to bear interest prior to Maturity, insert _ The principal of this Security shall not bear interest except in the case of a default in payment of principal upon acceleration, upon redemption or at Stated Maturity and in such case the overdue principal and any overdue premium shall bear interest at the rate of ____ % per annum (to the extent that the payment of such interest shall be legally enforceable), from the dates such amounts are due until they are paid or made available for payment. Interest on any overdue principal or premium shall be payable on demand. Any such interest on overdue principal or premium which is not paid on demand shall bear interest at the rate of ____ % per annum (to the extent that the payment of such interest on interest shall be legally enforceable), from the date of such demand until the amount so demanded is paid or made available for payment. Interest on any overdue interest shall be payable on demand.]

Payment of the principal of (and premium, if any) and *[if applicable, insert _ any such]* interest on this Security will be made at the office or agency of the Company maintained for that purpose in _____, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts *[if applicable, insert _ ; provided, however,* that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register].

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

ARIZONA PUBLIC SERVICE COMPANY

By _____

Attest:

SECTION 203. *Form of Reverse of Security.*

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of January 15, 1998 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and The Chase Manhattan Bank, as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof [*if applicable, insert* _ , limited in aggregate principal amount to \$ _____].

[*if applicable, insert* _ The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, [*if applicable, insert* _ (1) on in any year commencing with the year and ending with the year through operation of the sinking fund for this series at a Redemption Price equal to 100% of the principal amount, and (2)] at any time [*if applicable, insert* _ on or after, 19..], as a whole or in part, at the election of the Company, at the following Redemption Prices (expressed as percentages of the principal amount): If redeemed [*if applicable, insert* _ on or before, ...%, and if redeemed] during the 12-month period beginning of the years indicated,

| <u>Year</u> | <u>Redemption Price</u> | <u>Year</u> | <u>Redemption Price</u> |
|-------------|-----------------------------|-------------|-----------------------------|
|-------------|-----------------------------|-------------|-----------------------------|

and thereafter at a Redemption Price equal to% of the principal amount, together in the case of any such redemption [*if applicable, insert* _ (whether through operation of the sinking fund or otherwise)] with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[*if applicable, insert* _ The Securities of this series are subject to redemption upon not less than 30 days' notice by mail, (1) on in any year commencing with the year and ending with the year through operation of the sinking fund for this series at the Redemption Prices for redemption through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below, and (2) at any time [*if*

applicable, insert _ on or after,], as a whole or in part, at the election of the Company, at the Redemption Prices for redemption otherwise than through operation of the sinking fund (expressed as percentages of the principal amount) set forth in the table below: If redeemed during the 12-month period beginning of the years indicated,

| <u>Year</u> | Redemption Price For Redemption Through Operation of the <u>Sinking Fund</u> | Redemption Price For Redemption Otherwise Than Through Operation <u>of the Sinking Fund</u> |
|-------------|--|--|
|-------------|--|--|

and thereafter at a Redemption Price equal to% of the principal amount, together in the case of any such redemption (whether through operation of the sinking fund or otherwise) with accrued interest to the Redemption Date, but interest installments whose Stated Maturity is on or prior to such Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, of record at the close of business on the relevant Record Dates referred to on the face hereof, all as provided in the Indenture.]

[*If applicable, insert* _ Notwithstanding the foregoing, the Company may not, prior to, redeem any Securities of this series as contemplated by [*if applicable, insert* _ Clause (2) of] the preceding paragraph as a part of, or in anticipation of, any refunding operation by the application, directly or indirectly, of moneys borrowed having an interest cost to the Company (calculated in accordance with generally accepted financial practice) of less than% per annum.]

[*If applicable, insert* _ The sinking fund for this series provides for the redemption on in each year beginning with the year and ending with the year of [*if applicable, insert* _ not less than \$..... (“mandatory sinking fund”) and not more than] \$..... aggregate principal amount of Securities of this series. Securities of this series acquired or redeemed by the Company otherwise than through [*if applicable, insert* _ mandatory] sinking fund payments may be credited against subsequent [*if applicable, insert* _ mandatory] sinking fund payments otherwise required to be made [*if applicable, insert* _ , in the inverse order in which they become due].]

[*If the Security is subject to redemption of any kind, insert* _ In the event of redemption of this Security in part only, a new Security or Securities of this series and of like

tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.]

[If applicable, insert _ The Indenture contains provisions for defeasance at any time of [the entire indebtedness of this Security] [or] [certain restrictive covenants and Events of Default with respect to this Security] [, in each case] upon compliance with certain conditions set forth in the Indenture.]

[If the Security is not an Original Issue Discount Security, insert _ If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.]

[If the Security is an Original Issue Discount Security, insert _ If an Event of Default with respect to Securities of this series shall occur and be continuing, an amount of principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture. Such amount shall be equal to *_ insert formula for determining the amount.* Upon payment (i) of the amount of principal so declared due and payable and (ii) of interest on any overdue principal, premium and interest (in each case to the extent that the payment of such interest shall be legally enforceable), all of the Company's obligations in respect of the payment of the principal of and premium and interest, if any, on the Securities of this series shall terminate.]

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee with the consent of the Holders of 66 2/3% in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such

Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$..... and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this

Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

SECTION 204. *Form of Legend for Global Securities.*

Unless otherwise specified as contemplated by Section 301 for the Securities evidenced thereby, every Global Security authenticated and delivered hereunder shall bear a legend in substantially the following form:

THIS SECURITY IS A GLOBAL SECURITY WITHIN THE MEANING OF THE INDENTURE HEREINAFTER REFERRED TO AND IS REGISTERED IN THE NAME OF A DEPOSITARY OR A NOMINEE THEREOF. THIS SECURITY MAY NOT BE EXCHANGED IN WHOLE OR IN PART FOR A SECURITY REGISTERED, AND NO TRANSFER OF THIS SECURITY IN WHOLE OR IN PART MAY BE REGISTERED, IN THE NAME OF ANY PERSON OTHER THAN SUCH DEPOSITARY OR A NOMINEE THEREOF, EXCEPT IN THE LIMITED CIRCUMSTANCES DESCRIBED IN THE INDENTURE.

SECTION 205. *Form of Trustee's Certificate of Authentication.*

The Trustee's certificates of authentication shall be in substantially the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

THE CHASE MANHATTAN BANK,
As Trustee

By _____
Authorized Officer

ARTICLE THREE

THE SECURITIES

SECTION 301. *Amount Unlimited; Issuable in Series.*

The aggregate principal amount of Securities which may be authenticated and delivered under this Indenture is unlimited.

The Securities may be issued in one or more series. There shall be established in or pursuant to a Board Resolution and, subject to Section 303, set forth, or determined in the manner provided, in an Officers' Certificate, or established in one or more indentures supplemental hereto, prior to the issuance of Securities of any series,

(1) the title of the Securities of the series (which shall distinguish the Securities of the series from Securities of any other series);

(2) any limit upon the aggregate principal amount of the Securities of the series which may be authenticated and delivered under this Indenture (except for Securities authenticated and delivered upon registration of transfer of, or in exchange for, or in lieu of, other Securities of the series pursuant to Section 304, 305, 306, 906 or 1107 and except for any Securities which, pursuant to Section 303, are deemed never to have been authenticated and delivered hereunder);

(3) the Person to whom any interest on a Security of the series shall be payable, if other than the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest;

(4) the date or dates on which the principal of any Securities of the series is payable;

(5) the rate or rates at which any Securities of the series shall bear interest, if any, the date or dates from which any such interest shall accrue, the Interest Payment Dates on which any such interest shall be payable, the manner (if any) of determination of such Interest Payment Dates and the Regular Record Date for any such interest payable on any Interest Payment Date;

(6) the right, if any, to extend the interest payment periods and the duration of such extension;

(7) the place or places where the principal of and any premium and interest on any Securities of the series shall be payable;

(8) the period or periods within which, the price or prices at which and the terms and conditions upon which any Securities of the series may be redeemed, in whole or in part, at the option of the Company and, if other than by a Board Resolution, the manner in which any election by the Company to redeem the Securities shall be evidenced;

(9) the obligation, if any, of the Company to redeem or purchase any Securities of the series pursuant to any sinking fund or analogous provisions or at the option of the Holder thereof and the period or periods within which, the price or prices at which and the terms and conditions upon which any Securities of the series shall be redeemed or purchased, in whole or in part, pursuant to such obligation;

(10) if other than denominations of \$1,000 and any integral multiple thereof, the denominations in which any Securities of the series shall be issuable;

(11) if the amount of principal of or any premium or interest on any Securities of the series may be determined with reference to an index or pursuant to a formula, the manner in which such amounts shall be determined;

(12) if other than the currency of the United States of America, the currency, currencies or currency units in which the principal of or any premium or interest on any Securities of the series shall be payable and the manner of determining the equivalent thereof in the currency of the United States of America for any purpose, including for purposes of the definition of "Outstanding" in Section 101;

(13) if the principal of or any premium or interest on any Securities of the series is to be payable, at the election of the Company or the Holder thereof, in one or more currencies or currency units other than that or those in which such Securities are stated to be payable, the currency, currencies or currency units in which the principal of or any premium or interest on such

Securities as to which such election is made shall be payable, the periods within which and the terms and conditions upon which such election is to be made and the amount so payable (or the manner in which such amount shall be determined);

(14) if other than the entire principal amount thereof, the portion of the principal amount of any Securities of the series which shall be payable upon declaration of acceleration of the Maturity thereof pursuant to Section 502;

(15) if the principal amount payable at the Stated Maturity of any Securities of the series will not be determinable as of any one or more dates prior to the Stated Maturity, the amount which shall be deemed to be the principal amount of such Securities as of any such date for any purpose thereunder or hereunder, including the principal amount thereof which shall be due and payable upon any Maturity other than the Stated Maturity or which shall be deemed to be Outstanding as of any date prior to the Stated Maturity (or, in any such case, the manner in which such amount deemed to be the principal amount shall be determined);

(16) if applicable, that the Securities of the series, in whole or any specified part, shall be defeasible pursuant to Section 1302 or Section 1303 or both such Sections and, if other than by a Board Resolution, the manner in which any election by the Company to defease such Securities shall be evidenced;

(17) if applicable, that any Securities of the series shall be issuable in whole or in part in the form of one or more Global Securities and, in such case, the respective Depositaries for such Global Securities, the form of any legend or legends which shall be borne by any such Global Security in addition to or in lieu of that set forth in Section 204 and any circumstances in addition to or in lieu of those set forth in Clause (2) of the last paragraph of Section 305 in which any such Global Security may be exchanged in whole or in part for Securities registered, and any transfer of such Global Security in whole or in part may be registered, in the name or names of Persons other than the Depositary for such Global Security or a nominee thereof;

(18) any addition to or change in the Events of Default which applies to any Securities of the series and any change in the right of the

Trustee or the requisite Holders of such Securities to declare the principal amount thereof due and payable pursuant to Section 502;

(19) any addition to or change in the covenants set forth in Article Ten which applies to Securities of the series; and

(20) any other terms of the series (which terms shall not be inconsistent with the provisions of this Indenture, except as permitted by Section 901(5)).

All Securities of any one series shall be substantially identical except as to denomination and except as may otherwise be provided in or pursuant to the Board Resolution referred to above and (subject to Section 303) set forth, or determined in the manner provided, in the Officers' Certificate referred to above or in any such indenture supplemental hereto.

If any of the terms of the series are established by action taken pursuant to a Board Resolution, a copy of an appropriate record of such action shall be certified by the Secretary or an Assistant Secretary of the Company and delivered to the Trustee at or prior to the delivery of the Officers' Certificate setting forth the terms of the series.

SECTION 302. *Denominations.*

The Securities of each series shall be issuable only in fully registered form without coupons and only in such denominations as shall be specified as contemplated by Section 301. In the absence of any such specified denomination with respect to the Securities of any series, the Securities of such series shall be issuable in denominations of \$1,000 and any integral multiple thereof.

SECTION 303. *Execution, Authentication, Delivery and Dating.*

The Securities shall be executed on behalf of the Company by its Chairman of the Board, its Vice Chairman of the Board, its President or one of its Vice Presidents, under its corporate seal reproduced thereon attested by its Secretary or one of its Assistant Secretaries. The signature of any of these officers on the Securities may be manual or facsimile.

Securities bearing the manual or facsimile signatures of individuals who were at any time the proper officers of the Company shall bind the Company, notwithstanding that such individuals or any of them have ceased to hold such offices prior to the authentication and delivery of such Securities or did not hold such offices at the date of such Securities.

At any time and from time to time after the execution and delivery of this Indenture, the Company may deliver Securities of any series executed by the Company to the Trustee for authentication, together with a Company Order for the authentication and delivery of such Securities, and the Trustee in accordance with the Company Order shall authenticate and deliver such Securities. If the form or terms of the Securities of the series have been established by or pursuant to one or more Board Resolutions as permitted by Sections 201 and 301, in authenticating such Securities, and accepting the additional responsibilities under this Indenture in relation to such Securities, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying upon, an Opinion of Counsel stating,

(1) if the form of such Securities has been established by or pursuant to Board Resolution as permitted by Section 201, that such form has been established in conformity with the provisions of this Indenture;

(2) if the terms of such Securities have been established by or pursuant to Board Resolution as permitted by Section 301, that such terms have been established in conformity with the provisions of this Indenture; and

(3) that such Securities, when authenticated and delivered by the Trustee and issued by the Company in the manner and subject to any conditions specified in such Opinion of Counsel, will constitute valid and legally binding obligations of the Company enforceable in accordance with their terms, subject to bankruptcy, insolvency, fraudulent transfer, reorganization, moratorium and similar laws of general applicability relating to or affecting creditors' rights and to general equity principles.

If such form or terms have been so established, the Trustee shall not be required to authenticate such Securities if the issue of such Securities pursuant to this Indenture will affect the Trustee's own rights, duties or immunities under the Securities and this Indenture or otherwise in a manner which is not reasonably acceptable to the Trustee.

Notwithstanding the provisions of Section 301 and of the preceding paragraph, if all Securities of a series are not to be originally issued at one time, it shall not be necessary to deliver the Officers' Certificate otherwise required pursuant to Section 301 or the Company

Order and Opinion of Counsel otherwise required pursuant to such preceding paragraph at or prior to the authentication of each Security of such series if such documents are delivered at or prior to the authentication upon original issuance of the first Security of such series to be issued.

Each Security shall be dated the date of its authentication.

No Security shall be entitled to any benefit under this Indenture or be valid or obligatory for any purpose unless there appears on such Security a certificate of authentication substantially in the form provided for herein executed by the Trustee by manual signature of an authorized officer, and such certificate upon any Security shall be conclusive evidence, and the only evidence, that such Security has been duly authenticated and delivered hereunder. Notwithstanding the foregoing, if any Security shall have been authenticated and delivered hereunder but never issued and sold by the Company, and the Company shall deliver such Security to the Trustee for cancellation as provided in Section 309, for all purposes of this Indenture such Security shall be deemed never to have been authenticated and delivered hereunder and shall never be entitled to the benefits of this Indenture.

SECTION 304. *Temporary Securities.*

Pending the preparation of definitive Securities of any series, the Company may execute, and upon Company Order the Trustee shall authenticate and deliver, temporary Securities which are printed, lithographed, typewritten, mimeographed or otherwise produced, in any authorized denomination, substantially of the tenor of the definitive Securities in lieu of which they are issued and with such appropriate insertions, omissions, substitutions and other variations as the officers executing such Securities may determine, as evidenced by their execution of such Securities.

If temporary Securities of any series are issued, the Company will cause definitive Securities of that series to be prepared without unreasonable delay. After the preparation of definitive Securities of such series, the temporary Securities of such series shall be exchangeable for definitive Securities of such series upon surrender of the temporary Securities of such series at the office or agency of the Company in a Place of Payment for that series, without charge to the Holder. Upon surrender for cancellation of any one or more temporary Securities of any series, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor one or more definitive Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount.

Until so exchanged, the temporary Securities of any series shall in all respects be entitled to the same benefits under this Indenture as definitive Securities of such series and tenor.

SECTION 305. *Registration, Registration of Transfer and Exchange.*

The Company shall cause to be kept at the Corporate Trust Office of the Trustee a register (the register maintained in such office or in any other office or agency of the Company in a Place of Payment being herein sometimes referred to as the "Security Register") in which, subject to such reasonable regulations as it may prescribe, the Company shall provide for the registration of Securities and of transfers of Securities. The Trustee is hereby appointed "Security Registrar" for the purpose of registering Securities and transfers of Securities as herein provided.

Upon surrender for registration of transfer of any Security of a series at the office or agency of the Company in a Place of Payment for that series, the Company shall execute, and the Trustee shall authenticate and deliver, in the name of the designated transferee or transferees, one or more new Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount.

At the option of the Holder, Securities of any series may be exchanged for other Securities of the same series, of any authorized denominations and of like tenor and aggregate principal amount, upon surrender of the Securities to be exchanged at such office or agency. Whenever any Securities are so surrendered for exchange, the Company shall execute, and the Trustee shall authenticate and deliver, the Securities which the Holder making the exchange is entitled to receive.

All Securities issued upon any registration of transfer or exchange of Securities shall be the valid obligations of the Company, evidencing the same debt, and entitled to the same benefits under this Indenture, as the Securities surrendered upon such registration of transfer or exchange.

Every Security presented or surrendered for registration of transfer or for exchange shall (if so required by the Company or the Trustee) be duly endorsed, or be accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed, by the Holder thereof or his attorney duly authorized in writing.

No service charge shall be made for any registration of transfer or exchange of Securities, but the Company may require payment of a sum sufficient to cover any tax or

other governmental charge that may be imposed in connection with any registration of transfer or exchange of Securities, other than exchanges pursuant to Section 304, 906 or 1107 not involving any transfer.

If the Securities of any series (or of any series and specified tenor) are to be redeemed, the Company shall not be required (A) to issue, register the transfer of or exchange any Securities of that series (or of that series and specified tenor, as the case may be) during a period beginning at the opening of business 15 days before the day of the mailing of a notice of redemption of any such Securities selected for redemption and ending at the close of business on the day of such mailing, or (B) to register the transfer of or exchange any Security so selected for redemption in whole or in part, except the unredeemed portion of any Security being redeemed in part.

The provisions of Clauses (1), (2), (3) and (4) below shall apply only to Global Securities:

(1) Each Global Security authenticated under this Indenture shall be registered in the name of the Depositary designated for such Global Security or a nominee thereof and delivered to such Depositary or a nominee thereof or custodian therefor, and each such Global Security shall constitute a single Security for all purposes of this Indenture.

(2) Notwithstanding any other provision in this Indenture, no Global Security may be exchanged in whole or in part for Securities registered, and no transfer of a Global Security in whole or in part may be registered, in the name of any Person other than the Depositary for such Global Security or a nominee thereof unless (A) such Depositary (i) has notified the Company that it is unwilling or unable to continue as Depositary for such Global Security or (ii) has ceased to be a clearing agency registered under the Exchange Act, (B) there shall have occurred and be continuing an Event of Default with respect to such Global Security or (C) there shall exist such circumstances, if any, in addition to or in lieu of the foregoing as have been specified for this purpose as contemplated by Section 301.

(3) Subject to Clause (2) above, any exchange of a Global Security for other Securities may be made in whole or in part, and all Securities issued in exchange for a Global Security or any portion thereof shall be registered in such names as the Depositary for such Global Security shall direct.

(4) Every Security authenticated and delivered upon registration of transfer of, or in exchange for or in lieu of, a Global Security or any portion thereof, whether pursuant to this Section, Section 304, 306, 906 or 1107 or otherwise, shall be authenticated and delivered in the form of, and shall be, a Global Security, unless such Security is registered in the name of a Person other than the Depositary for such Global Security or a nominee thereof.

SECTION 306. *Mutilated, Destroyed, Lost and Stolen Securities.*

If any mutilated Security is surrendered to the Trustee, the Company shall execute and the Trustee shall authenticate and deliver in exchange therefor a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

If there shall be delivered to the Company and the Trustee (i) evidence to their satisfaction of the destruction, loss or theft of any Security and (ii) such security or indemnity as may be required by them to save each of them and any agent of either of them harmless, then, in the absence of notice to the Company or the Trustee that such Security has been acquired by a bona fide purchaser, the Company shall execute and the Trustee shall authenticate and deliver, in lieu of any such destroyed, lost or stolen Security, a new Security of the same series and of like tenor and principal amount and bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost or stolen Security has become or is about to become due and payable, the Company in its discretion may, instead of issuing a new Security, pay such Security.

Upon the issuance of any new Security under this Section, the Company may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto and any other expenses (including the fees and expenses of the Trustee) connected therewith.

Every new Security of any series issued pursuant to this Section in lieu of any destroyed, lost or stolen Security shall constitute an original additional contractual obligation of the Company, whether or not the destroyed, lost or stolen Security shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Securities of that series duly issued hereunder.

The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities.

SECTION 307. Payment of Interest; Interest Rights Preserved.

Except as otherwise provided as contemplated by Section 301 with respect to any series of Securities, interest on any Security which is payable, and is punctually paid or duly provided for, on any Interest Payment Date shall be paid to the Person in whose name that Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest.

Any interest on any Security of any series which is payable, but is not punctually paid or duly provided for, on any Interest Payment Date (herein called "Defaulted Interest") shall forthwith cease to be payable to the Holder on the relevant Regular Record Date by virtue of having been such Holder, and such Defaulted Interest may be paid by the Company, at its election in each case, as provided in Clause (1) or (2) below:

(1) The Company may elect to make payment of any Defaulted Interest to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on a Special Record Date for the payment of such Defaulted Interest, which shall be fixed in the following manner. The Company shall notify the Trustee in writing of the amount of Defaulted Interest proposed to be paid on each Security of such series and the date of the proposed payment, and at the same time the Company shall deposit with the Trustee an amount of money equal to the aggregate amount proposed to be paid in respect of such Defaulted Interest or shall make arrangements satisfactory to the Trustee for such deposit prior to the date of the proposed payment, such money when deposited to be held in trust for the benefit of the Persons entitled to such Defaulted Interest as in this Clause provided. Thereupon the Trustee shall fix a Special Record Date for the payment of such Defaulted Interest which shall be not more than 15 days and not less than 10 days prior to the date of the proposed payment and not less than 10 days after the receipt by the Trustee of the notice of the proposed payment. The Trustee shall promptly notify the Company of such Special Record Date and, in the name and at the expense of the Company, shall cause notice of the proposed payment of such Defaulted Interest and the Special Record Date therefor to be given to each Holder of Securities of such series in the manner set forth in Section 106, not less than 10 days prior to such Special Record Date. Notice of the proposed

payment of such Defaulted Interest and the Special Record Date therefor having been so mailed, such Defaulted Interest shall be paid to the Persons in whose names the Securities of such series (or their respective Predecessor Securities) are registered at the close of business on such Special Record Date and shall no longer be payable pursuant to the following Clause (2),

(2) The Company may make payment of any Defaulted Interest on the Securities of any series in any other lawful manner not inconsistent with the requirements of any securities exchange on which such Securities may be listed, and upon such notice as may be required by such exchange, if, after notice given by the Company to the Trustee of the proposed payment pursuant to this Clause, such manner of payment shall be deemed practicable by the Trustee.

Subject to the foregoing provisions of this Section, each Security delivered under this Indenture upon registration of transfer of or in exchange for or in lieu of any other Security shall carry the rights to interest accrued and unpaid, and to accrue, which were carried by such other Security.

SECTION 308. *Persons Deemed Owners.*

Prior to due presentment of a Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name such Security is registered as the owner of such Security for the purpose of receiving payment of principal of and any premium and (subject to Section 307) any interest on such Security and for all other purposes whatsoever, whether or not such Security be overdue, and neither the Company, the Trustee nor any agent of the Company or the Trustee shall be affected by notice to the contrary.

SECTION 309. *Cancellation.*

All Securities surrendered for payment, redemption, registration of transfer or exchange or for credit against any sinking fund payment shall, if surrendered to any Person other than the Trustee, be delivered to the Trustee and shall be promptly canceled by it. The Company may at any time deliver to the Trustee for cancellation any Securities previously authenticated and delivered hereunder which the Company may have acquired in any manner whatsoever, and may deliver to the Trustee (or to any other Person for delivery to the Trustee) for cancellation any Securities previously authenticated hereunder which the

Company has not issued and sold, and all Securities so delivered shall be promptly canceled by the Trustee. No Securities shall be authenticated in lieu of or in exchange for any Securities canceled as provided in this Section, except as expressly permitted by this Indenture. All canceled Securities held by the Trustee shall be disposed of as directed by a Company Order; provided, however, that the Trustee shall not be required to destroy such canceled Securities.

SECTION 310. *Computation of Interest.*

Except as otherwise specified as contemplated by Section 301 for Securities of any series, interest on the Securities of each series shall be computed on the basis of a 360-day year of twelve 30-day months.

SECTION 311. *CUSIP Numbers.*

The Company in issuing the Securities may use "CUSIP" numbers (if then generally in use), and, if so, the Trustee shall use "CUSIP" numbers in notices of redemption as a convenience to Holders; provided that any such notice may state that no representation is made as to the correctness of such numbers either as printed on the Securities or as contained in any notice of a redemption and that reliance may be placed only on the other identification numbers printed on the Securities, and any such redemption shall not be affected by any defect in or omission of such numbers.

ARTICLE FOUR

SATISFACTION AND DISCHARGE

SECTION 401. *Satisfaction and Discharge of Indenture.*

This Indenture shall upon Company Request cease to be of further effect (except as to any surviving rights of registration of transfer or exchange of Securities herein expressly provided for), and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging satisfaction and discharge of this Indenture, when

(1) either

(A) all Securities theretofore authenticated and delivered (other than (i) Securities which have been destroyed, lost or stolen and which have been replaced or paid as provided in Section 306 and (ii) Securities for whose payment money has theretofore been deposited in trust or segregated and held in trust by the Company and thereafter repaid to the Company or discharged from such trust, as provided in Section 1003) have been delivered to the Trustee for cancellation; or

(B) all such Securities not theretofore delivered to the Trustee for cancellation

(i) have become due and payable, or

(ii) will become due and payable at their Stated Maturity within one year, or

(iii) are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Company,

and the Company, in the case of (i), (ii) or (iii) above, has deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose money in an amount sufficient to pay and discharge the entire indebtedness on such Securities not theretofore

delivered to the Trustee for cancellation, for principal and any premium and interest to the date of such deposit (in the case of Securities which have become due and payable) or to the Stated Maturity or Redemption Date, as the case may be;

(2) the Company has paid or caused to be paid all other sums payable hereunder by the Company; and

(3) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent herein provided for relating to the satisfaction and discharge of this Indenture have been complied with.

Notwithstanding the satisfaction and discharge of this Indenture, the obligations of the Company to the Trustee under Section 607, the obligations of the Company to any Authenticating Agent under Section 614 and, if money shall have been deposited with the Trustee pursuant to subclause (B) of Clause (1) of this Section, the obligations of the Trustee under Section 402 and the last paragraph of Section 1003 shall survive.

SECTION 402. *Application of Trust Money.*

Subject to the provisions of the last paragraph of Section 1003, all money deposited with the Trustee pursuant to Section 401 shall be held in trust and applied by it, in accordance with the provisions of the Securities and this Indenture, to the payment, either directly or through any Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Persons entitled thereto, of the principal and any premium and interest for whose payment such money has been deposited with the Trustee.

ARTICLE FIVE

REMEDIES

SECTION 501. *Events of Default.*

"Event of Default", wherever used herein with respect to Securities of any series, means any one of the following events (whatever the reason for such Event of Default and whether it shall be voluntary or involuntary or be effected by operation of law or pursuant

to any judgment, decree or order of any court or any order, rule or regulation of any administrative or governmental body):

(1) default in the payment of any interest upon any Security of that series when it becomes due and payable, and continuance of such default for a period of 30 days; or

(2) default in the payment of the principal of or any premium on any Security of that series at its Maturity; or

(3) default in the deposit of any sinking fund payment, when and as due by the terms of a Security of that series; or

(4) default in the performance, or breach, of any covenant or warranty of the Company in this Indenture (other than a covenant or warranty a default in whose performance or whose breach is elsewhere in this Section specifically dealt with or which has expressly been included in this Indenture solely for the benefit of series of Securities other than that series), and continuance of such default or breach for a period of 90 days after there has been given, by registered or certified mail, to the Company by the Trustee or to the Company and the Trustee by the Holders of at least 25% in principal amount of the Outstanding Securities of that series a written notice specifying such default or breach and requiring it to be remedied and stating that such notice is a "Notice of Default" hereunder; or

(5) the entry by a court having jurisdiction in the premises of (A) a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or (B) a decree or order adjudging the Company a bankrupt or insolvent, or approving as properly filed a petition seeking reorganization, arrangement, adjustment or composition of or in respect of the Company under any applicable Federal or State law, or appointing a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and the continuance of any such decree or order for relief or any such other decree or order unstayed and in effect for a period of 90 consecutive days; or

(6) the commencement by the Company of a voluntary case or proceeding under any applicable Federal or State bankruptcy, insolvency,

reorganization or other similar law or of any other case or proceeding to be adjudicated a bankrupt or insolvent, or the consent by it to the entry of a decree or order for relief in respect of the Company in an involuntary case or proceeding under any applicable Federal or State bankruptcy, insolvency, reorganization or other similar law or to the commencement of any bankruptcy or insolvency case or proceeding against it, or the filing by it of a petition or answer or consent seeking reorganization or relief under any applicable Federal or State law, or the consent by it to the filing of such petition or to the appointment of or taking possession by a custodian, receiver, liquidator, assignee, trustee, sequestrator or other similar official of the Company or of any substantial part of its property, or the making by it of an assignment for the benefit of creditors, or the admission by it in writing of its inability to pay its debts generally as they become due, or the taking of corporate action by the Company in furtherance of any such action; or

(7) any other Event of Default provided with respect to Securities of that series.

SECTION 502. *Acceleration of Maturity; Rescission and Annulment.*

If an Event of Default (other than an Event of Default specified in Section 501(5) or 501(6)) with respect to Securities of any series at the time Outstanding occurs and is continuing, then in every such case the Trustee or the Holders of not less than 25% in principal amount of the Outstanding Securities of that series may declare the principal amount of all the Securities of that series (or, if any Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified by the terms thereof) to be due and payable immediately, by a notice in writing to the Company (and to the Trustee if given by Holders), and upon any such declaration such principal amount (or specified amount) shall become immediately due and payable. If an Event of Default specified in Section 501(5) or 501(6) with respect to Securities of any series at the time Outstanding occurs, the principal amount of all the Securities of that series (or, if any Securities of that series are Original Issue Discount Securities, such portion of the principal amount of such Securities as may be specified by the terms thereof) shall automatically, and without any declaration or other action on the part of the Trustee or any Holder, become immediately due and payable.

At any time after such a declaration of acceleration with respect to Securities of any series has been made and before a judgment or decree for payment of the money due has been obtained by the Trustee as hereinafter in this Article provided, the Holders of a majority

in principal amount of the Outstanding Securities of that series, by written notice to the Company and the Trustee, may rescind and annul such declaration and its consequences if

(1) the Company has paid or deposited with the Trustee a sum sufficient to pay

(A) all overdue interest on all Securities of that series,

(B) the principal of (and premium, if any, on) any Securities of that series which have become due otherwise than by such declaration of acceleration and any interest thereon at the rate or rates prescribed therefor in such Securities,

(C) to the extent that payment of such interest is lawful, interest upon overdue interest at the rate or rates prescribed therefor in such Securities, and

(D) all sums paid or advanced by the Trustee hereunder and the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel;

and

(2) all Events of Default with respect to Securities of that series, other than the non-payment of the principal of Securities of that series which have become due solely by such declaration of acceleration, have been cured or waived as provided in Section 513.

No such rescission shall affect any subsequent default or impair any right consequent thereon.

SECTION 503. Collection of Indebtedness and Suits for Enforcement by Trustee.

The Company covenants that if

(1) default is made in the payment of any interest on any Security when such interest becomes due and payable and such default continues for a period of 30 days, or

(2) default is made in the payment of the principal of (or premium, if any, on) any Security at the Maturity thereof,

the Company will, upon demand of the Trustee, pay to it, for the benefit of the Holders of such Securities, the whole amount then due and payable on such Securities for principal and any premium and interest and, to the extent that payment of such interest shall be legally enforceable, interest on any overdue principal and premium and on any overdue interest, at the rate or rates prescribed therefor in such Securities, and, in addition thereto, such further amount as shall be sufficient to cover the costs and expenses of collection, including the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel.

If an Event of Default with respect to Securities of any series occurs and is continuing, the Trustee may in its discretion proceed to protect and enforce its rights and the rights of the Holders of Securities of such series by such appropriate judicial proceedings as the Trustee shall deem most effectual to protect and enforce any such rights, whether for the specific enforcement of any covenant or agreement in this Indenture or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

SECTION 504. *Trustee May File Proofs of Claim.*

In case of any judicial proceeding relative to the Company (or any other obligor upon the Securities), its property or its creditors, the Trustee shall be entitled and empowered, by intervention in such proceeding or otherwise, to take any and all actions authorized under the Trust Indenture Act in order to have claims of the Holders and the Trustee allowed in any such proceeding. In particular, the Trustee shall be authorized to collect and receive any moneys or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Holder to make such payments to the Trustee and, in the event that the Trustee shall consent to the making of such payments directly to the Holders, to pay to the Trustee any amount due it for the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, and any other amounts due the Trustee under Section 607.

No provision of this Indenture shall be deemed to authorize the Trustee to authorize or consent to or accept or adopt on behalf of any Holder any plan of reorganization, arrangement, adjustment or composition affecting the Securities or the rights of any Holder thereof or to authorize the Trustee to vote in respect of the claim of any Holder in any such proceeding; *provided, however*, that the Trustee may, on behalf of the Holders, vote for the election of a trustee in bankruptcy or similar official and be a member of a creditors' or other similar committee.

SECTION 505. *Trustee May Enforce Claims Without Possession of Securities.*

All rights of action and claims under this Indenture or the Securities may be prosecuted and enforced by the Trustee without the possession of any of the Securities or the production thereof in any proceeding relating thereto, and any such proceeding instituted by the Trustee shall be brought in its own name as trustee of an express trust, and any recovery of judgment shall, after provision for the payment of the reasonable compensation, expenses, disbursements and advances of the Trustee, its agents and counsel, be for the ratable benefit of the Holders of the Securities in respect of which such judgment has been recovered.

SECTION 506. *Application of Money Collected.*

Any money collected by the Trustee pursuant to this Article shall be applied in the following order, at the date or dates fixed by the Trustee and, in case of the distribution of such money on account of principal or any premium or interest, upon presentation of the Securities and the notation thereon of the payment if only partially paid and upon surrender thereof if fully paid:

FIRST: To the payment of all amounts due the Trustee under Section 607;

SECOND: To the payment of the amounts then due and unpaid for principal of and any premium and interest on the Securities in respect of which or for the benefit of which such money has been collected, ratably, without preference or priority of any kind, according to the amounts due and payable on such Securities for principal and any premium and interest, respectively; and

THIRD: To the payment of the balance, if any, to the Company or any other Person or Persons legally entitled thereto.

SECTION 507. *Limitation on Suits.*

No Holder of any Security of any series shall have any right to institute any proceeding, judicial or otherwise, with respect to this Indenture, or for the appointment of a receiver or trustee, or for any other remedy hereunder, unless

(1) such Holder has previously given written notice to the Trustee of a continuing Event of Default with respect to the Securities of that series;

(2) the Holders of not less than 25% in principal amount of the Outstanding Securities of that series shall have made written request to the Trustee to institute proceedings in respect of such Event of Default in its own name as Trustee hereunder;

(3) such Holder or Holders have offered to the Trustee reasonable indemnity against the costs, expenses and liabilities to be incurred in compliance with such request;

(4) the Trustee for 60 days after its receipt of such notice, request and offer of indemnity has failed to institute any such proceeding; and

(5) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the Holders of a majority in principal amount of the Outstanding Securities of that series;

it being understood and intended that no one or more of such Holders shall have any right in any manner whatever by virtue of, or by availing of, any provision of this Indenture to affect, disturb or prejudice the rights of any other of such Holders, or to obtain or to seek to obtain priority or preference over any other of such Holders or to enforce any right under this Indenture, except in the manner herein provided and for the equal and ratable benefit of all of such Holders.

SECTION 508. *Unconditional Right of Holders to Receive Principal, Premium and Interest.*

Notwithstanding any other provision in this Indenture, the Holder of any Security shall have the right, which is absolute and unconditional, to receive payment of the principal of and any premium and (subject to Section 307) interest on such Security on the respective

Stated Maturities expressed in such Security (or, in the case of redemption, on the Redemption Date) and to institute suit for the enforcement of any such payment, and such rights shall not be impaired without the consent of such Holder.

SECTION 509. *Restoration of Rights and Remedies.*

If the Trustee or any Holder has instituted any proceeding to enforce any right or remedy under this Indenture and such proceeding has been discontinued or abandoned for any reason, or has been determined adversely to the Trustee or to such Holder, then and in every such case, subject to any determination in such proceeding, the Company, the Trustee and the Holders shall be restored severally and respectively to their former positions hereunder and thereafter all rights and remedies of the Trustee and the Holders shall continue as though no such proceeding had been instituted.

SECTION 510. *Rights and Remedies Cumulative.*

Except as otherwise provided with respect to the replacement or payment of mutilated, destroyed, lost or stolen Securities in the last paragraph of Section 306, no right or remedy herein conferred upon or reserved to the Trustee or to the Holders is intended to be exclusive of any other right or remedy, and every right and remedy shall, to the extent permitted by law, be cumulative and in addition to every other right and remedy given hereunder or now or hereafter existing at law or in equity or otherwise. The assertion or employment of any right or remedy hereunder, or otherwise, shall not prevent the concurrent assertion or employment of any other appropriate right or remedy.

SECTION 511. *Delay or Omission Not Waiver.*

No delay or omission of the Trustee or of any Holder of any Securities to exercise any right or remedy accruing upon any Event of Default shall impair any such right or remedy or constitute a waiver of any such Event of Default or an acquiescence therein. Every right and remedy given by this Article or by law to the Trustee or to the Holders may be exercised from time to time, and as often as may be deemed expedient, by the Trustee or by the Holders, as the case may be.

SECTION 512. *Control by Holders.*

The Holders of a majority in principal amount of the Outstanding Securities of any series shall have the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred on the Trustee, with respect to the Securities of such series, *provided that*

(1) such direction shall not be in conflict with any rule of law or with this Indenture,

(2) the Trustee may take any other action deemed proper by the Trustee which is not inconsistent with such direction, and

(3) subject to the provisions of Section 601, the Trustee shall have the right to decline to follow any such direction if the Trustee in good faith shall, by a Responsible Officer or Officers of the Trustee, determine that the proceeding so directed would involve the Trustee in personal liability.

SECTION 513. *Waiver of Past Defaults.*

The Holders of not less than a majority in principal amount of the Outstanding Securities of any series may on behalf of the Holders of all the Securities of such series waive any past default hereunder with respect to such series and its consequences, except a default

(1) in the payment of the principal of or any premium or interest on any Security of such series, or

(2) in respect of a covenant or provision hereof which under Article Nine cannot be modified or amended without the consent of the Holder of each Outstanding Security of such series affected.

Upon any such waiver, such default shall cease to exist, and any Event of Default arising therefrom shall be deemed to have been cured, for every purpose of this Indenture; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereon.

SECTION 514. *Undertaking for Costs.*

In any suit for the enforcement of any right or remedy under this Indenture, or in any suit against the Trustee for any action taken, suffered or omitted by it as Trustee, a court may require any party litigant in such suit to file an undertaking to pay the costs of such suit, and may assess costs against any such party litigant, in the manner and to the extent provided in the Trust Indenture Act; *provided* that neither this Section nor the Trust Indenture Act shall be deemed to authorize any court to require such an undertaking or to make such an assessment in any suit instituted by the Company or the Trustee.

SECTION 515. *Waiver of Usury, Stay or Extension Laws.*

The Company covenants (to the extent that it may lawfully do so) that it will not at any time insist upon, or plead, or in any manner whatsoever claim or take the benefit or advantage of, any usury, stay or extension law wherever enacted, now or at any time hereafter in force, which may affect the covenants or the performance of this Indenture; and the Company (to the extent that it may lawfully do so) hereby expressly waives all benefit or advantage of any such law and covenants that it will not hinder, delay or impede the execution of any power herein granted to the Trustee, but will suffer and permit the execution of every such power as though no such law had been enacted.

ARTICLE SIX

THE TRUSTEE

SECTION 601: *Certain Duties and Responsibilities.*

The duties and responsibilities of the Trustee shall be as provided by the Trust Indenture Act. Notwithstanding the foregoing, no provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights or powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. Whether or not therein expressly so provided, every provision of this Indenture relating to the conduct or affecting the liability of or affording protection to the Trustee shall be subject to the provisions of this Section.

SECTION 602. *Notice of Defaults.*

If a default occurs hereunder with respect to Securities of any series, the Trustee shall give the Holders of Securities of such series notice of such default as and to the extent provided by the Trust Indenture Act; *provided, however*, that in the case of any default of the character specified in Section 501(4) with respect to Securities of such series, no such notice to Holders shall be given until at least 30 days after the occurrence thereof. For the purpose of this Section, the term "default" means any event which is, or after notice or lapse of time or both would become, an Event of Default with respect to Securities of such series.

SECTION 603. *Certain Rights of Trustee.*

Subject to the provisions of Section 601:

(1) the Trustee may rely and shall be protected in acting or refraining from acting upon any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties;

(2) any request or direction of the Company mentioned herein shall be sufficiently evidenced by a Company Request or Company Order, and any resolution of the Board of Directors shall be sufficiently evidenced by a Board Resolution;

(3) whenever in the administration of this Indenture the Trustee shall deem it desirable that a matter be proved or established prior to taking, suffering or omitting any action hereunder, the Trustee (unless other evidence be herein specifically prescribed) may, in the absence of bad faith on its part, rely upon an Officers' Certificate;

(4) the Trustee may consult with counsel of its selection and the advice of such counsel or any Opinion of Counsel shall be full and complete authorization and protection in respect of any action taken, suffered or omitted by it hereunder in good faith and in reliance thereon;

(5) the Trustee shall be under no obligation to exercise any of the rights or powers vested in it by this Indenture at the request or direction of any of the Holders pursuant to this Indenture, unless such Holders shall have offered to the Trustee reasonable security or indemnity against the costs, expenses and liabilities which might be incurred by it in compliance with such request or direction;

(6) the Trustee shall not be bound to make any investigation into the facts or matters stated in any resolution, certificate, statement, instrument, opinion, report, notice, request, direction, consent, order, bond, debenture, note, other evidence of indebtedness or other paper or document, but the Trustee, in its discretion, may make such further inquiry or investigation into such facts or matters as it may see fit, and, if the Trustee shall determine to make such further inquiry or investigation, it shall be entitled to examine the books, records and premises of the Company, personally or by agent or attorney; and

(7) the Trustee may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents or attorneys and the Trustee shall not be responsible for any misconduct or negligence on the part of any agent or attorney appointed with due care by it hereunder.

SECTION 604. *Not Responsible for Recitals or Issuance of Securities.*

The recitals contained herein and in the Securities, except the Trustee's certificates of authentication, shall be taken as the statements of the Company, and neither the Trustee nor any Authenticating Agent assumes any responsibility for their correctness. The Trustee makes no representations as to the validity or sufficiency of this Indenture or of the Securities. Neither the Trustee nor any Authenticating Agent shall be accountable for the use or application by the Company of Securities or the proceeds thereof.

SECTION 605. *May Hold Securities.*

The Trustee, any Authenticating Agent, any Paying Agent, any Security Registrar or any other agent of the Company, in its individual or any other capacity, may become the owner or pledgee of Securities and, subject to Sections 608 and 613, may otherwise deal with

the Company with the same rights it would have if it were not Trustee, Authenticating Agent, Paying Agent, Security Registrar or such other agent.

SECTION 606. *Money Held in Trust.*

Money held by the Trustee in trust hereunder need not be segregated from other funds except to the extent required by law. The Trustee shall be under no liability for interest on any money received by it hereunder except as otherwise agreed in writing with the Company.

SECTION 607. *Compensation and Reimbursement.*

The Company agrees

(1) to pay to the Trustee from time to time such compensation as shall be agreed to in writing between the Company and the Trustee for all services rendered by it hereunder (which compensation shall not be limited by any provision of law in regard to the compensation of a trustee of an express trust);

(2) except as otherwise expressly provided herein, to reimburse the Trustee upon its request for all reasonable expenses, disbursements and advances incurred or made by the Trustee in accordance with any provision of this Indenture (including the reasonable compensation and the expenses and disbursements of its agents and counsel), except any such expense, disbursement or advance as may be attributable to its negligence or bad faith; and

(3) to indemnify the Trustee for, and to hold it harmless against, any loss, liability or expense incurred without negligence or bad faith on its part, arising out of or in connection with the acceptance or administration of the trust or trusts hereunder, including the costs and expenses of defending itself against any claim or liability in connection with the exercise or performance of any of its powers or duties hereunder.

The Trustee shall have a lien prior to the Securities upon all property and funds held by it hereunder for any amount owing it or any predecessor Trustee pursuant to this Section

607, except with respect to funds held in trust for the benefit of the Holders of particular Securities.

Without limiting any rights available to the Trustee under applicable law, when the Trustee incurs expenses or renders services in connection with an Event of Default specified in Section 501(5) or Section 501(6), the expenses (including the reasonable charges and expenses of its counsel) and the compensation for the services are intended to constitute expenses of administration under any applicable Federal or State bankruptcy, insolvency or other similar law.

The provisions of this Section shall survive the termination of this Indenture.

SECTION 608. *Conflicting Interests.*

If the Trustee has or shall acquire a conflicting interest within the meaning of the Trust Indenture Act, the Trustee shall either eliminate such interest or resign, to the extent and in the manner provided by, and subject to the provisions of, the Trust Indenture Act and this Indenture. To the extent permitted by such Act, the Trustee shall not be deemed to have a conflicting interest by virtue of being a trustee under this Indenture with respect to Securities of more than one series.

SECTION 609. *Corporate Trustee Required; Eligibility.*

There shall at all times be one (and only one) Trustee hereunder with respect to the Securities of each series, which may be Trustee hereunder for Securities of one or more other series. Each Trustee shall be a Person that is eligible pursuant to the Trust Indenture Act to act as such and has a combined capital and surplus of at least \$50,000,000. If any such Person publishes reports of condition at least annually, pursuant to law or to the requirements of its supervising or examining authority, then for the purposes of this Section and to the extent permitted by the Trust Indenture Act, the combined capital and surplus of such Person shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time the Trustee with respect to the Securities of any series shall cease to be eligible in accordance with the provisions of this Section, it shall resign immediately in the manner and with the effect hereinafter specified in this Article.

SECTION 610. *Resignation and Removal; Appointment of Successor.*

No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee in accordance with the applicable requirements of Section 611.

The Trustee may resign at any time with respect to the Securities of one or more series by giving written notice thereof to the Company. If the instrument of acceptance by a successor Trustee required by Section 611 shall not have been delivered to the Trustee within 30 days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Trustee may be removed at any time with respect to the Securities of any series by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series, delivered to the Trustee and to the Company.

If at any time:

(1) the Trustee shall fail to comply with Section 608 after written request therefor by the Company or by any Holder who has been a bona fide Holder of a Security for at least six months, or

(2) the Trustee shall cease to be eligible under Section 609 and shall fail to resign after written request therefor by the Company or by any such Holder, or

(3) the Trustee shall become incapable of acting or shall be adjudged a bankrupt or insolvent or a receiver of the Trustee or of its property shall be appointed or any public officer shall take charge or control of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation,

then, in any such case, (A) the Company by a Board Resolution may remove the Trustee with respect to all Securities, or (B) subject to Section 514, any Holder who has been a bona fide Holder of a Security for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the removal of the Trustee with respect to all Securities and the appointment of a successor Trustee or Trustees.

If the Trustee shall resign, be removed or become incapable of acting, or if a vacancy shall occur in the office of Trustee for any cause, with respect to the Securities of one or more series, the Company, by a Board Resolution, shall promptly appoint a successor Trustee or Trustees with respect to the Securities of that or those series (it being understood that any such successor Trustee may be appointed with respect to the Securities of one or more or all of such series and that at any time there shall be only one Trustee with respect to the Securities of any particular series) and shall comply with the applicable requirements of Section 611. If, within one year after such resignation, removal or incapability, or the occurrence of such vacancy, a successor Trustee with respect to the Securities of any series shall be appointed by Act of the Holders of a majority in principal amount of the Outstanding Securities of such series delivered to the Company and the retiring Trustee, the successor Trustee so appointed shall, forthwith upon its acceptance of such appointment in accordance with the applicable requirements of Section 611, become the successor Trustee with respect to the Securities of such series and to that extent supersede the successor Trustee appointed by the Company. If no successor Trustee with respect to the Securities of any series shall have been so appointed by the Company or the Holders and accepted appointment in the manner required by Section 611, any Holder who has been a bona fide Holder of a Security of such series for at least six months may, on behalf of himself and all others similarly situated, petition any court of competent jurisdiction for the appointment of a successor Trustee with respect to the Securities of such series.

The Company shall give notice of each resignation and each removal of the Trustee with respect to the Securities of any series and each appointment of a successor Trustee with respect to the Securities of any series to all Holders of Securities of such series in the manner provided in Section 106. Each notice shall include the name of the successor Trustee with respect to the Securities of such series and the address of its Corporate Trust Office.

SECTION 611. *Acceptance of Appointment by Successor.*

In case of the appointment hereunder of a successor Trustee with respect to all Securities, every such successor Trustee so appointed shall execute, acknowledge and deliver to the Company and to the retiring Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the retiring Trustee shall become effective and such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee; but, on the request of the Company or the successor Trustee, such retiring Trustee shall, upon payment of its charges, execute and deliver an instrument transferring to such successor Trustee all the rights, powers and trusts of the retiring Trustee and shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder.

In case of the appointment hereunder of a successor Trustee with respect to the Securities of one or more (but not all) series, the Company, the retiring Trustee and each successor Trustee with respect to the Securities of one or more series shall execute and deliver an indenture supplemental hereto wherein each successor Trustee shall accept such appointment and which (1) shall contain such provisions as shall be necessary or desirable to transfer and confirm to, and to vest in, each successor Trustee all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates, (2) if the retiring Trustee is not retiring with respect to all Securities, shall contain such provisions as shall be deemed necessary or desirable to confirm that all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series as to which the retiring Trustee is not retiring shall continue to be vested in the retiring Trustee, and (3) shall add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, it being understood that nothing herein or in such supplemental indenture shall constitute such Trustees co-trustees of the same trust and that each such Trustee shall be trustee of a trust or trusts hereunder separate and apart from any trust or trusts hereunder administered by any other such Trustee; and upon the execution and delivery of such supplemental indenture the resignation or removal of the retiring Trustee shall become effective to the extent provided therein and each such successor Trustee, without any further act, deed or conveyance, shall become vested with all the rights, powers, trusts and duties of the retiring Trustee with respect to the Securities of that or those series to which the appointment of such successor Trustee relates; but, on request of the Company or any successor Trustee, such retiring Trustee shall duly assign, transfer and deliver to such successor Trustee all property and money held by such retiring Trustee hereunder with respect to the Securities of that or those series to which the appointment of such successor Trustee relates.

Upon request of any such successor Trustee, the Company shall execute any and all instruments for more fully and certainly vesting in and confirming to such successor Trustee all such rights, powers and trusts referred to in the first or second preceding paragraph, as the case may be.

No successor Trustee shall accept its appointment unless at the time of such acceptance such successor Trustee shall be qualified and eligible under this Article.

SECTION 612. *Merger, Conversion, Consolidation or Succession to Business.*

Any corporation into which the Trustee may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which the Trustee shall be a party, or any corporation succeeding to all or

substantially all the corporate trust business of the Trustee, shall be the successor of the Trustee hereunder, provided such corporation shall be otherwise qualified and eligible under this Article, without the execution or filing of any paper or any further act on the part of any of the parties hereto. In case any Securities shall have been authenticated, but not delivered, by the Trustee then in office, any successor by merger, conversion or consolidation to such authenticating Trustee may adopt such authentication and deliver the Securities so authenticated with the same effect as if such successor Trustee had itself authenticated such Securities.

SECTION 613. *Preferential Collection of Claims Against Company.*

If and when the Trustee shall be or become a creditor of the Company (or any other obligor upon the Securities), the Trustee shall be subject to the provisions of the Trust Indenture Act regarding the collection of claims against the Company (or any such other obligor).

SECTION 614. *Appointment of Authenticating Agent.*

The Trustee may appoint an Authenticating Agent or Agents with respect to one or more series of Securities which shall be authorized to act on behalf of the Trustee to authenticate Securities of such series issued upon exchange, registration of transfer or partial redemption thereof or pursuant to Section 306, and Securities so authenticated shall be entitled to the benefits of this Indenture and shall be valid and obligatory for all purposes as if authenticated by the Trustee hereunder. Wherever reference is made in this Indenture to the authentication and delivery of Securities by the Trustee or the Trustee's certificate of authentication, such reference shall be deemed to include authentication and delivery on behalf of the Trustee by an Authenticating Agent and a certificate of authentication executed on behalf of the Trustee by an Authenticating Agent. Each Authenticating Agent shall be acceptable to the Company and shall at all times be a corporation organized and doing business under the laws of the United States of America, any State thereof or the District of Columbia, authorized under such laws to act as Authenticating Agent, having a combined capital and surplus of not less than \$50,000,000 and subject to supervision or examination by Federal or State authority. If such Authenticating Agent publishes reports of condition at least annually, pursuant to law or to the requirements of said supervising or examining authority, then for the purposes of this Section, the combined capital and surplus of such Authenticating Agent shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. If at any time an Authenticating Agent shall

cease to be eligible in accordance with the provisions of this Section, such Authenticating Agent shall resign immediately in the manner and with the effect specified in this Section.

Any corporation into which an Authenticating Agent may be merged or converted or with which it may be consolidated, or any corporation resulting from any merger, conversion or consolidation to which such Authenticating Agent shall be a party, or any corporation succeeding to the corporate agency or corporate trust business of an Authenticating Agent, shall continue to be an Authenticating Agent, provided such corporation shall be otherwise eligible under this Section, without the execution or filing of any paper or any further act on the part of the Trustee or the Authenticating Agent.

An Authenticating Agent may resign at any time by giving written notice thereof to the Trustee and to the Company. The Trustee may at any time terminate the agency of an Authenticating Agent by giving written notice thereof to such Authenticating Agent and to the Company. Upon receiving such a notice of resignation or upon such a termination, or in case at any time such Authenticating Agent shall cease to be eligible in accordance with the provisions of this Section, the Trustee may appoint a successor Authenticating Agent which shall be acceptable to the Company and shall give notice of such appointment in the manner provided in Section 106 to all Holders of Securities of the series with respect to which such Authenticating Agent will serve. Any successor Authenticating Agent upon acceptance of its appointment hereunder shall become vested with all the rights, powers and duties of its predecessor hereunder, with like effect as if originally named as an Authenticating Agent. No successor Authenticating Agent shall be appointed unless eligible under the provisions of this Section.

The Company agrees to pay to each Authenticating Agent from time to time reasonable compensation for its services under this Section.

If an appointment with respect to one or more series is made pursuant to this Section, the Securities of such series may have endorsed thereon, in addition to the Trustee's certificate of authentication, an alternative certificate of authentication in the following form:

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

THE CHASE MANHATTAN BANK,
As Trustee

By. _____
As Authenticating Agent

By _____
Authorized Officer

ARTICLE SEVEN

HOLDERS' LISTS AND REPORTS BY TRUSTEE AND COMPANY

SECTION 701. *Company to Furnish Trustee Names and Addresses of Holders.*

The Company will furnish or cause to be furnished to the Trustee

(1) fifteen days after each Regular Record Date, a list, in such form as the Trustee may reasonably require, of the names and addresses of the Holders of Securities of each series as of such Regular Record Date, and

(2) at such other times as the Trustee may request in writing, within 30 days after the receipt by the Company of any such request, a list of similar form and content as of a date not more than 15 days prior to the time such list is furnished;

excluding from any such list names and addresses received by the Trustee in its capacity as Security Registrar.

SECTION 702. *Preservation of Information; Communications to Holders.*

The Trustee shall preserve, in as current a form as is reasonably practicable, the names and addresses of Holders contained in the most recent list furnished to the Trustee as provided in Section 701 and the names and addresses of Holders received by the Trustee in its capacity as Security Registrar. The Trustee may destroy any list furnished to it as provided in Section 701 upon receipt of a new list so furnished.

The rights of Holders to communicate with other Holders with respect to their rights under this Indenture or under the Securities, and the corresponding rights and privileges of the Trustee, shall be as provided by the Trust Indenture Act.

Every Holder of Securities, by receiving and holding the same, agrees with the Company and the Trustee that neither the Company nor the Trustee nor any agent of either of them shall be held accountable by reason of any disclosure of information as to names and addresses of Holders made pursuant to the Trust Indenture Act.

SECTION 703. *Reports by Trustee.*

The Trustee shall transmit to Holders such reports concerning the Trustee and its actions under this Indenture as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant thereto. If required by Section 313(a) of the Trust Indenture Act, the Trustee shall, within sixty days after each May 15 following the date of this Indenture deliver to Holders a brief report, dated as of such May 15, which complies with the provisions of such Section 313(a).

A copy of each such report shall, at the time of such transmission to Holders, be filed by the Trustee with each stock exchange upon which any Securities are listed, with the Commission and with the Company. The Company will promptly notify the Trustee when any Securities are listed on any stock exchange.

SECTION 704. *Reports by Company.*

The Company shall file with the Trustee and the Commission, and transmit to Holders, such information, documents and other reports, and such summaries thereof, as may be required pursuant to the Trust Indenture Act at the times and in the manner provided pursuant to such Act; *provided* that any such information, documents or reports required to be filed with the Commission pursuant to Section 13 or 15(d) of the Exchange Act shall be filed with the Trustee within 15 days after the same is so required to be filed with the Commission.

ARTICLE EIGHT

CONSOLIDATION, MERGER, CONVEYANCE, TRANSFER OR LEASE

SECTION 801. *Company May Consolidate, Etc., Only on Certain Terms.*

The Company shall not consolidate with or merge into any other Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, and the Company shall not permit any Person to consolidate with or merge into the Company or convey, transfer or lease its properties and assets substantially as an entirety to the Company, unless:

(1) in case the Company shall consolidate with or merge into another Person or convey, transfer or lease its properties and assets substantially as an entirety to any Person, the Person formed by such consolidation or into which the Company is merged or the Person which acquires by conveyance or transfer, or which leases, the properties and assets of the Company substantially as an entirety shall be a corporation, partnership, unincorporated organization or trust, shall be organized and validly existing under the laws of the United States of America, any State thereof or the District of Columbia and shall expressly assume, by an indenture supplemental hereto, executed and delivered to the Trustee, in form satisfactory to the Trustee, the due and punctual payment of the principal of and any premium and interest on all the Securities and the performance or observance of every covenant of this Indenture on the part of the Company to be performed or observed;

(2) immediately after giving effect to such transaction and treating any indebtedness which becomes an obligation of the Company or any Subsidiary as a result of such transaction as having been incurred by the Company or such Subsidiary at the time of such transaction, no Event of Default, and no event which, after notice or lapse of time or both, would become an Event of Default, shall have happened and be continuing;

(3) if, as a result of any such consolidation or merger or such conveyance, transfer or lease, properties or assets of the Company would become subject to a mortgage, pledge, lien, security interest or other encumbrance which would not be permitted by this Indenture, the Company or such successor Person, as the case may be, shall take such steps as shall be necessary effectively to secure the Securities equally and ratably with (or prior to) all indebtedness secured thereby; and

(4) the Company has delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that such consolidation, merger, conveyance, transfer or lease and, if a supplemental indenture is required in connection with such transaction, such supplemental indenture comply with this Article and that all conditions precedent herein provided for relating to such transaction have been complied with.

SECTION 802. *Successor Substituted.*

Upon any consolidation of the Company with, or merger of the Company into, any other Person or any conveyance, transfer or lease of the properties and assets of the Company substantially as an entirety in accordance with Section 801, the successor Person formed by such consolidation

or into which the Company is merged or to which such conveyance, transfer or lease is made shall succeed to, and be substituted for, and may exercise every right and power of, the Company under this Indenture with the same effect as if such successor Person had been named as the Company herein, and thereafter, except in the case of a lease, the predecessor Person shall be relieved of all obligations and covenants under this Indenture and the Securities.

ARTICLE NINE

SUPPLEMENTAL INDENTURES

SECTION 901. *Supplemental Indentures Without Consent of Holders.*

Without the consent of any Holders, the Company, when authorized by a Board Resolution, and the Trustee, at any time and from time to time, may enter into one or more indentures supplemental hereto, in form satisfactory to the Trustee, for any of the following purposes:

(1) to evidence the succession of another Person to the Company and the assumption by any such successor of the covenants of the Company herein and in the Securities; or

(2) to add to the covenants of the Company for the benefit of the Holders of all or any series of Securities (and if such covenants are to be for the benefit of less than all series of Securities, stating that such covenants are expressly being included solely for the benefit of such series) or to surrender any right or power herein conferred upon the Company; or

(3) to add any additional Events of Default for the benefit of the Holders of all or any series of Securities (and if such additional Events of Default are to be for the benefit of less than all series of Securities, stating that such additional Events of Default are expressly being included solely for the benefit of such series); or

(4) to add to or change any of the provisions of this Indenture to such extent as shall be necessary to permit or facilitate the issuance of Securities in bearer form, registrable or not registrable as to principal, and with or without interest coupons, or to permit or facilitate the issuance of Securities in uncertificated form; or

(5) to add to, change or eliminate any of the provisions of this Indenture in respect of one or more series of Securities, *provided* that any such addition, change or elimination (A) shall neither (i) apply to any Security of any series created prior to the execution of such supplemental indenture and entitled to the benefit of such provision nor (ii) modify the rights of the Holder of any such Security with respect to such provision or (B) shall become effective only when there is no such Security Outstanding; or

(6) to secure the Securities; or

(7) to establish the form or terms of Securities of any series as permitted by Sections 201 and 301; or

(8) to evidence and provide for the acceptance of appointment hereunder by a successor Trustee with respect to the Securities of one or more series and to add to or change any of the provisions of this Indenture as shall be necessary to provide for or facilitate the administration of the trusts hereunder by more than one Trustee, pursuant to the requirements of Section 611; or

(9) to cure any ambiguity, to correct or supplement any provision herein which may be defective or inconsistent with any other provision herein, or to make any other provisions with respect to matters or questions arising under this Indenture, *provided* that such action pursuant to this Clause (9) shall not adversely affect the interests of the Holders of Securities of any series in any material respect.

SECTION 902. *Supplemental Indentures With Consent of Holders.*

With the consent of the Holders of not less than 66-2/3% in principal amount of the Outstanding Securities of each series affected by such supplemental indenture, by Act of said Holders delivered to the Company and the Trustee, the Company, when authorized by a Board Resolution, and the Trustee may enter into an indenture or indentures supplemental hereto for the purpose of adding any provisions to or changing in any manner or eliminating any of the provisions of this Indenture or of modifying in any manner the rights of the Holders of Securities of such series under this Indenture; *provided, however*, that no such supplemental indenture shall, without the consent of the Holder of each Outstanding Security affected thereby,

(1) change the Stated Maturity of the principal of, or any instalment of principal of or interest on, any Security, or reduce the principal amount thereof or

the rate of interest thereon or any premium payable upon the redemption thereof, or reduce the amount of the principal of an Original Issue Discount Security or any other Security which would be due and payable upon a declaration of acceleration of the Maturity thereof pursuant to Section 502, or change any Place of Payment where, or the coin or currency in which, any Security or any premium or interest thereon is payable, or impair the right to institute suit for the enforcement of any such payment on or after the Stated Maturity thereof (or, in the case of redemption, on or after the Redemption Date), or

(2) reduce the percentage in principal amount of the Outstanding Securities of any series, the consent of whose Holders is required for any such supplemental indenture, or the consent of whose Holders is required for any waiver (of compliance with certain provisions of this Indenture or certain defaults hereunder and their consequences) provided for in this Indenture, or

(3) modify any of the provisions of this Section, Section 513 or Section 1008, except to increase any such percentage or to provide that certain other provisions of this Indenture cannot be modified or waived without the consent of the Holder of each Outstanding Security affected thereby; *provided, however*, that this clause shall not be deemed to require the consent of any Holder with respect to changes in the references to "the Trustee" and concomitant changes in this Section and Section 1008, or the deletion of this proviso, in accordance with the requirements of Sections 611 and 901(8).

A supplemental indenture which changes or eliminates any covenant or other provision of this Indenture which has expressly been included solely for the benefit of one or more particular series of Securities, or which modifies the rights of the Holders of Securities of such series with respect to such covenant or other provision, shall be deemed not to affect the rights under this Indenture of the Holders of Securities of any other series.

It shall not be necessary for any Act of Holders under this Section to approve the particular form of any proposed supplemental indenture, but it shall be sufficient if such Act shall approve the substance thereof.

SECTION 903. *Execution of Supplemental Indentures.*

In executing, or accepting the additional trusts created by, any supplemental indenture permitted by this Article or the modifications thereby of the trusts created by this Indenture, the Trustee shall be entitled to receive, and (subject to Section 601) shall be fully protected in relying

upon, an Opinion of Counsel stating that the execution of such supplemental indenture is authorized or permitted by this Indenture. The Trustee may, but shall not be obligated to, enter into any such supplemental indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

SECTION 904. *Effect of Supplemental Indentures.*

Upon the execution of any supplemental indenture under this Article, this Indenture shall be modified in accordance therewith, and such supplemental indenture shall form a part of this Indenture for all purposes; and every Holder of Securities theretofore or thereafter authenticated and delivered hereunder shall be bound thereby.

SECTION 905. *Conformity with Trust Indenture Act.*

Every supplemental indenture executed pursuant to this Article shall conform to the requirements of the Trust Indenture Act.

SECTION 906. *Reference in Securities to Supplemental Indentures.*

Securities of any series authenticated and delivered after the execution of any supplemental indenture pursuant to this Article may, and shall if required by the Trustee, bear a notation in form approved by the Trustee as to any matter provided for in such supplemental indenture. If the Company shall so determine, new Securities of any series so modified as to conform, in the opinion of the Trustee and the Company, to any such supplemental indenture may be prepared and executed by the Company and authenticated and delivered by the Trustee in exchange for Outstanding Securities of such series.

ARTICLE TEN

COVENANTS

SECTION 1001. *Payment of Principal, Premium and Interest.*

The Company covenants and agrees for the benefit of each series of Securities that it will duly and punctually pay the principal of and any premium and interest on the Securities of that series in accordance with the terms of the Securities and this Indenture.

SECTION 1002. *Maintenance of Office or Agency.*

The Company will maintain in each Place of Payment for any series of Securities an office or agency where Securities of that series may be presented or surrendered for payment, where Securities of that series may be surrendered for registration of transfer or exchange and where notices and demands to or upon the Company in respect of the Securities of that series and this Indenture may be served. The Company will give prompt written notice to the Trustee of the location, and any change in the location, of such office or agency. If at any time the Company shall fail to maintain any such required office or agency or shall fail to furnish the Trustee with the address thereof, such presentations, surrenders, notices and demands may be made or served at the Corporate Trust Office of the Trustee, and the Company hereby appoints the Trustee as its agent to receive all such presentations, surrenders, notices and demands.

The Company may also from time to time designate one or more other offices or agencies where the Securities of one or more series may be presented or surrendered for any or all such purposes and may from time to time rescind such designations; *provided, however*, that no such designation or rescission shall in any manner relieve the Company of its obligation to maintain an office or agency in each Place of Payment for Securities of any series for such purposes. The Company will give prompt written notice to the Trustee of any such designation or rescission and of any change in the location of any such other office or agency.

SECTION 1003. *Money for Securities Payments to Be Held in Trust.*

If the Company shall at any time act as its own Paying Agent with respect to any series of Securities, it will, on or before each due date of the principal of or any premium or interest on any of the Securities of that series, segregate and hold in trust for the benefit of the Persons entitled thereto a sum sufficient to pay the principal and any premium and interest so becoming due until such sums shall be paid to such Persons or otherwise disposed of as herein provided and will promptly notify the Trustee of its action or failure so to act.

Whenever the Company shall have one or more Paying Agents for any series of Securities, it will, prior to each due date of the principal of or any premium or interest on any Securities of that

series, deposit with a Paying Agent a sum sufficient to pay such amount, such sum to be held as provided by the Trust Indenture Act, and (unless such Paying Agent is the Trustee) the Company will promptly notify the Trustee of its action or failure so to act.

The Company will cause each Paying Agent for any series of Securities other than the Trustee to execute and deliver to the Trustee an instrument in which such Paying Agent shall agree with the Trustee, subject to the provisions of this Section, that such Paying Agent will (1) comply with the provisions of the Trust Indenture Act applicable to it as a Paying Agent and (2) during the continuance of any default by the Company (or any other obligor upon the Securities of that series) in the making of any payment in respect of the Securities of that series, upon the written request of the Trustee, forthwith pay to the Trustee all sums held in trust by such Paying Agent for payment in respect of the Securities of that series.

The Company may at any time, for the purpose of obtaining the satisfaction and discharge of this Indenture or for any other purpose, pay, or by Company Order direct any Paying Agent to pay, to the Trustee all sums held in trust by the Company or such Paying Agent, such sums to be held by the Trustee upon the same trusts as those upon which such sums were held by the Company or such Paying Agent; and, upon such payment by any Paying Agent to the Trustee, such Paying Agent shall be released from all further liability with respect to such money.

Any money deposited with the Trustee or any Paying Agent, or then held by the Company, in trust for the payment of the principal of or any premium or interest on any Security of any series and remaining unclaimed for two years after such principal, premium or interest has become due and payable shall be paid to the Company on Company Request, or (if then held by the Company) shall be discharged from such trust; and the Holder of such Security shall thereafter, as an unsecured general creditor, look only to the Company for payment thereof, and all liability of the Trustee or such Paying Agent with respect to such trust money, and all liability of the Company as trustee thereof, shall thereupon cease; *provided, however*, that the Trustee or such Paying Agent, before being required to make any such repayment, may at the expense of the Company cause to be published once, in a newspaper published in the English language, customarily published on each Business Day and of general circulation in the Borough of Manhattan, The City of New York, New York, notice that such money remains unclaimed and that, after a date specified therein, which shall not be less than 30 days from the date of such publication, any unclaimed balance of such money then remaining will be repaid to the Company.

SECTION 1004. *Statement by Officers as to Default.*

The Company will deliver to the Trustee, within 120 days after the end of each fiscal year of the Company ending after the date hereof, an Officers' Certificate, stating whether or not to the

best knowledge of the signers thereof the Company is in default in the performance and observance of any of the terms, provisions and conditions of this Indenture (without regard to any period of grace or requirement of notice provided hereunder) and, if the Company shall be in default, specifying all such defaults and the nature and status thereof of which they may have knowledge.

SECTION 1005. *Existence.*

Subject to Article Eight, the Company will do or cause to be done all things necessary to preserve and keep in full force and effect its existence, rights (charter and statutory) and franchises; *provided, however,* that the Company shall not be required to preserve any such right or franchise if the Board of Directors shall determine that the preservation thereof is no longer desirable in the conduct of the business of the Company and that the loss thereof is not disadvantageous in any material respect to the Holders.

SECTION 1006. *Maintenance of Properties.*

The Company will cause all properties used or useful in the conduct of its business or the business of any Subsidiary to be maintained and kept in good condition, repair and working order and supplied with all necessary equipment and will cause to be made all necessary repairs, renewals, replacements, betterments and improvements thereof, all as in the judgment of the Company may be necessary so that the business carried on in connection therewith may be properly and advantageously conducted at all times; *provided, however,* that nothing in this Section shall prevent the Company from discontinuing the operation or maintenance of any of such properties if such discontinuance is, in the judgment of the Company, desirable in the conduct of its business or the business of any Subsidiary and not disadvantageous in any material respect to the Holders.

SECTION 1007. *Payment of Taxes and Other Claims.*

The Company will pay or discharge or cause to be paid or discharged, before the same shall become delinquent, (1) all taxes, assessments and governmental charges levied or imposed upon the Company or any Subsidiary or upon the income, profits or property of the Company or any Subsidiary, and (2) all lawful claims for labor, materials and supplies which, if unpaid, might by law become a lien upon the property of the Company or any Subsidiary; *provided, however,* that the Company shall not be required to pay or discharge or cause to be paid or discharged any such tax, assessment, charge or claim whose amount, applicability or validity is being contested in good faith by appropriate proceedings.

SECTION 1008. *Waiver of Certain Covenants.*

Except as otherwise specified as contemplated by Section 301 for Securities of such series, the Company may, with respect to the Securities of any series, omit in any particular instance to comply with any term, provision or condition set forth in any covenant provided pursuant to Section 301(19), 901(2) or 901(7) for the benefit of the Holders of such series or in any of Sections 1006 through 1007 if before the time for such compliance the Holders of at least 66-2/3% in principal amount of the Outstanding Securities of such series shall, by Act of such Holders, either waive such compliance in such instance or generally waive compliance with such term, provision or condition, but no such waiver shall extend to or affect such term, provision or condition except to the extent so expressly waived, and, until such waiver shall become effective, the obligations of the Company and the duties of the Trustee in respect of any such term, provision or condition shall remain in full force and effect.

SECTION 1009. *Calculation of Original Issue Discount.*

The Company shall file with the Trustee promptly at the end of each calendar year a written notice specifying the amount of original issue discount (including daily rates and accrual periods) accrued on Outstanding Securities as of the end of such year.

ARTICLE ELEVEN

REDEMPTION OF SECURITIES

SECTION 1101. *Applicability of Article.*

Securities of any series which are redeemable before their Stated Maturity shall be redeemable in accordance with their terms and (except as otherwise specified as contemplated by Section 301 for such Securities) in accordance with this Article.

SECTION 1102. *Election to Redeem; Notice to Trustee.*

The election of the Company to redeem any Securities shall be evidenced by a Board Resolution or in another manner specified as contemplated by Section 301 for such Securities. In case

of any redemption at the election of the Company, the Company shall, at least 60 days prior to the Redemption Date fixed by the Company (unless a shorter notice shall be satisfactory to the Trustee), notify the Trustee of such Redemption Date, of the principal amount of Securities of such series to be redeemed and, if applicable, of the tenor of the Securities to be redeemed. In the case of any redemption of Securities (a) prior to the expiration of any restriction on such redemption provided in the terms of such Securities or elsewhere in this Indenture, or (b) pursuant to an election of the Company which is subject to a condition specified in the terms of such Securities or elsewhere in this Indenture, the Company shall furnish the Trustee with an Officers' Certificate evidencing compliance with such restriction or condition.

SECTION 1103. *Selection by Trustee of Securities to Be Redeemed.*

If less than all the Securities of any series are to be redeemed (unless all the Securities of such series and of a specified tenor are to be redeemed or unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series not previously called for redemption, by such method as the Trustee shall deem fair and appropriate and which may provide for the selection for redemption of a portion of the principal amount of any Security of such series, *provided* that the unredeemed portion of the principal amount of any Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security. If less than all the Securities of such series and of a specified tenor are to be redeemed (unless such redemption affects only a single Security), the particular Securities to be redeemed shall be selected not more than 60 days prior to the Redemption Date by the Trustee, from the Outstanding Securities of such series and specified tenor not previously called for redemption in accordance with the preceding sentence.

The Trustee shall promptly notify the Company in writing of the Securities selected for redemption as aforesaid and, in case of any Securities selected for partial redemption as aforesaid, the principal amount thereof to be redeemed.

The provisions of the two preceding paragraphs shall not apply with respect to any redemption affecting only a single Security, whether such Security is to be redeemed in whole or in part. In the case of any such redemption in part, the unredeemed portion of the principal amount of the Security shall be in an authorized denomination (which shall not be less than the minimum authorized denomination) for such Security.

For all purposes of this Indenture, unless the context otherwise requires, all provisions relating to the redemption of Securities shall relate, in the case of any Securities redeemed or to be

redeemed only in part, to the portion of the principal amount of such Securities which has been or is to be redeemed.

SECTION 1104. *Notice of Redemption.*

Notice of redemption shall be given by first-class mail, postage prepaid, mailed not less than 30 nor more than 60 days prior to the Redemption Date, to each Holder of Securities to be redeemed, at his address appearing in the Security Register.

All notices of redemption shall identify the Securities to be redeemed (including CUSIP number) and shall state:

- (1) the Redemption Date,
- (2) the Redemption Price,
- (3) if less than all the Outstanding Securities of any series and of a specified tenor consisting of more than a single Security are to be redeemed, the identification (and, in the case of partial redemption of any such Securities, the principal amounts) of the particular Securities to be redeemed and, if less than all the Outstanding Securities of any series and of a specified tenor consisting of a single Security are to be redeemed, the principal amount of the particular Security to be redeemed,
- (4) that on the Redemption Date the Redemption Price will become due and payable upon each such Security to be redeemed and, if applicable, that interest thereon will cease to accrue on and after said date,
- (5) the place or places where each such Security is to be surrendered for payment of the Redemption Price, and
- (6) that the redemption is for a sinking fund, if such is the case.

Notice of redemption of Securities to be redeemed at the election of the Company shall be given by the Company or, at the Company's request, by the Trustee in the name and at the expense of the Company and shall be irrevocable.

SECTION 1105. *Deposit of Redemption Price.*

Prior to any Redemption Date, the Company shall deposit with the Trustee or with a Paying Agent (or, if the Company is acting as its own Paying Agent, segregate and hold in trust as provided in Section 1003) an amount of money sufficient to pay the Redemption Price of, and (except if the Redemption Date shall be an Interest Payment Date) accrued interest on, all the Securities which are to be redeemed on that date.

SECTION 1106. *Securities Payable on Redemption Date.*

Notice of redemption having been given as aforesaid, the Securities so to be redeemed shall, on the Redemption Date, become due and payable at the Redemption Price therein specified, and from and after such date (unless the Company shall default in the payment of the Redemption Price and accrued interest) such Securities shall cease to bear interest. Upon surrender of any such Security for redemption in accordance with said notice, such Security shall be paid by the Company at the Redemption Price, together with accrued interest to the Redemption Date; *provided, however,* that, unless otherwise specified as contemplated by Section 301, installments of interest whose Stated Maturity is on or prior to the Redemption Date will be payable to the Holders of such Securities, or one or more Predecessor Securities, registered as such at the close of business on the relevant Record Dates according to their terms and the provisions of Section 307.

If any Security called for redemption shall not be so paid upon surrender thereof for redemption, the principal and any premium shall, until paid, bear interest from the Redemption Date at the rate prescribed therefor in the Security.

SECTION 1107. *Securities Redeemed in Part.*

Any Security which is to be redeemed only in part shall be surrendered at a Place of Payment therefor (with, if the Company or the Trustee so requires, due endorsement by, or a written instrument of transfer in form satisfactory to the Company and the Trustee duly executed by, the Holder thereof or his attorney duly authorized in writing), and the Company shall execute, and the Trustee shall authenticate and deliver to the Holder of such Security without service charge, a new Security or Securities of the same series and of like tenor, of any authorized denomination as requested by such Holder, in aggregate principal amount equal to and in exchange for the unredeemed portion of the principal of the Security so surrendered.

ARTICLE TWELVE

SINKING FUNDS

SECTION 1201. *Applicability of Article.*

The provisions of this Article shall be applicable to any sinking fund for the retirement of Securities of any series except as otherwise specified as contemplated by Section 301 for such Securities.

The minimum amount of any sinking fund payment provided for by the terms of any Securities is herein referred to as a "mandatory sinking fund payment", and any payment in excess of such minimum amount provided for by the terms of such Securities is herein referred to as an "optional sinking fund payment". If provided for by the terms of any Securities, the cash amount of any sinking fund payment may be subject to reduction as provided in Section 1202. Each sinking fund payment shall be applied to the redemption of Securities as provided for by the terms of such Securities.

SECTION 1202. *Satisfaction of Sinking Fund Payments with Securities.*

The Company (1) may deliver Outstanding Securities of a series (other than any previously called for redemption) and (2) may apply as a credit Securities of a series which have been redeemed either at the election of the Company pursuant to the terms of such Securities or through the application of permitted optional sinking fund payments pursuant to the terms of such Securities, in each case in satisfaction of all or any part of any sinking fund payment with respect to any Securities of such series required to be made pursuant to the terms of such Securities as and to the extent provided for by the terms of such Securities; *provided* that the Securities to be so credited have not been previously so credited. The Securities to be so credited shall be received and credited for such purpose by the Trustee at the Redemption Price, as specified in the Securities so to be redeemed, for redemption through operation of the sinking fund and the amount of such sinking fund payment shall be reduced accordingly.

SECTION 1203. *Redemption of Securities for Sinking Fund.*

Not less than 60 days prior to each sinking fund payment date for any Securities, the Company will deliver to the Trustee an Officers' Certificate specifying the amount of the next ensuing sinking fund payment for such Securities pursuant to the terms of such Securities, the portion thereof, if any, which is to be satisfied by payment of cash and the portion thereof, if any, which is to be satisfied by delivering and crediting Securities pursuant to Section 1202 and stating the basis for such credit and that such Securities have not been previously so credited and will also deliver to the Trustee any Securities to be so delivered. Not less than 30 days prior to each such sinking fund payment date, the Trustee shall select the Securities to be redeemed upon such sinking fund payment date in the manner specified in Section 1103 and cause notice of the redemption thereof to be given in the name of and at the expense of the Company in the manner provided in Section 1104. Such notice having been duly given, the redemption of such Securities shall be made upon the terms and in the manner stated in Sections 1106 and 1107.

ARTICLE THIRTEEN

DEFEASANCE AND COVENANT DEFEASANCE

SECTION 1301. *Company's Option to Effect Defeasance or Covenant Defeasance.*

The Company may elect, at its option at any time, to have Section 1302 or Section 1303 applied to any Securities or any series of Securities, as the case may be, designated pursuant to Section 301 as being defeasible pursuant to such Section 1302 or 1303, in accordance with any applicable requirements provided pursuant to Section 301 and upon compliance with the conditions set forth below in this Article. Any such election shall be evidenced by a Board Resolution or in another manner specified as contemplated by Section 301 for such Securities.

SECTION 1302. *Defeasance and Discharge.*

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, the Company shall be deemed to have been discharged from its obligations with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "Defeasance"). For this purpose, such Defeasance means that the Company shall be deemed to have paid and discharged the entire indebtedness represented by such Securities and to have satisfied all its other obligations under such Securities and this Indenture insofar as such Securities are concerned (and the Trustee, at the expense of the Company, shall execute proper instruments acknowledging the same), subject

to the following which shall survive until otherwise terminated or discharged hereunder: (1) the rights of Holders of such Securities to receive, solely from the trust fund described in Section 1304 and as more fully set forth in such Section, payments in respect of the principal of and any premium and interest on such Securities when payments are due, (2) the Company's obligations with respect to such Securities under Sections 304, 305, 306, 1002 and 1003 and with respect to the Trustee under Section 607, (3) the rights, powers, trusts, duties and immunities of the Trustee hereunder and (4) this Article. Subject to compliance with this Article, the Company may exercise its option (if any) to have this Section applied to any Securities notwithstanding the prior exercise of its option (if any) to have Section 1303 applied to such Securities.

SECTION 1303. *Covenant Defeasance.*

Upon the Company's exercise of its option (if any) to have this Section applied to any Securities or any series of Securities, as the case may be, (1) the Company shall be released from its obligations under Section 801(3), Sections 1006 through 1007, inclusive, and any covenants provided pursuant to Section 301(19), 901(2), 901(6) or 901(7) for the benefit of the Holders of such Securities and (2) the occurrence of any event specified in Sections 501(4) (with respect to any of Section 801(3), Sections 1006 through 1007, inclusive, and any such covenants provided pursuant to Section 301(19), 901(2), 901(6) or 901(7)) and 501(7) shall be deemed not to be or result in an Event of Default with respect to such Securities as provided in this Section on and after the date the conditions set forth in Section 1304 are satisfied (hereinafter called "Covenant Defeasance"). For this purpose, such Covenant Defeasance means that, with respect to such Securities, the Company may omit to comply with and shall have no liability in respect of any term, condition or limitation set forth in any such specified Section (to the extent so specified in the case of Section 501(4)), whether directly or indirectly by reason of any reference elsewhere herein to any such Section or by reason of any reference in any such Section to any other provision herein or in any other document, but the remainder of this Indenture and such Securities shall be unaffected thereby.

SECTION 1304. *Conditions to Defeasance or Covenant Defeasance.*

The following shall be the conditions to the application of Section 1302 or Section 1303 to any Securities or any series of Securities, as the case may be:

- (1) The Company shall irrevocably have deposited or caused to be deposited with the Trustee as trust funds in trust for the purpose of making the following payments, specifically pledged as security for, and dedicated solely to, the benefit of the Holders of such Securities, (A) money in an amount, or (B) U.S. Government Obligations which through the scheduled payment of principal and

interest in respect thereof in accordance with their terms will provide, not later than one day before the due date of any payment, money in an amount, or (C) a combination thereof, in each case sufficient, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, to pay and discharge, and which shall be applied by the Trustee to pay and discharge, the principal of and any premium and interest on such Securities on the respective Stated Maturities or on any Redemption Date established pursuant to clause (9) below, in accordance with the terms of this Indenture and such Securities. As used herein, "U.S. Government Obligation" means (x) any security which is (i) a direct obligation of the United States of America for the payment of which the full faith and credit of the United States of America is pledged or (ii) an obligation of a Person controlled or supervised by and acting as an agency or instrumentality of the United States of America the payment of which is unconditionally guaranteed as a full faith and credit obligation by the United States of America, which, in either case (i) or (ii), is not callable or redeemable at the option of the issuer thereof, and (y) any depositary receipt issued by a bank (as defined in Section 3(a)(2) of the Securities Act) as custodian with respect to any U.S. Government Obligation which is specified in Clause (x) above and held by such bank for the account of the holder of such depositary receipt, or with respect to any specific payment of principal of or interest on any U.S. Government Obligation which is so specified and held, *provided* that (except as required by law) such custodian is not authorized to make any deduction from the amount payable to the holder of such depositary receipt from any amount received by the custodian in respect of the U.S. Government Obligation or the specific payment of principal or interest evidenced by such depositary receipt.

(2) In the event of an election to have Section 1302 apply to any Securities or any series of Securities, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel stating that (A) the Company has received from, or there has been published by, the Internal Revenue Service a ruling or (B) since the date of this instrument, there has been a change in the applicable Federal income tax law, in either case (A) or (B) to the effect that, and based thereon such opinion shall confirm that, the Holders of such Securities will not recognize gain or loss for Federal income tax purposes as a result of the deposit, Defeasance and discharge to be effected with respect to such Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit, Defeasance and discharge were not to occur.

(3) In the event of an election to have Section 1303 apply to any Securities or any series of Securities, as the case may be, the Company shall have delivered to the Trustee an Opinion of Counsel to the effect that the Holders of such Securities will not recognize gain or loss for Federal income tax purposes as a result of the

deposit and Covenant Defeasance to be effected with respect to such Securities and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would be the case if such deposit and Covenant Defeasance were not to occur.

(4) The Company shall have delivered to the Trustee an Officers' Certificate to the effect that neither such Securities nor any other Securities of the same series, if then listed on any securities exchange, will be delisted as a result of such deposit.

(5) No event which is, or after notice or lapse of time or both would become, an Event of Default with respect to such Securities or any other Securities shall have occurred and be continuing at the time of such deposit or, with regard to any such event specified in Sections 501(5) and (6), at any time on or prior to the 90th day after the date of such deposit (it being understood that this condition shall not be deemed satisfied until after such 90th day).

(6) Such Defeasance or Covenant Defeasance shall not cause the Trustee to have a conflicting interest within the meaning of the Trust Indenture Act (assuming all Securities are in default within the meaning of such Act).

(7) Such Defeasance or Covenant Defeasance shall not result in a breach or violation of, or constitute a default under, any other agreement or instrument to which the Company is a party or by which it is bound.

(8) Such Defeasance or Covenant Defeasance shall not result in the trust arising from such deposit constituting an investment company within the meaning of the Investment Company Act unless such trust shall be registered under such Act or exempt from registration thereunder.

(9) If the Securities are to be redeemed prior to Stated Maturity (other than from mandatory sinking fund payments or analogous payments), notice of such redemption shall have been duly given pursuant to this Indenture or provision therefor satisfactory to the Trustee shall have been made.

(10) The Company shall have delivered to the Trustee an Officers' Certificate and an Opinion of Counsel, each stating that all conditions precedent with respect to such Defeasance or Covenant Defeasance have been complied with.

SECTION 1305. *Deposited Money and U.S. Government Obligations to Be Held in Trust; Miscellaneous Provisions.*

Subject to the provisions of the last paragraph of Section 1003, all money and U.S. Government Obligations (including the proceeds thereof) deposited with the Trustee pursuant to Section 1304 in respect of any Securities shall be held in trust and applied by the Trustee, in accordance with the provisions of such Securities and this Indenture, to the payment, either directly or through any such Paying Agent (including the Company acting as its own Paying Agent) as the Trustee may determine, to the Holders of such Securities, of all sums due and to become due thereon in respect of principal and any premium and interest, but money so held in trust need not be segregated from other funds except to the extent required by law.

The Company shall pay and indemnify the Trustee against any tax, fee or other charge imposed on or assessed against the U.S. Government Obligations deposited pursuant to Section 1304 or the principal and interest received in respect thereof other than any such tax, fee or other charge which by law is for the account of the Holders of Outstanding Securities.

Anything in this Article to the contrary notwithstanding, the Trustee shall deliver or pay to the Company from time to time upon Company Request any money or U.S. Government Obligations held by it as provided in Section 1304 with respect to any Securities which, in the opinion of a nationally recognized firm of independent public accountants expressed in a written certification thereof delivered to the Trustee, are in excess of the amount thereof which would then be required to be deposited to effect the Defeasance or Covenant Defeasance, as the case may be, with respect to such Securities.

SECTION 1306. *Reinstatement.*

If the Trustee or the Paying Agent is unable to apply any money in accordance with this Article with respect to any Securities by reason of any order or judgment of any court or governmental authority enjoining, restraining or otherwise prohibiting such application, then the obligations under this Indenture and such Securities from which the Company has been discharged or released pursuant to Section 1302 or 1303 shall be revived and reinstated as though no deposit had occurred pursuant to this Article with respect to such Securities, until such time as the Trustee or Paying Agent is permitted to apply all money held in trust pursuant to Section 1305 with respect to such Securities in accordance with this Article; *provided, however*, that if the Company makes any payment of principal or any premium or interest on any such Security following such reinstatement of its obligations, the Company shall be subrogated to the rights (if any) of the Holders of such Securities to receive such payment from the money so held in trust.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

ARIZONA PUBLIC SERVICE COMPANY

By William D. Adams
Treasurer

Attest:

Betsy A. Regne
Associate Secretary

THE CHASE MANHATTAN BANK, as Trustee

By [Signature]
Vice President

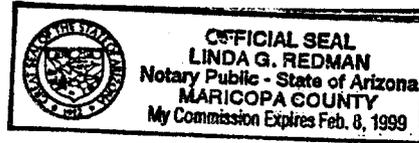
Attest:

[Signature]
SENIOR TRUST OFFICER

STATE OF ARIZONA)
) ss.:
COUNTY OF MARICOPA)

On the 15th day of January before me personally came Michael V. Palmeri, to me known, who, being by me duly sworn, did depose and say that he is Treasurer of Arizona Public Service Company, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

Linda G. Redman



STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 14th day of January, before me personally came T. J. Foley to me known, who, being by me duly sworn, did depose and say that he is Vice President of The Chase Manhattan Bank, one of the corporations described in and which executed the foregoing instrument; that he knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he signed his name thereto by like authority.

Annabelle DeLuca

ANNABELLE DeLUCA
Notary Public, State of New York
No. 01DE5013759
Qualified in Kings County
Certificate Filed in New York County
Commission Expires July 15, 1999

ARIZONA PUBLIC SERVICE COMPANY

TO

JPMORGAN CHASE BANK

Trustee

Seventh Supplemental Indenture

Dated as of May 1, 2003

To

Indenture

Dated as of January 15, 1998

4.650% Notes due 2015

5.625% Notes due 2033

SEVENTH SUPPLEMENTAL INDENTURE, dated as of May 1, 2003, between Arizona Public Service Company, a corporation duly organized and existing under the laws of the State of Arizona (herein called the "Company"), having its principal office at 400 North Fifth Street, Phoenix, Arizona 85004, and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), a New York banking corporation, as Trustee (herein called the "Trustee") under the Indenture dated as of January 15, 1998 between the Company and the Trustee (the "Indenture").

RECITALS OF THE COMPANY

The Company has executed and delivered the Indenture to the Trustee to provide for the issuance from time to time of its unsecured debentures, notes or other evidences of indebtedness (the "Securities"), said Securities to be issued in one or more series as provided in the Indenture.

Pursuant to the terms of the Indenture, the Company desires to provide for the establishment of two new series of its Securities to be known as its 4.650% Notes due 2015 (herein called the "Notes Due 2015") and its 5.625% Notes due 2033 (herein called the "Notes Due 2033") (the Notes Due 2015 and the Notes Due 2033 are herein collectively referred to as the "Notes"), the forms and substance of such Notes Due 2015 and such Notes Due 2033 and the terms, provisions, and conditions thereof to be set forth as provided in the Indenture and this Seventh Supplemental Indenture.

All things necessary to make this Seventh Supplemental Indenture a valid agreement of the Company, and to make the Notes Due 2015 and the Notes Due 2033, when executed by the Company and authenticated and delivered by the Trustee, the valid obligations of the Company, have been done.

NOW, THEREFORE, THIS SEVENTH SUPPLEMENTAL INDENTURE WITNESSETH:

For and in consideration of the premises and the purchase of the Notes Due 2015 and the Notes Due 2033 by the Holders thereof, and for the purpose of setting forth, as provided in the Indenture, the form and substance of the Notes Due 2015 and the Notes Due 2033 and the terms, provisions, and conditions thereof, it is mutually agreed, for the equal and proportionate benefit of all Holders of the Notes Due 2015 and the Notes Due 2033, as follows:

ARTICLE ONE

GENERAL TERMS AND CONDITIONS OF THE NOTES DUE 2015 AND THE NOTES DUE 2033

SECTION 101. There shall be and is hereby authorized a series of Securities designated the "4.650% Notes due 2015" initially limited in aggregate principal amount to \$300,000,000, which amount shall be as set forth in any Company Order for the authentication and delivery of Notes Due 2015. There shall be and is hereby authorized a series of Securities designated the "5.625% Notes

due 2033" initially limited in aggregate principal amount to \$200,000,000, which amount shall be as set forth in any Company Order for the authentication and delivery of Notes Due 2033. The Notes Due 2015 and the Notes Due 2033 shall mature and the principal shall be due and payable together with all accrued and unpaid interest thereon on May 15, 2015 and May 15, 2033, respectively, and shall be issued in the form of registered Notes without coupons.

The foregoing principal amount of the Notes Due 2015 and the Notes Due 2033 may be increased from time to time as permitted by Section 301 of the Indenture. All Notes Due 2015 and Notes Due 2033 need not be issued at the same time and such series may be reopened at any time, without notice to, or the consent of, the then existing Holders, for issuances of additional Notes Due 2015 and Notes Due 2033. Any such additional Notes Due 2015 and Notes Due 2033 will be equal in rank and have the same respective maturity, payment terms, redemption features, and other terms, except for the payment of interest accruing prior to the issue date of the further Notes Due 2015 and Notes Due 2033 and for the first payment of interest following the issue date of the further Notes Due 2015 and Notes Due 2033, as those initially issued.

SECTION 102. The Notes Due 2015 and Notes Due 2033 shall each be issued in certificated form, except that the Notes Due 2015 and Notes Due 2033 shall each be issued initially as a Global Security to and registered in the name of Cede & Co., as nominee of The Depository Trust Company, as Depository therefor. Any Notes Due 2015 and Notes Due 2033 to be issued or transferred to, or to be held by, Cede & Co. (or any successor thereof) for such purpose shall bear the depository legend in substantially the form set forth at the top of the form of Note Due 2015 in Article Two hereof and at the top of the form of Note Due 2033 in Article Three hereof (in lieu of that set forth in Section 204 of the Indenture), unless otherwise agreed by the Company, such agreement to be confirmed in writing to the Trustee. Each such Global Security may be exchanged in whole or in part for Notes Due 2015 or Notes Due 2033, as applicable, registered, and any transfer of such Global Security in whole or in part may be registered, in the name or names of Persons other than such Depository or a nominee thereof only under the circumstances set forth in Clause (2) of the last paragraph of Section 305 of the Indenture, or such other circumstances in addition to or in lieu of those set forth in Clause (2) of the last paragraph of Section 305 of the Indenture as to which the Company shall agree, such agreement to be confirmed in writing to the Trustee. Principal of, and premium, if any, and interest on the Notes Due 2015 and Notes Due 2033 will be payable, the transfer of Notes Due 2015 and Notes Due 2033 will be registrable and Notes Due 2015 and Notes Due 2033, respectively, will be exchangeable for Notes Due 2015 and Notes Due 2033, respectively, bearing identical terms and provisions, at the office or agency of the Company in the Borough of Manhattan, The City and State of New York; *provided, however*, that payment of interest may be made at the option of the Company by check mailed to the registered holder at such address as shall appear in the Security Register.

SECTION 103. Each Note Due 2015 will bear interest at the rate of 4.650% and each Note Due 2033 will bear interest at the rate of 5.625%, each from May 12, 2003 or from the most recent Interest Payment Date (as hereinafter defined) to which interest has been paid or duly provided for until the principal thereof is paid or made available for payment, payable on May 15 and November 15 of each year (each, an "Interest Payment Date"), commencing on November 15, 2003,

to the person in whose name such Note Due 2015 or Note Due 2033 or any Predecessor Security is registered, at the close of business on May 1 and November 1, as the case may be, whether or not a Business Day, immediately preceding the Interest Payment Date. Any such interest installment not punctually paid or duly provided for shall forthwith cease to be payable to the registered holders on such regular record date, and may be paid to the person in whose name the Note Due 2015 or Note Due 2033 (or one or more Predecessor Securities) is registered at the close of business on a special record date to be fixed by the Trustee for the payment of such defaulted interest, notice whereof shall be given to the registered holders of the Notes Due 2015 or Notes Due 2033, as the case may be, not less than 10 days prior to such special record date, or may be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Notes Due 2015 or Notes Due 2033 may be listed, and upon such notice as may be required by such exchange, all as more fully provided in the Indenture.

The amount of interest payable for any period will be computed on the basis of a 360-day year of twelve 30-day months. Interest will accrue from May 12, 2003 to, but not including, the relevant payment date. In the event that any date on which interest is payable on the Notes Due 2015 or the Notes Due 2033 is not a Business Day, then payment of interest payable on such date will be made on the next succeeding day which is a Business Day (and without any interest or other payment in respect of any such delay), in each case with the same force and effect as if made on such date.

A "Business Day" shall mean any day, except a Saturday, a Sunday or a legal holiday in the City of New York on which banking institutions are authorized or required by law, regulation or executive order to close.

SECTION 104. The Company, at its option, may redeem all, or, from time to time any part of the Notes Due 2015 or Notes Due 2033, upon notice as provided in the Indenture at a Redemption Price equal to the greater of (a) the principal amount of the Notes Due 2015 or Notes Due 2033 (or portion thereof) to be redeemed plus interest (if any) accrued to the Redemption Date or (b) the Make-Whole Amount with respect to the Notes Due 2015 or Notes Due 2033 to be redeemed.

For purposes of this Section 104, the following terms shall have the following meanings:

"Make-Whole Amount" means the sum, as determined by a Quotation Agent, of the present values of the principal amount of the Notes Due 2015 or Notes Due 2033 to be redeemed, together with scheduled payments of interest (exclusive of interest to the Redemption Date) from the Redemption Date to the Stated Maturity of the Notes Due 2015 or Notes Due 2033, in each case discounted to the Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Adjusted Treasury Rate, plus accrued interest (if any) on the principal amount of the Notes Due 2015 or Notes Due 2033 being redeemed to the Redemption Date.

"Adjusted Treasury Rate" means, with respect to any Redemption Date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15 (519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity

under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the remaining term of the Notes Due 2015 or Notes Due 2033 to be redeemed, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date, in each case calculated on the third Business Day preceding the Redemption Date, plus in each case 0.150%.

"Comparable Treasury Issue" means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term from the Redemption Date to the Stated Maturity of the Notes Due 2015 or Notes Due 2033, as the case may be, that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Notes Due 2015 or Notes Due 2033, as the case may be.

"Quotation Agent" means the Reference Treasury Dealer selected by the Trustee after consultation with the Company.

"Reference Treasury Dealer" means each primary U.S. Government securities dealer selected by the Company.

"Comparable Treasury Price" means, with respect to any Redemption Date, if clause (ii) of the definition of Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Trustee, Reference Treasury Dealer Quotations for such Redemption Date.

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

The Trustee shall be under no duty to inquire into, may conclusively presume the correctness of, and shall be fully protected in acting upon the Company's calculation of any Redemption Price, including any Make-Whole Amount.

The Company shall give the Trustee written notice of the Redemption Price, promptly after the calculation thereof.

Notwithstanding Section 1104 of the Indenture, any notice of redemption given pursuant to said Section with respect to the foregoing redemption need not set forth the Redemption Price but only the manner of calculation thereof.

SECTION 105. The Notes Due 2015 and the Notes Due 2033 shall be defeasible pursuant to Section 1302 or 1303 of the Indenture.

ARTICLE TWO

FORM OF NOTES DUE 2015

SECTION 201. The Notes Due 2015 and the Trustee's certificate of authentication to be endorsed thereon are to be substantially in the following forms:

Form of Face of Security.

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO ARIZONA PUBLIC SERVICE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE **HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL** INASMUCH AS THE REGISTERED OWNER **HEREOF**, CEDE & CO., HAS AN INTEREST **HEREIN**.

ARIZONA PUBLIC SERVICE COMPANY

4.650% Note due 2015

No.

\$300,000,000

CUSIP No. 040555 CE 2

Arizona Public Service Company, a corporation duly organized and existing under the laws of Arizona (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of Three Hundred Million Dollars on May 15, 2015, and to pay interest thereon from May 12, 2003 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually in arrears on May 15 and November 15 in each year, commencing November 15, 2003, at the rate of 4.650%, until the principal hereof is paid or made available for payment.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be May 1 or November 1, as the case may be, immediately preceding the Interest Payment Date (whether or not a Business Day). Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

Payment of the principal of (and premium, if any) and any interest on this Security will be made at the office or agency of the Company maintained for that purpose in the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

ARIZONA PUBLIC SERVICE COMPANY

By _____
Senior Vice President and
Chief Financial Officer

Attest:

Secretary

Form of Reverse of Security

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of January 15, 1998 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof, which is unlimited in aggregate principal amount.

The Securities of this series are subject to redemption upon not less than 30 days' notice by mail at the option of the Company, in whole or in part, from time to time at a Redemption Price equal to the greater of (a) the principal amount of the Securities (or portion thereof) of this series to be redeemed plus interest (if any) accrued to the Redemption Date or (b) the Make-Whole Amount (as defined below) with respect to the Securities of this series to be redeemed (the "Redemption Price").

If notice has been given as provided in the Indenture and funds for the redemption of any Securities (or any portion thereof) called for redemption shall have been made available on the Redemption Date referred to in such notice, such Securities (or any portion thereof) will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holders of such Securities will be to receive payment of the Redemption Price.

Notice of any optional redemption of Securities of this series (or any portion thereof) will be given to Holders at their addresses, as shown in the Security Register for such Securities, not more than 60 nor less than 30 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the Redemption Price or, if not then known, the manner of calculation thereof, and the principal amount of the Securities of this series held by such Holder to be redeemed.

If less than all of the Securities of this series are to be redeemed at the option of the Company, the Trustee shall select, in such manner as it shall deem fair and appropriate, the portion of such Securities to be redeemed in whole or in part.

As used herein:

"Make-Whole Amount" means the sum, as determined by a Quotation Agent, of the present values of the principal amount of the Securities of this series to be redeemed, together with scheduled payments of interest (exclusive of interest to the Redemption Date) from the Redemption Date to the Stated Maturity of the Securities of this series, in each case discounted to the Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Adjusted Treasury Rate, plus accrued interest (if any) on the principal amount of the Securities of this series being redeemed to the Redemption Date.

“Adjusted Treasury Rate” means, with respect to any Redemption Date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated “H.15 (519)” or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption “Treasury Constant Maturities,” for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the remaining term of the Securities of this series, yields for the two published maturities most closely corresponding to the Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date, in each case calculated on the third Business Day preceding the Redemption Date, plus in each case 0.150%.

“Comparable Treasury Issue” means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term from the Redemption Date to the Stated Maturity of the Securities of this series that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Securities of this series.

“Quotation Agent” means the Reference Treasury Dealer selected by the Trustee after consultation with the Company.

“Reference Treasury Dealer” means each primary U.S. Government securities dealer selected by the Company.

“Comparable Treasury Price” means, with respect to any Redemption Date, if clause (ii) of the definition of Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Trustee, Reference Treasury Dealer Quotations for such Redemption Date.

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

The Securities of this series will not be subject to any sinking fund.

In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee without the consent of such Holders in certain limited circumstances or with the consent of the Holders of 66-2/3% in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Form of Trustee's Certificate of Authentication.

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Dated:

JPMORGAN CHASE BANK
As Trustee

By _____
Authorized Officer

ARTICLE THREE

FORM OF NOTES DUE 2033

SECTION 301. The Notes Due 2033 and the Trustee's Certificate of Authentication to be endorsed thereon are to be substantially in the following forms:

Form of Face of Security

UNLESS THIS CERTIFICATE IS PRESENTED BY AN AUTHORIZED REPRESENTATIVE OF THE DEPOSITORY TRUST COMPANY, A NEW YORK CORPORATION ("DTC"), TO ARIZONA PUBLIC SERVICE COMPANY OR ITS AGENT FOR REGISTRATION OF TRANSFER, EXCHANGE, OR PAYMENT, AND ANY CERTIFICATE ISSUED IS REGISTERED IN THE NAME OF CEDE & CO. OR IN SUCH OTHER NAME AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC (AND ANY PAYMENT IS MADE TO CEDE & CO. OR TO SUCH OTHER ENTITY AS IS REQUESTED BY AN AUTHORIZED REPRESENTATIVE OF DTC), ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL INASMUCH AS THE REGISTERED OWNER HEREOF, CEDE & CO., HAS AN INTEREST HEREIN.

ARIZONA PUBLIC SERVICE COMPANY

5.625% Note due 2033

No.

\$200,000,000

CUSIP No. 040555 CF 9

Arizona Public Service Company, a corporation duly organized and existing under the laws of Arizona (herein called the "Company", which term includes any successor Person under the Indenture hereinafter referred to), for value received, hereby promises to pay to Cede & Co., or registered assigns, the principal sum of Two Hundred Million Dollars on May 15, 2033, and to pay interest thereon from May 12, 2003 or from the most recent Interest Payment Date to which interest has been paid or duly provided for, semi-annually in arrears on May 15 and November 15 in each year, commencing November 15, 2003, at the rate of 5.625%, until the principal hereof is paid or made available for payment.

The interest so payable, and punctually paid or duly provided for, on any Interest Payment Date will, as provided in such Indenture, be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on the Regular Record Date for such interest, which shall be May 1 or November 1, as the case may be, immediately preceding the Interest Payment Date (whether or not a Business Day). Any such interest not so punctually paid or duly provided for will forthwith cease to be payable to the Holder on such Regular Record Date and may either be paid to the Person in whose name this Security (or one or more Predecessor Securities) is registered at the close of business on a Special Record Date for the payment of such Defaulted

Interest to be fixed by the Trustee, notice whereof shall be given to Holders of Securities of this series not less than 10 days prior to such Special Record Date, or be paid at any time in any other lawful manner not inconsistent with the requirements of any securities exchange on which the Securities of this series may be listed, and upon such notice as may be required by such exchange, all as more fully provided in said Indenture.

Payment of the principal of (and premium, if any) and any interest on this Security will be made at the office or agency of the Company maintained for that purpose in the City of New York, in such coin or currency of the United States of America as at the time of payment is legal tender for payment of public and private debts; provided, however, that at the option of the Company payment of interest may be made by check mailed to the address of the Person entitled thereto as such address shall appear in the Security Register.

Reference is hereby made to the further provisions of this Security set forth on the reverse hereof, which further provisions shall for all purposes have the same effect as if set forth at this place.

Unless the certificate of authentication hereon has been executed by the Trustee referred to on the reverse hereof by manual signature, this Security shall not be entitled to any benefit under the Indenture or be valid or obligatory for any purpose.

IN WITNESS WHEREOF, the Company has caused this instrument to be duly executed under its corporate seal.

ARIZONA PUBLIC SERVICE COMPANY

By _____
Senior Vice President and
Chief Financial Officer

Attest:

Secretary

Form of Reverse of Security.

This Security is one of a duly authorized issue of securities of the Company (herein called the "Securities"), issued and to be issued in one or more series under an Indenture, dated as of January 15, 1998 (herein called the "Indenture", which term shall have the meaning assigned to it in such instrument), between the Company and JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), as Trustee (herein called the "Trustee", which term includes any successor trustee under the Indenture), and reference is hereby made to the Indenture for a statement of the respective rights, limitations of rights, duties and immunities thereunder of the Company, the Trustee

and the Holders of the Securities and of the terms upon which the Securities are, and are to be, authenticated and delivered. This Security is one of the series designated on the face hereof, which is unlimited in aggregate principal amount.

The Securities of this series are subject to redemption upon not less than 30 days' notice by mail at the option of the Company, in whole or in part, from time to time at a Redemption Price equal to the greater of (a) the principal amount of the Securities (or portion thereof) of this series to be redeemed plus interest (if any) accrued to the Redemption Date or (b) the Make-Whole Amount (as defined below) with respect to the Securities of this series to be redeemed (the "Redemption Price").

If notice has been given as provided in the Indenture and funds for the redemption of any Securities (or any portion thereof) called for redemption shall have been made available on the Redemption Date referred to in such notice, such Securities (or any portion thereof) will cease to bear interest on the date fixed for such redemption specified in such notice and the only right of the Holders of such Securities will be to receive payment of the Redemption Price.

Notice of any optional redemption of Securities of this series (or any portion thereof) will be given to Holders at their addresses, as shown in the Security Register for such Securities, not more than 60 nor less than 30 days prior to the date fixed for redemption. The notice of redemption will specify, among other items, the Redemption Price or, if not then known, the manner of calculation thereof, and the principal amount of the Securities of this series held by such Holder to be redeemed. If less than all of the Securities of this series are to be redeemed at the option of the Company, the Trustee shall select, in such manner as it shall deem fair and appropriate, the portion of such Securities to be redeemed in whole or in part.

As used herein:

"Make-Whole Amount" means the sum, as determined by a Quotation Agent, of the present values of the principal amount of the Securities of this series to be redeemed, together with scheduled payments of interest (exclusive of interest to the Redemption Date) from the Redemption Date to the Stated Maturity of the Securities of this series, in each case discounted to the Redemption Date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Adjusted Treasury Rate, plus accrued interest (if any) on the principal amount of the Securities of this series being redeemed to the Redemption Date.

"Adjusted Treasury Rate" means, with respect to any Redemption Date, (i) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.15 (519)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded U.S. Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the remaining term of the Securities of this series, yields for the two published maturities most closely corresponding to the

Comparable Treasury Issue shall be determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (ii) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such Redemption Date, in each case calculated on the third Business Day preceding the Redemption Date, plus in each case 0.150%.

“Comparable Treasury Issue” means the U.S. Treasury security selected by the Quotation Agent as having a maturity comparable to the remaining term from the Redemption Date to the Stated Maturity of the Securities of this series that would be utilized, at the time of selection and in accordance with customary financial practice, in pricing new issues of corporate debt securities of comparable maturity to the remaining term of the Securities of this series.

“Quotation Agent” means the Reference Treasury Dealer selected by the Trustee after consultation with the Company.

“Reference Treasury Dealer” means each primary U.S. Government securities dealer selected by the Company.

“Comparable Treasury Price” means, with respect to any Redemption Date, if clause (ii) of the definition of Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the Trustee, Reference Treasury Dealer Quotations for such Redemption Date.

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

The Securities of this series will not be subject to any sinking fund.

In the event of redemption of this Security in part only, a new Security or Securities of this series and of like tenor for the unredeemed portion hereof will be issued in the name of the Holder hereof upon the cancellation hereof.

The Indenture contains provisions for defeasance at any time of the entire indebtedness of this Security or certain restrictive covenants and Events of Default with respect to this Security, in each case upon compliance with certain conditions set forth in the Indenture.

If an Event of Default with respect to Securities of this series shall occur and be continuing, the principal of the Securities of this series may be declared due and payable in the manner and with the effect provided in the Indenture.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the Company and the rights of the Holders of the Securities of each series to be affected under the Indenture at any time by the Company and the Trustee without the consent of such Holders in certain limited circumstances or with the consent of the Holders of 66-2/3% in principal amount of the Securities at the time Outstanding of each series to be affected. The Indenture also contains provisions permitting the Holders of specified percentages in principal amount of the Securities of each series at the time Outstanding, on behalf of the Holders of all Securities of such series, to waive compliance by the Company with certain provisions of the Indenture and certain past defaults under the Indenture and their consequences. Any such consent or waiver by the Holder of this Security shall be conclusive and binding upon such Holder and upon all future Holders of this Security and of any Security issued upon the registration of transfer hereof or in exchange herefor or in lieu hereof, whether or not notation of such consent or waiver is made upon this Security.

As provided in and subject to the provisions of the Indenture, the Holder of this Security shall not have the right to institute any proceeding with respect to the Indenture or for the appointment of a receiver or trustee or for any other remedy thereunder, unless such Holder shall have previously given the Trustee written notice of a continuing Event of Default with respect to the Securities of this series, the Holders of not less than 25% in principal amount of the Securities of this series at the time Outstanding shall have made written request to the Trustee to institute proceedings in respect of such Event of Default as Trustee and offered the Trustee reasonable indemnity, and the Trustee shall not have received from the Holders of a majority in principal amount of Securities of this series at the time Outstanding a direction inconsistent with such request, and shall have failed to institute any such proceeding, for 60 days after receipt of such notice, request and offer of indemnity. The foregoing shall not apply to any suit instituted by the Holder of this Security for the enforcement of any payment of principal hereof or any premium or interest hereon on or after the respective due dates expressed herein.

No reference herein to the Indenture and no provision of this Security or of the Indenture shall alter or impair the obligation of the Company, which is absolute and unconditional, to pay the principal of and any premium and interest on this Security at the times, place and rate, and in the coin or currency, herein prescribed.

As provided in the Indenture and subject to certain limitations therein set forth, the transfer of this Security is registrable in the Security Register, upon surrender of this Security for registration of transfer at the office or agency of the Company in any place where the principal of and any premium and interest on this Security are payable, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Company and the Security Registrar duly executed by, the Holder hereof or his attorney duly authorized in writing, and thereupon one or more new

Securities of this series and of like tenor, of authorized denominations and for the same aggregate principal amount, will be issued to the designated transferee or transferees.

The Securities of this series are issuable only in registered form without coupons in denominations of \$1,000 and any integral multiple thereof. As provided in the Indenture and subject to certain limitations therein set forth, Securities of this series are exchangeable for a like aggregate principal amount of Securities of this series and of like tenor of a different authorized denomination, as requested by the Holder surrendering the same.

No service charge shall be made for any such registration of transfer or exchange, but the Company may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Prior to due presentment of this Security for registration of transfer, the Company, the Trustee and any agent of the Company or the Trustee may treat the Person in whose name this Security is registered as the owner hereof for all purposes, whether or not this Security be overdue, and neither the Company, the Trustee nor any such agent shall be affected by notice to the contrary.

All terms used in this Security which are defined in the Indenture shall have the meanings assigned to them in the Indenture.

Form of Trustee's Certificate of Authentication

CERTIFICATE OF AUTHENTICATION

This is one of the Securities of the series designated therein referred to in the within-mentioned Indenture.

Dated:

JPMORGAN CHASE BANK
As Trustee

By _____
Authorized Officer

ARTICLE FOUR

ORIGINAL ISSUE OF NOTES DUE 2015 AND NOTES DUE 2033

SECTION 401. Subject to Section 101, the Notes Due 2015 and the Notes Due 2033 in the aggregate principal amount of \$500,000,000 may, upon execution of this Seventh Supplemental Indenture, or from time to time thereafter, be executed by the Company and delivered to the Trustee for authentication, and the Trustee shall thereupon authenticate and deliver said Notes Due 2015 and

Notes Due 2033 in accordance with a Company Order delivered to the Trustee by the Company, without any further action by the Company.

ARTICLE FIVE

PAYING AGENT AND REGISTRAR

SECTION 501. JPMorgan Chase Bank will be the Paying Agent and Security Registrar for the Notes Due 2015 and the Notes Due 2033.

ARTICLE SIX

SUNDRY PROVISIONS

SECTION 601. Except as otherwise expressly provided in this Seventh Supplemental Indenture or in the form of Notes Due 2015 or Notes Due 2033 or otherwise clearly required by the context hereof or thereof, all terms used herein or in said form of Notes Due 2015 or Notes Due 2033 that are defined in the Indenture shall have the several meanings respectively assigned to them thereby.

SECTION 602. The Indenture, as heretofore supplemented and amended, and as supplemented by this Seventh Supplemental Indenture, is in all respects ratified and confirmed, and this Seventh Supplemental Indenture shall be deemed part of the Indenture in the manner and to the extent herein and therein provided.

SECTION 603. The Trustee hereby accepts the trusts herein declared, provided, created, supplemented, or amended and agrees to perform the same upon the terms and conditions herein and in the Indenture, as heretofore supplemented and amended, set forth and upon the following terms and conditions:

The Trustee shall not be responsible in any manner whatsoever for or in respect of the validity or sufficiency of this Seventh Supplemental Indenture or for or in respect of the recitals contained herein, all of which recitals are made by the Company solely. In general, each and every term and condition contained in Article Six of the Indenture shall apply to and form a part of this Seventh Supplemental Indenture with the same force and effect as if the same were herein set forth in full with such omissions, variations, and insertions, if any, as may be appropriate to make the same conform to the provisions of this Seventh Supplemental Indenture.

This instrument may be executed in any number of counterparts, each of which so executed shall be deemed to be an original, but all such counterparts shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the parties hereto have caused this Seventh Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

ARIZONA PUBLIC SERVICE COMPANY

By: Barbara M. Gomez
Barbara M. Gomez
Treasurer

Attest:

Betsy A. Pregulman
Betsy A. Pregulman
Associate Secretary

JPMORGAN CHASE BANK, as Trustee

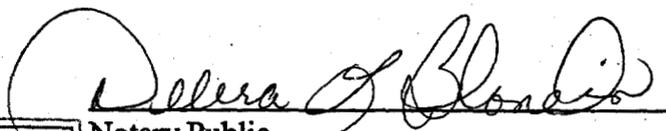
By: _____

Attest:

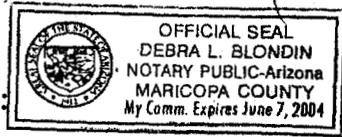
Name:
Title:

STATE OF ARIZONA)
) ss.:
COUNTY OF MARICOPA)

On the 9th day of May, 2003, before me personally came Barbara M. Gomez, to me known, who, being by me duly sworn, did depose and say that she is the Treasurer of Arizona Public Service Company, one of the corporations described in and which executed the foregoing instrument; that she knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that she signed her name thereto by like authority.



Notary Public



My Commission Expires: _____

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the ___ day of May, 2003, before me personally came _____, to me known, who, being by me duly sworn, did depose and say that he/she is _____ of JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), one of the corporations described in and which executed the foregoing instrument; that he/she knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he/she signed his/her name thereto by like authority.

Notary Public

My Commission Expires: _____

IN WITNESS WHEREOF, the parties hereto have caused this Seventh Supplemental Indenture to be duly executed, and their respective corporate seals to be hereunto affixed and attested, all as of the day and year first above written.

ARIZONA PUBLIC SERVICE COMPANY

By: _____
Barbara M. Gomez
Treasurer

Attest:

Betsy A. Pregulman
Associate Secretary

JPMORGAN CHASE BANK, as Trustee

By: Kathleen Perry
Kathleen Perry
Vice President

Attest:

Diane Darconte
Name: Diane Darconte
Title: Trust Officer

STATE OF ARIZONA)
) ss.:
COUNTY OF MARICOPA)

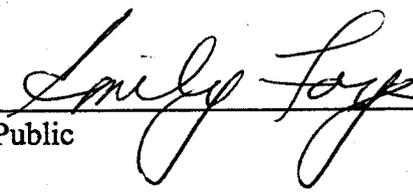
On the ____ day of May, 2003, before me personally came Barbara M. Gomez, to me known, who, being by me duly sworn, did depose and say that she is the Treasurer of Arizona Public Service Company, one of the corporations described in and which executed the foregoing instrument; that she knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that she signed her name thereto by like authority.

Notary Public

My Commission Expires:

STATE OF NEW YORK)
) ss.:
COUNTY OF NEW YORK)

On the 9th day of May, 2003, before me personally came KATHLEEN PERRY, to me known, who, being by me duly sworn, did depose and say that he/she is VICE PRESIDENT of JPMorgan Chase Bank (formerly known as The Chase Manhattan Bank), one of the corporations described in and which executed the foregoing instrument; that he/she knows the seal of said corporation; that the seal affixed to said instrument is such corporate seal; that it was so affixed by authority of the Board of Directors of said corporation; and that he/she signed his/her name thereto by like authority.


Notary Public

My Commission Expires:

EMILY FAYAN
Notary Public, State of New York
No. 01FA4737006
Qualified in Kings County
Certificate Filed in New York County
Commission Expires Dec. 31, 2005

PROSPECTUS SUPPLEMENT
(To Prospectus dated September 19, 2002)

\$500,000,000



Arizona Public Service Company

\$300,000,000 4.650% Notes due 2015

\$200,000,000 5.625% Notes due 2033

This is an offering by Arizona Public Service Company of \$300,000,000 of 4.650% notes due May 15, 2015 and \$200,000,000 of 5.625% notes due May 15, 2033. Interest on the notes is payable May 15 and November 15 of each year, beginning November 15, 2003. We may redeem some or all the notes at any time at the redemption prices described under the caption "Description of the Notes - Redemption." The notes have no sinking fund provisions.

The notes will be unsecured senior obligations of our company and will rank equally with all of our other unsecured senior indebtedness from time to time outstanding.

Investing in the notes involves a high degree of risk. See "Risk Factors" beginning on page S-3 of this prospectus supplement and on page 3 of the accompanying prospectus.

| | Per 2015 Note | Per 2033 Note | Total |
|---|---------------|---------------|----------------|
| Initial public offering price ⁽¹⁾ | 99.264% | 98.856% | \$ 495,504,000 |
| Underwriting discount..... | 0.700% | 0.875% | \$ 3,850,000 |
| Proceeds, before expenses, to Arizona Public Service Company..... | 98.564% | 97.981% | \$ 491,654,000 |

⁽¹⁾ Plus accrued interest from May 12, 2003.

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

The underwriters expect to deliver the notes to purchasers in book-entry form only through the facilities of The Depository Trust Company against payment in New York, New York on or about May 12, 2003.

LEHMAN BROTHERS

CITIGROUP

BARCLAYS CAPITAL

BANC OF AMERICA SECURITIES LLC

BANC ONE CAPITAL MARKETS, INC.

BNY CAPITAL MARKETS, INC.

JPMORGAN

KBC FINANCIAL PRODUCTS

UBS WARBURG

The date of this prospectus supplement is May 7, 2003.

TABLE OF CONTENTS

ARIZONA PUBLIC SERVICE COMPANY

Prospectus Supplement

| | |
|---|------|
| Arizona Public Service Company..... | S-3 |
| Risk Factors..... | S-3 |
| Use of Proceeds..... | S-7 |
| Ratio of Earnings to Fixed Charges..... | S-8 |
| Description of the Notes..... | S-8 |
| Underwriting..... | S-11 |
| Experts..... | S-12 |
| Legal Opinions..... | S-13 |
| Where You Can Find More Information..... | S-13 |
| Prospectus | |
| Risk Factors..... | 3 |
| About this Prospectus..... | 3 |
| Forward-Looking Statements..... | 8 |
| Where You Can Find More Information..... | 9 |
| Business of Arizona Public Service Company..... | 10 |
| Ratio of Earnings to Fixed Charges..... | 11 |
| Use of Proceeds..... | 11 |
| Description of First Mortgage Bonds..... | 11 |
| Description of Debt Securities..... | 15 |
| Global Securities..... | 22 |
| Regarding the Trustees..... | 23 |
| Plan of Distribution..... | 24 |
| Experts..... | 24 |
| Legal Opinions..... | 24 |

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus. We have not authorized anyone to provide you with different information. We are not making an offer of these securities in any state where the offer is not permitted. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus is accurate as of any date other than the date on the front of this prospectus supplement.

This document is in two parts. The first part is this prospectus supplement, which describes the terms of the offering of the notes and also adds to and updates information contained in the accompanying prospectus and the documents incorporated by reference into the accompanying prospectus. The second part is the accompanying prospectus, which gives more general information, some of which will not apply to the notes. If the description of the offering varies between this prospectus supplement and the accompanying prospectus, you should rely on the information in this prospectus supplement.

We were incorporated in 1920 under the laws of Arizona and are a wholly-owned subsidiary of Pinnacle West Capital Corporation ("Pinnacle West"). We currently have more than 902,000 customers. We provide either retail or wholesale electric service to most of the State of Arizona, with the major exceptions of the Tucson metropolitan area and about one-half of the Phoenix metropolitan area. Electricity is delivered through a distribution system that we own. We also generate, sell and deliver electricity to wholesale customers in the western United States. We do not distribute any products. Our principal executive offices are located at 400 North Fifth Street, Phoenix, Arizona 85004, and our telephone number is 602-250-1000.

RISK FACTORS

Before investing in the notes, you should carefully consider the following discussion of risks and the other information included or incorporated by reference in this prospectus supplement and the accompanying prospectus, including the information under the headings "Forward-Looking Statements" in the accompanying prospectus and "Risk Factors" starting on page 3 of the accompanying prospectus. Although we have tried to discuss key factors in this prospectus supplement and the accompanying prospectus, please be aware that other risks may prove to be important in the future. New risks may emerge at any time and we cannot predict such risks or estimate the extent to which they may affect our financial performance.

We are subject to complex government regulation which may have a negative impact on our business and our results of operations.

We are subject to governmental regulation which may have a negative impact on our business and results of operations. We are a "subsidiary company" of a "holding company" within the meaning of the Public Utility Holding Company Act ("PUHCA"); however, we are exempt from the provisions of PUHCA by virtue of the filing of an annual exemption statement with the Securities and Exchange Commission ("SEC") by our parent company, Pinnacle West.

We are subject to comprehensive regulation by several federal, state and local regulatory agencies, which significantly influence our operating environment and may affect our ability to recover costs from utility customers. We are required to have numerous permits, approvals and certificates from the agencies that regulate our business. The Federal Energy Regulatory Commission ("FERC"), the Nuclear Regulatory Commission ("NRC"), the Environmental Protection Agency ("EPA"), and the Arizona Corporation Commission ("ACC") regulate many aspects of our utility operations, including siting and construction of facilities, customer service and the rates that we can charge customers. We believe the necessary permits, approvals and certificates have been obtained for our existing operations. However, we are unable to predict the impact on our business and operating results from the future regulatory activities of any of these agencies. Changes in regulations or the imposition of additional regulations could have an adverse impact on our results of operations.

We cannot predict the outcome of the general rate case that we will file with the ACC on or before June 30, 2003.

As required by a 1999 settlement agreement among us and various parties (the "1999 Settlement Agreement"), on or before June 30, 2003, we will file a general rate case with the ACC. In this rate case, we will update our cost of service and rate design. In addition, we expect to seek:

- rate base treatment of certain power plants currently owned by Pinnacle West Energy Corporation, another subsidiary of Pinnacle West ("Pinnacle West Energy") (specifically, Redhawk Units 1 and 2, West Phoenix Units 4 and 5 and Saguaro Unit 3);
- recovery of the \$234 million pretax asset write-off recorded by us as part of the 1999 Settlement Agreement (\$140 million, after income taxes, was the extraordinary charge recorded on the 1999 Statement of Income); and
- recovery of costs incurred by us in preparation for the previously required transfer of generation assets to Pinnacle West Energy.

The general rate case will also address the implementation of rate adjustment mechanisms that were the subject of ACC hearings in April 2003. The rate adjustment mechanisms, which were authorized as a result of the 1999 Settlement Agreement, would allow us to recover several types of costs, the most significant of which are power supply costs (fuel and purchased power costs) and costs associated with complying with the ACC retail competition rules described below. We assume that the ACC will make a decision in this general rate case by the end of 2004. We cannot predict the outcome of the rate case and the resulting levels of regulated revenues.

If we are not able to access capital at competitive rates, our ability to implement our financial strategy will be adversely affected.

We rely on access to both short-term money markets and longer-term capital markets as a significant source of liquidity and for capital requirements not satisfied by the cash flow from our operations. We believe that we will maintain sufficient access to these financial markets based upon current credit ratings. However, certain market disruptions or a downgrade of our credit rating may increase our cost of borrowing or adversely affect our ability to access one or more financial markets. Such disruptions could include:

- an economic downturn;
- capital market conditions generally;
- the bankruptcy of an unrelated energy company;
- market prices for electricity and gas;
- terrorist attacks or threatened attacks on our facilities or those of unrelated energy companies; or
- the overall health of the utility industry.

Changes in economic conditions could result in higher interest rates, which would increase our interest expense on our debt and reduce funds available to us for our current plans. Additionally, an increase in our leverage could adversely affect us by:

- increasing the cost of future debt financing;
- increasing our vulnerability to adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, which would reduce funds available to us for operations, future business opportunities or other purposes; and
- placing us at a competitive disadvantage compared to our competitors that have less debt.

See the following Risk Factor for more information relating to this discussion.

A significant reduction in our credit ratings could materially and adversely affect our business, financial condition and results of operations.

We cannot be sure that any of our current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. Any downgrade could increase our borrowing costs which would diminish our financial results. We would likely be required to pay a higher interest rate in future financings, and our potential pool of investors and funding sources could decrease. A downgrade could require additional support in the form of letters of credit or cash or other collateral and otherwise have a material adverse effect on our business, financial condition and results of operations. If our short-term ratings were to be lowered, it could limit our access to the commercial paper market. We note that the ratings from credit agencies are not recommendations to buy, sell or hold our securities and that each rating should be evaluated independently of any other rating.

Deregulation or restructuring of the electric industry may result in increased competition, which could have a significant adverse impact on our business and our financial results.

Retail competition could have a significant adverse financial impact on us due to an impairment of assets, a loss of retail customers, lower profit margins or increased costs of capital. In 1999, the ACC approved rules that provide a framework for the introduction of retail electric competition in Arizona. Under the rules, as modified by the 1999 Settlement Agreement, we were required to transfer all of our competitive electric assets and services to an unaffiliated party or parties or to a separate corporate affiliate or affiliates no later than December 31, 2002. Pursuant to an ACC order dated September 10, 2002, the ACC unilaterally modified the 1999 Settlement Agreement and directed us to cancel any plans to divest interests in any of our generating assets. The ACC has further established a requirement that we solicit bids for certain estimated capacity and energy requirements for periods beginning July 1, 2003. These regulatory developments and legal challenges to the rules have raised considerable uncertainty about the status and pace of retail electric competition in Arizona. Although some very limited retail competition existed in our service area in 1999 and 2000, there are currently no active retail competitors offering unbundled energy or other utility services to our customers. As a result, we cannot predict when, and the extent to which, additional competitors will re-enter our service territory.

As a result of changes in federal law and regulatory policy, competition in the wholesale electricity market has greatly increased due to a greater participation by traditional electricity suppliers, non-utility generators, independent power producers, and wholesale power marketers and brokers. This increased competition could affect our load forecasts, plans for power supply and wholesale energy sales and related revenues. As a result of the changing regulatory environment and the relatively low barriers to entry, we expect wholesale competition to increase. As competition continues to increase, our financial position and results of operations could be adversely affected.

The procurement of wholesale power by us without the ability to adjust retail rates could have an adverse impact on our business and financial results.

The 1999 Settlement Agreement limits our ability to change retail rates until at least July 1, 2004, which could have a significant adverse financial impact on us if wholesale power prices significantly exceed the amount included for generation costs in our current bundled retail rates. Under the ACC's rules, we are the "provider of last resort" for standard-of-care, full-service customers under rates that have been approved by the ACC. These rates are established until at least July 1, 2004. The 1999 Settlement Agreement allows us to seek adjustment of these rates in the event of emergency conditions or circumstances, such as the inability to secure financing on reasonable terms, material changes in our cost of service for ACC-regulated services resulting from federal, tribal, state or local laws, regulatory requirements, or judicial decisions, actions or orders. Energy prices in the western wholesale market vary and, during the course of the last two years, have been volatile. At various times, prices in the spot wholesale market have significantly exceeded the amount of generation costs per kilowatt hour (KWh) included in our current retail rates. In the event of shortfalls due to unforeseen increases in load demand or generation or transmission outages, we may need to purchase additional supplemental power in the wholesale spot market. The ACC has further established a requirement that we solicit bids for certain estimated capacity and energy requirements for periods beginning July 1, 2003. This competitive procurement process may adversely affect the cost of our procurement of wholesale power. In sum, there can be no assurance that we would be able to fully recover the costs of wholesale power under our present rate structure. Although we could seek to adjust our rates under the emergency provisions of the 1999 Settlement Agreement, ACC approval of such an adjustment also cannot be assured.

Recent events in the energy markets that are beyond our control may have negative impacts on our business.

As a result of the energy crisis in California during the summer of 2001, the recent volatility of natural gas prices in North America, the filing of bankruptcy by the Enron Corporation, and investigations by governmental authorities into energy trading activities, companies generally in the regulated and unregulated utility businesses have been under an increased amount of public and regulatory scrutiny. The capital markets and ratings agencies also have increased their level of scrutiny. We believe that we are complying with all applicable laws, but it is difficult or impossible to predict or control what effect these or related issues may have on our business or our access to the capital markets.

Our results of operations can be adversely affected by milder weather.

Weather conditions directly influence the demand for electricity and affect the price of energy commodities. Electric power demand is generally a seasonal business. In Arizona, demand for power peaks during the hot summer months, with market prices also peaking at that time. As a result, our overall operating results fluctuate substantially on a seasonal basis. In addition, we have historically sold less power, and consequently earned less income, when weather conditions are milder. As a result, unusually mild weather could diminish our results of operations and harm our financial condition.

There are inherent risks in the operation of nuclear facilities, such as environmental, health and financial risks and the risk of terrorist attack.

We have an ownership interest in and operate the Palo Verde Nuclear Generating Station ("Palo Verde"). Palo Verde is subject to environmental, health and financial risks such as the ability to dispose of spent nuclear fuel, the ability to maintain adequate reserves for decommissioning, potential liabilities arising out of the operation of these facilities, and the costs of securing the facilities against possible terrorist attacks. We maintain nuclear decommissioning trust funds and external insurance coverage to minimize our financial exposure to these risks; however, it is possible that damages could exceed the amount of insurance coverage.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of noncompliance, the NRC has the authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. In addition, although we have no reason to anticipate a serious nuclear incident at Palo Verde, if an incident did occur, it could materially and adversely affect our results of operations or financial condition. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit.

The operation of Palo Verde requires licenses that need to be periodically renewed and/or extended. We do not anticipate any problems renewing these licenses. However, as a result of potential terrorist threats and increased public scrutiny of utilities, the licensing process could result in increased licensing or compliance costs that are difficult or impossible to predict.

The use of derivative contracts in the normal course of our business could result in financial losses that negatively impact our results of operations.

Our operations include managing market risks related to commodity prices, changes in interest rates, and investments held by our pension plan and nuclear decommissioning trust funds. We are exposed to the impact of market fluctuations in the price and transportation costs of electricity, natural gas, coal, and emissions allowances and credits. We have established procedures to manage risks associated with these market fluctuations by utilizing various commodity derivatives, including exchange-traded futures and options and over-the-counter forwards, options, and swaps. As part of our overall risk management program, we enter into derivative transactions to hedge purchases and sales of electricity, fuels, and emissions allowances and credits. The changes in market value of such contracts have a high correlation to price changes in the hedged commodity.

We are exposed to losses in the event of nonperformance or nonpayment by counterparties. We use a risk management process to assess and monitor the financial exposure of all counterparties. Despite the fact that the majority of trading counterparties are rated as investment grade by the credit rating agencies, there is still a possibility that one or more of these companies could default, resulting in a material adverse impact on our earnings for a given period.

Changing interest rates will affect interest paid on variable-rate debt and interest earned by our pension plan and nuclear decommissioning trust funds. Our policy is to manage interest rates through the use of a combination of fixed-rate and floating-rate debt. The pension plan and nuclear decommissioning trust funds also have risks associated with changing market values of equity investments. Most of the pension costs and all of the nuclear decommissioning costs are recovered in regulated electricity prices.

The uncertain outcome regarding the creation of regional transmission organizations, or RTOs, may materially impact our operations, cash flows or financial position.

In a December 1999 order, the FERC set minimum characteristics and functions that must be met by utilities that participate in regional transmission organizations. The characteristics for an acceptable RTO include independence from market participants, operational control over a region large enough to support efficient and nondiscriminatory markets, and exclusive authority to maintain short-term reliability. On October 16, 2001, we and other owners of electric transmission lines in the Southwest filed with the FERC a request for a declaratory order confirming that our proposal to form WestConnect RTO, LLC would satisfy the FERC's requirements for the formation of an RTO. On October 10, 2002, the FERC issued an order finding that the WestConnect proposal, if modified to address specified issues, could meet the FERC's RTO requirements and provide the basic framework for a standard market design for the Southwest. As of March 28, 2003, the FERC was considering various aspects of its order as a result of requests for clarification filed by the WestConnect applicants.

We are subject to numerous environmental laws and regulations which may increase our cost of operations, impact our business plans, or expose us to environmental liabilities.

We are subject to numerous environmental regulations affecting many aspects of our present and future operations, including air emissions, water quality, wastewater discharges, solid waste, and hazardous waste. These laws and regulations can result in increased capital, operating, and other costs, particularly with regard to enforcement efforts focused on power plant emissions obligations. These laws and regulations generally require us to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. Both public officials and private individuals may seek to enforce applicable environmental laws and regulations. We cannot predict the outcome (financial or operational) of any related litigation that may arise.

In addition, we may be a responsible party for environmental clean up at sites identified by a regulatory body. We cannot predict with certainty the amount and timing of all future expenditures related to environmental matters because of the difficulty of estimating clean-up costs. There is also uncertainty in quantifying liabilities under environmental laws that impose joint and several liability on all potentially responsible parties.

We cannot be sure that existing environmental regulations will not be revised or that new regulations seeking to protect the environment will not be adopted or become applicable to us. Revised or additional regulations that result in increased compliance costs or additional operating restrictions, particularly if those costs are not fully recoverable from our customers, could have a material adverse effect on our results of operations.

USE OF PROCEEDS

We will use the net proceeds from the sale of the notes to make a secured loan in an amount not to exceed \$500,000,000 to Pinnacle West Energy. Until we use the proceeds for this purpose, we will temporarily invest the proceeds in U.S. government or agency obligations, commercial paper, bank certificates of deposit, or repurchase agreements collateralized by U.S. government or agency obligations, or deposit the proceeds with banks. After Pinnacle West Energy repays the loan, we may use the proceeds to fund general corporate purposes.

We will make the loan to Pinnacle West Energy pursuant to an ACC order issued on April 4, 2003. Under that order, the loan's maturity may not exceed four years, unless otherwise ordered by the ACC, and Pinnacle West Energy must be permitted to prepay the loan at any time. The loan must bear an interest rate equal to 264 basis points above comparable debt that could be issued by us, with the 264 basis point "spread" being used to offset real rate increases in the future. The loan will be secured by Pinnacle West Energy power plants, specifically, Redhawk Units 1 and 2, West Phoenix Units 4 and 5 and Saguro Unit 3. The ACC order is described in greater detail in Note 3 of Notes to Financial Statements in our 2002 Form 10-K, which is incorporated by reference herein.

RATIO OF EARNINGS TO FIXED CHARGES

The following table sets forth the historical ratio of our earnings to fixed charges for each of the indicated periods:

| Three Months Ended | Twelve Months Ended | | | | | |
|--------------------|---------------------|------|------|------|------|------|
| | March 31, | 2002 | 2001 | 2000 | 1999 | 1998 |
| 2003 | 1.61 | 2.93 | 3.77 | 3.79 | 3.24 | 3.11 |

For the purposes of computing our ratios of earnings to fixed charges, earnings are divided by fixed charges. "Earnings" represent the aggregate of income (loss) from continuing operations before income taxes and fixed charges. "Fixed charges" represent interest expense, the amortization of debt discount and the interest portion of rentals.

DESCRIPTION OF THE NOTES

We will issue the notes as two separate series of Debt Securities under the indenture dated as of January 15, 1998, between us and JPMorgan Chase Bank (formerly known as "The Chase Manhattan Bank"), as trustee. The following description of specific terms of the notes supplements the description of the general terms and provisions of the Debt Securities in the accompanying prospectus under "Description of Debt Securities." Because this is a summary, it does not contain all the information that may be important to you. Capitalized terms used but not defined in this section have the meanings assigned to those terms in the accompanying prospectus.

General

The specific financial and legal terms of the notes are set forth below:

- **Titles:** \$300,000,000 4.650% Notes due 2015
\$200,000,000 5.625% Notes due 2033
- **Total principal amount being issued:** \$500,000,000, consisting of \$300,000,000 of 2015 notes and \$200,000,000 of 2033 notes.
- **Due dates for principal:** May 15, 2015
May 15, 2033
- **Interest rate:** 4.650% for 2015 notes
5.625% for 2033 notes
- **Date interest starts accruing:** May 12, 2003
- **Interest due dates:** May 15 and November 15
- **First interest due date:** November 15, 2003
- **Regular record dates for interest due dates:** May 1 for the May 15 interest due date; November 1 for the November 15 interest due date
- **Computation of interest:** on the basis of a 360-day year of twelve 30-day months
- **Form of notes:** A global security will initially represent each series of the notes. We will deposit each global security with or on behalf of The Depository Trust Company ("DTC"). See "Global Securities" in the accompanying prospectus. We may allow exchange of the global security for registered notes and transfer of the global security to a person other than DTC in additional circumstances that we agree to other than those described under that heading.

- **Sinking fund:** The notes will not be subject to any sinking fund.

The notes will constitute two separate series of our unsecured senior Debt Securities. The notes will rank equally with all of our existing and future senior unsecured debt and senior to all of our existing and future subordinated debt and will be effectively subordinated to all of our secured debt. As of March 31, 2003, we had \$577 million of outstanding secured debt. The notes will not have the benefit of the collateral that secures our First Mortgage Bonds. The prospectus that accompanies this prospectus supplement describes our Debt Securities and our First Mortgage Bonds under "Description of Debt Securities" and "Description of First Mortgage Bonds," respectively.

Further Issues

We may from time to time, without notice to, or the consent of, the then existing registered holders of the notes, create and issue further notes equal in rank and having the same maturity, payment terms, redemption features, and other terms as either of the series of notes offered by this prospectus supplement, except for the payment of interest accruing prior to the issue date of the further notes and (under some circumstances) for the first payment of interest following the issue date of the further notes. These further notes may be consolidated and form a single series with either of the series of the notes offered by this prospectus supplement.

Redemption

We may redeem all or part of the notes at any time or from time to time at our option at a redemption price equal to the greater of (1) the principal amount of the notes being redeemed plus accrued interest to the redemption date or (2) the Make-Whole Amount for the notes being redeemed.

As used herein:

"**Make-Whole Amount**" means the sum, as determined by a Quotation Agent, of the present values of the principal amount of the notes to be redeemed, together with scheduled payments of interest (exclusive of interest to the redemption date) from the redemption date to the maturity date of the notes, in each case discounted to the redemption date on a semi-annual basis, assuming a 360-day year consisting of twelve 30-day months, at the Adjusted Treasury Rate, plus accrued interest on the principal amount of the notes being redeemed to the redemption date.

"**Adjusted Treasury Rate**" means, with respect to any redemption date, (1) the yield, under the heading which represents the average for the immediately preceding week, appearing in the most recently published statistical release designated "H.13 (S19)" or any successor publication which is published weekly by the Board of Governors of the Federal Reserve System and which establishes yields on actively traded United States Treasury securities adjusted to constant maturity under the caption "Treasury Constant Maturities," for the maturity corresponding to the Comparable Treasury Issue (if no maturity is within three months before or after the remaining term of the notes determined and the Adjusted Treasury Rate shall be interpolated or extrapolated from such yields on a straight line basis, rounding to the nearest month) or (2) if such release (or any successor release) is not published during the week preceding the calculation date or does not contain such yields, the rate per year equal to the semi-annual equivalent yield to maturity of the Comparable Treasury Issue, calculated using a price for the Comparable Treasury Issue (expressed as a percentage of its principal amount) equal to the Comparable Treasury Price for such redemption date, in each case calculated on the third business day preceding the redemption date, plus in each case 0.150%.

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

"**Quotation Agent**" means the Reference Treasury Dealer selected by the trustee after consultation with us.

"**Reference Treasury Dealer**" means each primary U.S. Government securities dealer selected by us.

"Comparable Treasury Price" means, with respect to any redemption date, if clause (2) of the definition of Adjusted Treasury Rate is applicable, the average of three, or such lesser number as is obtained by the trustee, Reference Treasury Dealer Quotations for such redemption date.

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

If we elect to redeem all or any part of the notes, we will give notice of redemption to holders of the notes. We will give notice of a redemption at least 30 days before the redemption date. However, we will not know the exact redemption price until three business days before the redemption date. Therefore, the notice of redemption will only describe how the redemption price will be calculated. On the redemption date, if we have paid the full redemption price to the trustee, notes called for redemption will cease to bear interest and the holders of such notes will only have a right to receive payment of the redemption price.

Defeasance

The provisions described in the accompanying prospectus under the caption "Description of Debt Securities — Defeasance and Covenant Defeasance" are applicable to the notes.

Regarding the Trustee

JPMorgan Chase Bank is the trustee under the indenture relating to the notes. We maintain normal banking arrangements with JPMorgan Chase Bank. JPMorgan Chase Bank also:

- serves as trustee for the holders of several series of bonds issued by a party unaffiliated with us, secured by, among other things, our payments under our Palo Verde Nuclear Generating Station leases;
- serves as administrative agent and issuing bank with respect to reimbursement agreements related to letters of credit securing the equity portions of our payments under certain of our Palo Verde leases ("Letters of Credit");
- has a \$31.9 million credit commitment under the Letters of Credit, none of which was outstanding as of March 31, 2003;
- serves as an issuing and paying agent with respect to our commercial paper program; and
- has a commitment to lend us up to \$45.3 million under a revolving credit agreement for which there were no borrowings outstanding as of March 31, 2003.

In addition, an affiliate of JPMorgan Chase Bank is the owner participant under a trust to which we sold, and leased back a portion of Palo Verde Unit 2.

UNDERWRITING

Lehman Brothers is acting as the bookrunning manager and as representative of the underwriters named below.

Subject to the terms and conditions stated in the underwriting agreement dated the date of this prospectus supplement, each underwriter named below has agreed to purchase, and we have agreed to sell to that underwriter, the principal amount of notes set forth opposite the underwriter's name.

| Underwriters | Principal Amount of | |
|---------------------------------|---------------------|----------------|
| | 2015 Notes | 2033 Notes |
| Lehman Brothers Inc. | \$ 105,000,000 | \$ 70,000,000 |
| Citigroup Global Markets Inc. | 75,000,000 | 50,000,000 |
| Barclays Capital Inc. | 45,000,000 | 30,000,000 |
| Banc of America Securities LLC | 12,500,000 | 8,334,000 |
| Banc One Capital Markets, Inc. | 12,500,000 | 8,334,000 |
| BNY Capital Markets, Inc. | 12,500,000 | 8,333,000 |
| J.P. Morgan Securities Inc. | 12,500,000 | 8,333,000 |
| KBC Financial Products USA Inc. | 12,500,000 | 8,333,000 |
| UBS Warburg LLC | 12,500,000 | 8,333,000 |
| Total | \$ 300,000,000 | \$ 200,000,000 |

The underwriting agreement provides that the obligations of the underwriters to purchase the notes included in this offering are subject to approval of legal matters by counsel and to other conditions. The underwriters are obligated to purchase all the notes if they purchase any of the notes.

The underwriters propose to offer some of the notes directly to the public at the public offering price set forth on the cover page of this prospectus supplement and some of the notes to dealers at the public offering price less a concession not to exceed 0.350% of the principal amount of the 2015 notes and 0.525% of the principal amount of the 2033 notes. The underwriters may allow, and dealers may resell, a concession not to exceed 0.200% of the principal amount of the notes on sales to other dealers. After the initial offering of the notes to the public, the representatives may change the public offering price and concessions.

Lehman Brothers may make the securities available for distribution on the Internet through a proprietary Web site and/or a third-party system operated by Market Access Inc., an Internet-based communications technology provider. Market Access Inc. is providing the system as a conduit for communications between Lehman Brothers and their respective customers and is not a party to this offering. Lehman Brothers does not believe that Market Access Inc. will function as an underwriter or agent of this offering, nor do they believe that Market Access Inc. will act as a broker for any customer of Lehman Brothers. Market Access Inc., a registered broker-dealer, will receive compensation from Lehman Brothers based on transactions that Lehman Brothers conducts through the system. Lehman Brothers will make the offered notes available to their customers through the Internet distributions, whether made through a proprietary or third-party system, on the same terms as distributions made through other channels.

The following table shows the underwriting discounts and commissions that we are to pay to the underwriters in connection with this offering (expressed as a percentage of the principal amount of the notes).

| | Paid by Arizona Public Service Company | |
|---------------|--|--|
| Per 2015 note | 0.700% | |
| Per 2033 note | 0.875% | |

The notes are a new issue of securities with no established trading market. We do not intend to apply for the notes to be listed on any securities exchange or to be quoted on any quotation system. One or more of the underwriters intend to make a secondary market for the notes. However, they are not obligated to do so and may

discontinue making a secondary market at any time without notice. No assurance can be given as to how liquid the trading market for the notes will be.

In connection with the offering, Lehman Brothers, on behalf of the underwriters, may purchase and sell notes in the open market. These transactions may include over-allotment, syndicate covering transactions and stabilizing transactions. Over-allotment involves syndicate sales of notes in excess of the principal amount of notes to be purchased by the underwriters in the offering, which creates a syndicate short position. Syndicate covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover syndicate short positions. Stabilizing transactions consist of certain bids or purchases of notes made for the purpose of preventing or retarding a decline in the market price of the notes while the offering is in progress.

The underwriters also may impose a penalty bid. Penalty bids permit the underwriters to reclaim a selling concession from a syndicate member when Lehman Brothers, in covering syndicate short positions or making stabilizing purchases, repurchases notes originally sold by that syndicate member.

Any of these activities may have the effect of preventing or retarding a decline in the market price of the notes. They may also cause the price of the notes to be higher than the price that otherwise would exist in the open market in the absence of these transactions. The underwriters may conduct these transactions in the over-the-counter market or otherwise. If the underwriters commence any of these transactions, they may discontinue them at any time.

We estimate that our total expenses (excluding underwriting commissions) of this offering will be \$470,000.

The underwriters and/or their affiliates have performed investment banking, commercial banking and advisory services for us from time to time for which they have received customary fees and expenses. The underwriters may, from time to time, engage in transactions with and perform services for us in the ordinary course of their business.

In connection with this offering, certain of the underwriters may distribute preliminary prospectuses electronically.

We have agreed to indemnify the underwriters against certain liabilities, including liabilities under the Securities Act of 1933, or to contribute to payments the underwriters may be required to make because of any of such those liabilities.

Pinnacle West Energy intends to use the proceeds from our secured loan (see "Use of Proceeds") to repay certain indebtedness owed to Pinnacle West. Pinnacle West intends to use part of the proceeds from this repayment to repay indebtedness owed to affiliates of Citigroup Global Markets Inc. and Barclays Capital Inc.; lenders under a bridge facility, and to an affiliate of J.P. Morgan Securities Inc.; as holder of certain of Pinnacle West's money market notes. Because J.P. Morgan Securities Inc., Citigroup Global Markets Inc. and Barclays Capital Inc. are each an underwriter and affiliates of each may receive more than 10% of the entire net proceeds in this offering (either individually or collectively), these underwriters may be deemed to have a "conflict of interest" under Rule 2710(c)(8) of the Conduct Rules of the National Association of Securities Dealers, Inc. (the "NASD"). Accordingly, this offering will be made in compliance with the applicable provisions of Rule 2720 of the conduct rules. Pursuant to that rule, the appointment of a qualified independent underwriter is not necessary in connection with this offering, as the notes constitute a class of securities that are rated at least investment-grade by a rating service acceptable to the NASD.

EXPERTS

The financial statements and the related financial statement schedule incorporated in this prospectus supplement and prospectus by reference from our Annual Report on Form 10-K for the year ended December 31, 2002 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the change in 2001 in the method of accounting for derivatives and hedging activities in order to comply with the provisions of Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities"), which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting.

LEGAL OPINIONS

The validity of the notes offered hereby will be passed upon for Arizona Public Service Company by Snell & Wilmer L.L.P., One Arizona Center, Phoenix, Arizona 85004, and for the underwriters by Sullivan & Cromwell LLP, 1888 Century Park East, Los Angeles, California 90067. Snell & Wilmer L.L.P. may rely as to all matters of New York law upon the opinion of Sullivan & Cromwell LLP. Sullivan & Cromwell LLP may rely as to all matters of Arizona law upon the opinion of Snell & Wilmer L.L.P.

WHERE YOU CAN FIND MORE INFORMATION

Available Information

We file annual, quarterly, and current reports, and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site: <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room, which is located at 450 Fifth Street NW, Washington D.C. 20036. You may call the SEC at 1-800-SEC-0330 for further information on the public reference rooms.

Incorporation by Reference

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus supplement, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 until all of the offered notes are sold under this prospectus supplement.

- Annual Report on Form 10-K for the fiscal year ended December 31, 2002;
- Current Reports on Form 8-K dated January 15, January 30, February 24, February 27, March 11, March 27 and May 6, 2003.

You may request a copy of these filings and will receive a copy of these filings at no cost to you, by writing or telephoning us at the following address:

Arizona Public Service Company
Office of the Secretary
Station 9046
P.O. Box 53999
Phoenix, Arizona 85072-3999
(602) 250-3252

Prospectus

Arizona Public Service Company

\$500,000,000
First Mortgage Bonds
Debt Securities

We may offer and sell first mortgage bonds and debt securities from time to time in one or more offerings. This prospectus provides you with a general description of the first mortgage bonds and debt securities we may offer.

Each time we sell first mortgage bonds or debt securities, we will provide a supplement to this prospectus that contains specific information about the offering and the terms of the first mortgage bonds or debt securities. The supplement may also add, update, or change information contained in this prospectus. You should carefully read this prospectus and any supplement before you invest in any of our first mortgage bonds or debt securities.

Investing in our first mortgage bonds or debt securities involves risk factors that are described in the "Risk Factors" section beginning on page 3 of this Prospectus.

Our principal executive offices are located at 400 North Fifth Street, Phoenix, AZ 85004. Our telephone number is (602) 250-1000.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

The date of this prospectus is September 19, 2002

THIS PAGE INTENTIONALLY LEFT BLANK

Table of Contents

Mortgage Bonds

| | |
|--|----|
| Risk Factors | 3 |
| About This Prospectus | 8 |
| Forward-Looking Statements | 8 |
| Where You Can Find More Information | 9 |
| Business of Arizona Public Service Company | 10 |
| Ratio of Earnings to Fixed Charges | 11 |
| Use of Proceeds | 11 |
| Description of First Mortgage Bonds | 15 |
| Description of Debt Securities | 22 |
| Global Securities | 22 |
| Regarding the Trustees | 23 |
| Plan of Distribution | 24 |
| Legal Opinions | 24 |

Risk Factors

Before purchasing our first mortgage bonds or debt securities you should carefully consider the following risk factors as well as the other information contained in this prospectus and the information incorporated by reference in order to evaluate an investment in our first mortgage bonds or debt securities.

We are subject to complex government regulation which may have a negative impact on our business and our results of operations.

We are subject to comprehensive regulation by several federal, state and local regulatory agencies, which significantly influence our operating environment and may affect our ability to recover costs from utility customers. We are required to have numerous permits, approvals and certificates from the agencies that regulate our business. We believe the necessary permits, approvals and certificates have been obtained for our existing operations; however, we are unable to predict the impact on our operating results from the future regulatory activities of any of these agencies. Changes in regulations or the imposition of additional regulations could have an adverse impact on our results of operations.

The Federal Energy Regulatory Commission ("FERC"), the Nuclear Regulatory Commission ("NRC"), the Environmental Protection Agency ("EPA"), and the Arizona Corporation Commission ("ACC") regulate many aspects of our utility operations, including siting and construction of facilities, customer service and the rates that we can charge customers.

We are unable to predict the impact on our business and operating results from future regulatory activities of these federal, state and local agencies. Changes in regulations or the imposition of additional regulations could have a negative impact on our business and results of operations.

Deregulation or restructuring of the electric industry may result in increased competition, which could have a significant adverse impact on our business and our financial results.

Retail competition and the unbundling of regulated energy could have a significant adverse financial impact on us due to an impairment of assets, a loss of retail customers, lower profit margins or increased costs of capital. In 1999, the ACC approved rules that provide a framework for the introduction of retail electric competition in Arizona. Under the rules, as modified by a 1999 settlement agreement among us and various parties, we were originally required to transfer all of our competitive electric assets and services to an unaffiliated party or parties or to a separate corporate affiliate or affiliates no later than December 31, 2002. On September 10, 2002, the ACC unilaterally modified the 1999 settlement agreement and directed us to cancel any plans to divest interests in any of our generating assets. The ACC further established a requirement that we competitively procure, at a minimum, any power required for our retail customers that we cannot produce from our existing generating assets. The ACC ordered the ACC staff and interested parties to develop a competitive procurement process by March 1, 2003. These regulatory developments and legal challenges to the rules have raised considerable uncertainty about the status and pace of retail electric competition in Arizona. Although some very limited retail competition existed in our service area in 1999 and 2000, there are currently no active retail competitors offering unbundled energy or other utility services to our customers. As a result, we cannot predict when, and the extent to which, additional competitors will re-enter our service territory. These matters are discussed in detail in the documents filed by us with the SEC. See "Where You Can Find More Information" below.

As a result of changes in federal law and regulatory policy, competition in the wholesale electricity market has greatly increased due to a greater participation by traditional electricity suppliers, non-utility generators, independent power producers, and wholesale power marketers and brokers. This increased competition could affect our load forecasts, plans for power supply and wholesale energy sales and related revenues. As a result of the changing regulatory environment and the relatively low barriers to entry, we expect wholesale competition to increase. As competition continues to increase, our financial position and results of operations could be adversely affected.

The uncertain outcome regarding the creation of regional transmission organizations, or RTOs, may materially impact our operations, cash flows or financial position.

In a December 1999 order, the FERC set minimum characteristics and functions that must be met by utilities that participate in RTOs. The characteristics for an acceptable RTO include independence from market participants, operational control over a region large enough to support efficient and nondiscriminatory markets, and exclusive authority to maintain short-term reliability. On October 16, 2001, we and other owners of electric transmission lines in the Southwest filed with the FERC a request for a declaratory order confirming that our proposal to form WestConnect RTO, LLC would satisfy the FERC's requirements for the formation of an RTO. The FERC has not yet issued an order regarding the WestConnect proposal. In addition, on July 31, 2002, the FERC issued a Notice of Proposed Rulemaking regarding a standard market design for the electric utility industry. We are reviewing the proposed rulemaking and cannot currently predict what, if any, impact there may be to the WestConnect proposal or to us if the FERC adopts the proposed rule. These matters are discussed in detail in the documents filed by us with the SEC. See "Where You Can Find More Information" below.

We are subject to numerous environmental laws and regulations which may increase our cost of operations, impact our business plans, or expose us to environmental liabilities.

We are subject to numerous environmental regulations affecting many aspects of our present and future operations, including air emissions, water quality, wastewater discharges, solid waste, and hazardous waste. These laws and regulations can result in increased capital, operating, and other costs, particularly with regard to enforcement efforts focused on power plant emissions obligations. These laws and regulations generally require us to obtain and comply with a wide variety of environmental licenses, permits, inspections and other approvals. Both public officials and private individuals may seek to enforce applicable environmental laws and regulations. We cannot predict the outcome (financial or operational) of any related litigation that may arise.

In addition, we may be a responsible party for environmental clean up at sites identified by a regulatory body. We cannot predict with certainty the amount and timing of all future expenditures related to environmental matters because of the difficulty of estimating clean-up costs. There is also uncertainty in quantifying liabilities under environmental laws that impose joint and several liability on all potentially responsible parties.

We cannot be sure that existing environmental regulations will not be revised or that new regulations seeking to protect the environment will not be adopted or become applicable to us. Revised or additional regulations that result in increased compliance costs or additional operating restrictions, particularly if those costs are not fully recoverable from our customers, could have a material adverse effect on our results of operations.

Recent events in the energy markets that are beyond our control may have negative impacts on our business.

As a result of the energy crisis in California during the summer of 2001, the recent volatility of natural gas prices in North America, the filing of bankruptcy by the Enron Corporation, and investigations by governmental authorities into energy trading activities, companies generally in the regulated and unregulated utility businesses have been under an increased amount of public and regulatory scrutiny. The capital markets and ratings agencies also have increased their level of scrutiny. We believe that we

are complying with all applicable laws, but it is difficult or impossible to predict or control what effect these or related issues may have on our business or our access to the capital markets.

Our results of operations can be adversely affected by milder weather.

Weather conditions in our service territory directly influence the demand for electricity and affect the price of energy commodities. Electric power demand is generally a seasonal business. In Arizona, demand for power peaks during the hot summer months, with market prices also peaking at that time. As a result, our overall operating results fluctuate substantially on a seasonal basis. In addition, we have historically sold less power, and consequently earned less income, when weather conditions are milder. As a result, unusually mild weather could diminish our results of operations and harm our financial condition.

There are inherent risks in the operation of nuclear facilities, such as environmental, health and financial risks and the risk of terrorist attack.

We have an ownership interest in and operate the Palo Verde Nuclear Generating Station ("Palo Verde"). Palo Verde is subject to environmental, health and financial risks such as the ability to dispose of spent nuclear fuel, the ability to maintain adequate reserves for decommissioning, potential liabilities arising out of the operation of these facilities, and the costs of securing the facilities against possible terrorist attacks. We maintain decommissioning trusts and external insurance coverage to minimize our financial exposure to these risks; however, it is possible that damages could exceed the amount of our insurance coverage.

The NRC has broad authority under federal law to impose licensing and safety-related requirements for the operation of nuclear generation facilities. In the event of noncompliance, the NRC has the authority to impose fines or shut down a unit, or both, depending upon its assessment of the severity of the situation, until compliance is achieved. In addition, although we have no reason to anticipate a serious nuclear incident at Palo Verde, if an incident did occur, it could materially and adversely affect our results of operations or financial condition. A major incident at a nuclear facility anywhere in the world could cause the NRC to limit or prohibit the operation or licensing of any domestic nuclear unit.

The operation of Palo Verde requires licenses that need to be periodically renewed and/or extended. We do not anticipate any problems renewing these licenses. However, as a result of potential terrorist threats and increased public scrutiny of utilities, the licensing process could result in increased licensing or compliance costs that are difficult or impossible to predict.

The use of derivative contracts in the normal course of our business could result in financial losses that negatively impact our results of operations.

Our operations include managing market risks related to commodity prices, changes in interest rates, and investments held by our nuclear decommissioning trust fund. We are exposed to the impact of market fluctuations in the price and transportation costs of electricity, natural gas, coal, and emissions allowances. We employ established procedures to manage risks associated with these market fluctuations by utilizing various commodity derivatives, including exchange-traded futures and options and over-the-counter forwards, options, and swaps. As part of our overall risk management program, we enter into derivative transactions to hedge purchases and sales of electricity, fuels, and emissions allowances and credits. The changes in market value of such contracts have a high correlation to price changes in the hedged commodity.

As of June 30, 2002, a hypothetical adverse price movement of 10% in the market price of our risk-management and trading assets and liabilities would have decreased the fair market value of these contracts by approximately \$16 million. A hypothetical favorable price movement of 10% would have increased the fair market value of these contracts by approximately \$18 million.

We are exposed to losses in the event of nonperformance or nonpayment by counterparties. We use a risk management process to assess and monitor the financial exposure of all counterparties. Despite the fact that the great majority of trading counterparties are rated as investment grade by the credit rating agencies, there is still a possibility that one or more of these companies could default, resulting in a material adverse impact on our earnings for a given period.

Changing interest rates will affect interest paid on variable-rate debt and interest earned by our nuclear decommissioning trust fund. Our policy is to manage interest rates through the use of a combination of fixed-rate and floating-rate debt. The nuclear decommissioning fund also has risks associated with changing market values of equity investments.

If we are not able to access capital at competitive rates, our ability to implement our financial strategy will be adversely affected.

We rely on access to both short-term money markets and longer-term capital markets as a significant source of liquidity and for capital requirements not satisfied by the cash flow from our operations. We believe that we will maintain sufficient access to these financial markets based upon current credit ratings. However, certain market disruptions or a downgrade of our credit rating may increase our cost of borrowing or adversely affect our ability to access one or more financial markets. Such disruptions could include:

- an economic downturn;
- capital market conditions generally;
- the bankruptcy of an unrelated energy company;
- market prices for electricity and gas;
- terrorist attacks or threatened attacks on our facilities or unrelated energy companies; or
- the overall health of the utility industry.

Changes in economic conditions could result in higher interest rates, which would increase our interest expense on our floating rate debt and reduce funds available to us for our current plans. Additionally, an increase in our leverage could adversely affect us by:

- increasing the cost of future debt financing;
- increasing our vulnerability to adverse economic and industry conditions;
- requiring us to dedicate a substantial portion of our cash flow from operations to payments on our debt, which would reduce funds available to us for operations, future business opportunities or other purposes; and
- placing us at a competitive disadvantage compared to our competitors that have less debt.

Any reduction in our credit ratings could materially and adversely affect our business, financial condition and results of operations.

We cannot be sure that any of our current ratings will remain in effect for any given period of time or that a rating will not be lowered or withdrawn entirely by a rating agency if, in its judgment, circumstances in the future so warrant. Any downgrade could increase our borrowing costs which would diminish our financial results. We would likely be required to pay a higher interest rate in future financings.

and our potential pool of investors and funding sources could decrease. A downgrade could require additional support from letters of credit or cash collateral and otherwise have a material adverse effect on our business, financial condition and results of operations. If our short-term ratings were to be lowered, it could limit our access to the commercial paper market. We note that the ratings from credit agencies are not recommendations to buy, sell or hold our securities and that each rating should be evaluated independently of any other rating.

About This Prospectus

This prospectus is part of a shelf registration statement that we filed with the United States Securities and Exchange Commission, or the SEC. You should rely only on the information contained or incorporated by reference in this prospectus and in any supplement. We have not authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. We will not make an offer to sell these securities in any jurisdiction where the offer or sale is not permitted. You should assume that the information appearing in this prospectus and the supplement to this prospectus is accurate as of the dates on their covers. Our business, financial condition, results of operations, and prospects may have changed since those dates.

Forward-Looking Statements

This prospectus, any accompanying prospectus supplement, and the additional information described under the heading "Where You Can Find More Information" may contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are subject to risks and uncertainties and are based on the beliefs and assumptions of our management, based on information currently available to our management. When we use words such as "believes," "expects," "anticipates," "intends," "plans," "estimates," "should" or similar expressions, we are making forward-looking statements.

Forward-looking statements are not guarantees of performance. They involve risks, including those described under "Risk Factors" above, uncertainties, and assumptions. Our future results may differ materially from those expressed in these forward-looking statements. Many of the factors that will determine these results are beyond our ability to control or predict. These factors include, but are not limited to:

- the ongoing restructuring of the electric industry, including the introduction of retail electric competition in Arizona;
- the outcome of regulatory and legislative proceedings relating to the restructuring;
- state and federal regulatory and legislative decisions and actions, including the price mitigation plan adopted by the FERC;
- regional economic and market conditions, including the California energy situation and completion of generation construction in the region, which could affect customer growth and the cost of power supplies;
- the cost of debt and equity capital;
- weather variations affecting local and regional customer energy usage;
- conservation programs;
- power plant performance;
- our ability to compete successfully outside traditional regulated markets (including the wholesale market);
- technological developments in the electric industry; and
- other uncertainties, all of which are difficult to predict and many of which are beyond our control.

You are cautioned not to put undue reliance on any forward-looking statements. We claim the protection of the safe harbor for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 for any forward-looking statements contained in this prospectus and any prospectus supplement.

Where You Can Find More Information

Available Information

We file annual, quarterly, and current reports, and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's web site: <http://www.sec.gov>. You may also read and copy any document we file at the SEC's public reference room, which is located at 450 Fifth Street NW, Washington, D.C. 20036. You may call the SEC at 1-800-SEC-0330 for further information on the public reference rooms. Reports and other information concerning us can also be inspected and copied at the offices of the New York Stock Exchange at 20 Broad Street, New York, New York 10005.

Incorporation by Reference

The SEC allows us to incorporate by reference the information we file with them, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus, and later information that we file with the SEC will automatically update and supersede this information. We incorporate by reference the documents listed below and any future filings we make with the SEC under Sections 13(a), 13(c), 14, or 15(d) of the Securities Exchange Act of 1934 until all securities are sold under this prospectus.

- Annual Report on Form 10-K for the fiscal year ended December 31, 2001;
- Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31 and June 30, 2002; and
- Current Reports on Form 8-K dated December 14, 2001 and February 8, February 26, April 19, April 26, May 22, June 5, July 11, July 23, August 13, August 27, and September 10, 2002.

You may request a copy of these filings and will receive a copy of these filings, at no cost, by writing or telephoning us at the following address:

Arizona Public Service Company
Office of the Secretary
Station 9046
P. O. Box 33999
Phoenix, Arizona 85072-3999
(602) 250-5608

Business of Arizona Public Service Company

We were incorporated in 1920 under the laws of Arizona and we are an electric utility, with more than 874,000 customers. We are a wholly-owned subsidiary of Pinnacle West Capital Corporation. We provide either retail or wholesale electric service to substantially all of the state of Arizona, with the major exceptions of the Tucson metropolitan area and about one-half of the Phoenix metropolitan area. We also generate and, through Pinnacle West Capital Corporation's power marketing division, sell and deliver electricity to wholesale customers in the western United States. Our principal executive offices are located at 400 North Fifth Street, Phoenix, Arizona 85004, 602-250-1000.

Ratio of Earnings to Fixed Charges

The following table sets forth the historical ratio of our earnings to fixed charges for each of the indicated periods:

| Period Ended | Ratio |
|---------------------------------------|-------|
| Six Months Ended June 30, 2002 | 2.89 |
| Twelve Months Ended December 31, 2001 | 3.77 |
| Twelve Months Ended December 31, 2000 | 3.79 |
| Twelve Months Ended December 31, 1999 | 3.24 |
| Twelve Months Ended December 31, 1998 | 3.14 |
| Twelve Months Ended December 31, 1997 | 3.04 |

For the purposes of these computations, earnings are defined as the sum of our pre-tax income plus our fixed charges and the fixed charges of our subsidiaries. Fixed charges consist of interest on debt, amortization of debt discount, premium, and expense, and an estimated interest factor in rentals.

Use of Proceeds

We will add the net proceeds from any sale of first mortgage bonds or debt securities to our general corporate funds. We will use the net proceeds to repay debt and for general corporate purposes. Each prospectus supplement will include specific uses of the net proceeds.

Description of First Mortgage Bonds

General

The following description highlights the general terms of the first mortgage bonds. When we offer first mortgage bonds in the future, the prospectus supplement will explain the particular terms of those securities and the extent to which these general provisions will not apply.

Our mortgaged property will secure the first mortgage bonds. The first mortgage bonds will be issued under a Mortgage and Deed of Trust, dated as of July 1, 1946, between us and The Bank of New York. The Mortgage allows us to issue first mortgage bonds in one or more series.

We have summarized selected provisions of the Mortgage below. The summary is not complete. We have filed the form of the Mortgage as an exhibit to the registration statement and you should read any provisions of the Mortgage that may be important to you.

You should refer to the prospectus supplement attached to this prospectus for the following information about a new series of first mortgage bonds:

- the aggregate principal amount of the first mortgage bonds;
- the date on which the first mortgage bonds mature;
- the interest rate;
- when the interest on the first mortgage bonds accrues and is payable;
- whether and when we can redeem the first mortgage bonds and at what price;
- the record dates for the payment of interest and principal;
- whether the first mortgage bonds will be issued in the form of one or more global securities;

- any other terms.

We will pay interest to the person in whose name the first mortgage bonds are registered at the close of business on the record date that precedes the interest payment date. The supplemental indenture to the Mortgage that contains the terms of the first mortgage bonds will also contain the record date. We will issue the first mortgage bonds as fully registered bonds, without coupons, in \$1,000 denominations and multiples thereof. The holders of the first mortgage bonds may transfer them at any time without any service or other charge, except for transfer taxes and other governmental charges, if any. We, the trustee, and any of our agents may treat the registered holder of a debt security as the absolute owner for the purpose of making payments, giving notices, and for all other purposes.

Other than the protections described in this prospectus and in the prospectus supplement, holders of first mortgage bonds would not be protected by the covenants in the Mortgage from a highly-leveraged transaction.

Redemption

Unless indicated differently in a prospectus supplement, we may redeem the first mortgage bonds at their principal amount plus accrued interest to the redemption date in any of the following ways:

- in whole or in part using the proceeds when any of our mortgaged property is taken under eminent domain;
- in whole or in part using the proceeds of the sale or other disposition of property that is released from the lien of the Mortgage;
- in whole, together with all other first mortgage bonds then outstanding, within twelve months of a transaction involving the transfer of substantially all of the property subject to the lien of the Mortgage; or
- in whole or in part with cash deposited in a replacement fund.

Security

The first mortgage bonds will rank on an equal basis with all first mortgage bonds at any time outstanding under the Mortgage, except for any sinking fund or similar fund that is provided for in a particular series. The Mortgage creates a first mortgage lien on substantially all the property we own. However, the lien does not cover interests in Unit 2 of the Palo Verde Nuclear Generating Station that we lease, or any other property specifically excluded from the Mortgage. The Mortgage lien and the title to some of our properties are subject to excepted encumbrances, minor leases, defects, irregularities, and deficiencies, and are subject to the considerations discussed below regarding the Four Corners Plant and Navajo Plant locations. The Mortgage lien also extends to all property acquired after the effective date of the Mortgage, other than specifically excluded property, for which proper filings and recordings have been made. In the case of property acquired after the effective date of the Mortgage lien, however, the Mortgage lien is subject to encumbrances and to liens existing or placed on the property at the time we acquire it.

Both the Four Corners Plant and the Navajo Plant are located on property held under leases from the Navajo Tribe and easements from the Secretary of the Interior. The leases extend from their effective dates in 1966 and 1969 for terms of 50 years with rights of renewal for up to 25 additional years. The easements are for 50-year terms from the same effective dates. Although we own the rights granted to us by the leases from the Navajo Tribe, we do not make any representation about the Navajo Tribe's interest in the lands leased, but we are not aware of any assertion of a contesting claim to the lands. We also do not make any representations about the enforceability of the leases against the Navajo Tribe.

The Mortgage requires us to keep our encumbered property in good repair and working order as an operating system. However, we are permitted to permanently discontinue or reduce the capacity of any property if:

- in the judgment of our Board of Directors, it is desirable in the conduct of our business;
- a regulatory authority orders us to do so; or
- we are going to sell or dispose of the property.

If we are not in default under the Mortgage, we may obtain a release from the Mortgage lien of:

- unserviceable, obsolete, or unnecessary property, but only if we replace the property with property of equal value; or
- other property that we have sold or otherwise disposed of, but only if we:

- deposit with the trustee cash in an amount equal to the released property's fair value;
- use redeemed or retired first mortgage bonds in an amount equal to the released property's fair value; or
- use as a credit additional property we acquired within the preceding five years that has fair value equal to the released property's fair value.

The trustee may, and upon our request must, cancel and discharge the Mortgage lien and all supplemental indentures to the Mortgage when we have repaid all of the debt secured by the Mortgage.

Issuance of Additional First Mortgage Bonds

We may issue additional first mortgage bonds under the Mortgage in a principal amount equal to:

- 60% of net property additions;
- the principal amount of redeemed or retired first mortgage bonds; and/or
- deposited cash.

but only if our adjusted net earnings over the twelve-month period within fifteen months preceding the month in which we issue the bonds are at least two times the annual interest on all outstanding first mortgage bonds after the issuance and on debt secured by prior liens. There are exceptions to this earnings coverage requirement for first mortgage bonds issued on the basis of redeemed or retired first mortgage bonds when the redeemed or retired first mortgage bonds had a higher rate of interest and when other conditions are satisfied.

We can support the issuance of new first mortgage bonds by using property located on leaseholds or easements, such as the Four Corners and Navajo Plants, if the leasehold or easement has an unexpired term of, or the term is extendable at our option for, at least 30 years after the date of issuance, or if we may remove the property without compensation.

As of June 30, 2002, we estimate that the Mortgage would have allowed us to issue up to approximately \$3.29 billion of additional first mortgage bonds. In addition to complying with the Mortgage restrictions placed on the issuance of additional first mortgage bonds, we must obtain the approval of the Arizona Corporation Commission, which we refer to as the ACC, before incurring long-term debt. Existing ACC orders allow us to have approximately \$2.6 billion in principal amount of long-term debt outstanding at any one time. We do not expect these orders to limit our ability to meet our capital requirements.

Replacement Fund

So long as any of our first mortgage bonds are outstanding, the Mortgage requires us to deposit cash with the trustee each calendar year in an amount related to net additions to our mortgaged utility plant. However, we may satisfy all or any part of this requirement by using redeemed or retired first

mortgage bonds, property additions, or property retirements. For 2001, our replacement fund requirement was about \$155 million. Any cash that we deposit may, upon our request, be applied to the redemption or repurchase of first mortgage bonds. We may withdraw the cash from the trustee by using additional property we acquire or redeemed or retired first mortgage bonds. If we do not withdraw the cash from the trustee within five years of deposit, the trustee must use the cash to redeem outstanding first mortgage bonds. The prospectus supplement relating to a particular series of first mortgage bonds may describe restrictions on our ability to redeem the first mortgage bonds with cash we deposit with the trustee to meet our replacement fund requirements.

Events of Default

The following are events of default under the Mortgage:

- our failure to pay the principal of any first mortgage bond when due and payable;
- our failure to pay interest on any first mortgage bond within 60 days after it is due and payable;
- our failure to pay any installment of any fund required to be applied to the purchase or redemption of first mortgage bonds within 60 days after it is due and payable;
- bankruptcy, insolvency, and reorganization events involving us; and
- our failure to perform any other covenant of the Mortgage which continues for 90 days after notice by the trustee or holders of 15% in principal amount of eligible bonds.

The Mortgage allows the trustee to withhold notice of defaults if the trustee determines in good faith that withholding the notice is in the interests of the bondholders. The trustee may not withhold notice of any default in the payment of principal or interest or any sinking, improvement, replacement, or purchase fund installment.

Those holding at least a majority in principal amount of the first mortgage bonds may direct the time, method, and place of conducting any proceeding for any remedy available to the trustee. However, the trustee may decline to follow any direction under some circumstances, including the trustee's good faith determination that it will not be sufficiently indemnified for any expenditures. We are required to file with the trustee, on or before July 1 of each year, a certificate stating we have complied with all of the provisions of the Mortgage and that we are not in default and, if we have not complied, stating all known defaults.

Modification of the Mortgage

The Mortgage and the rights of bondholders may be modified if the following parties consent to the modification:

- us;
- the trustee, if the trustee is affected by the modification;
- holders of at least 70% in principal amount of the first mortgage bonds, if all series are affected by the modification; or
- holders of at least 70% in principal amount of any series of first mortgage bonds affected by the modification, if all series are not affected.

However, the holder of each first mortgage bond affected must consent to any modification that would:

- affect the rights of the holder to receive payment of the principal, premium, or interest on any first mortgage bonds on the dates due or to institute suit to enforce such right;
- permit the creation of an additional lien ranking prior or equal to the lien of the Mortgage to any of the mortgaged property;
- deprive any nonassenting bondholder of a lien upon the mortgaged property for the security of the holder's first mortgage bonds; or
- reduce the percentage of bondholders required to consent to a modification.

Restrictions on Dividends

The Mortgage restricts the payment of dividends on our common stock under conditions that have not existed in the past and do not currently exist. Under the Mortgage, we may pay dividends on our common stock if there is a sufficient amount "available" from retained earnings and the excess of our cumulative book depreciation (since the Mortgage's inception) over Mortgage depreciation, which is the cumulative amount of additional property pledged each year to address collateral depreciation. As of December 31, 2001, the amount "available" under the Mortgage would have allowed us to pay approximately \$2.5 billion of dividends compared to our current annual common stock dividends of \$170 million.

Description of Debt Securities

General

The following description highlights the general terms of the debt securities. When we offer debt securities in the future, the prospectus supplement will explain the particular terms of those securities and the extent to which any of these general provisions will not apply.

The debt securities will be our unsecured obligations. The debt securities may be issued in one or more new series under:

- an Indenture, dated as of January 1, 1995, between The Bank of New York and us, in the case of subordinated debt securities; or
- an Indenture, dated as of January 15, 1998, between JPMorgan Chase Bank and us, in the case of senior debt securities.

We have summarized selected provisions of the Indentures below. The summary is not complete. We have filed the forms of the Indentures as exhibits to the registration statement. You should read the Indentures in their entirety, including the definitions of certain terms, together with this prospectus and the prospectus supplement before you make any investment decision. Although separate Indentures are used for subordinated debt securities and senior debt securities, the description of the Indenture in this section applies to both Indentures, unless otherwise noted.

You should refer to the prospectus supplement attached to this prospectus for the following information about a new series of debt securities:

- title of the debt securities;
- the aggregate principal amount of the debt securities or the series of which they are a part;
- the date on which the debt securities mature;
- the interest rate;

- when the interest on the debt securities accrues and is payable;
- the record dates;
- places where principal, premium, or interest will be payable;
- periods within which, and prices at which we can redeem debt securities at our option;
- any obligation on our part to redeem or purchase debt securities pursuant to a sinking fund or at the option of the holder;
- denominations and multiples at which debt securities will be issued if other than \$1,000;
- any index or formula from which the amount of principal or any premium or interest may be determined;
- any allowance for alternative currencies and determination of value;
- whether the debt securities are defeasible under the terms of the Indenture;
- whether we are issuing the debt securities as global securities;
- any additional or different events of default and any change in the right of the trustee or the holders to declare the principal amount due and payable if there is any default;
- any addition to or change in the covenants in the Indenture; and
- any other terms.

We may sell the debt securities at a substantial discount below their principal amount. The prospectus supplement may describe special federal income tax considerations that apply to debt securities sold at an original issue discount or to debt securities that are denominated in a currency other than United States dollars.

Other than the protections described in this prospectus and in the prospectus supplement, holders of debt securities would not be protected by the covenants in the Indenture from a highly-leveraged transaction.

Subordination

The Indenture relating to the subordinated debt securities states that, unless otherwise provided in a supplemental indenture or a board resolution, the debt securities will be subordinate to all senior debt. This is true whether the senior debt is outstanding as of the date of the Indenture or is incurred afterwards. The balance of the information under this heading assumes that a supplemental indenture or a board resolution results in a series of debt securities being subordinated obligations.

The Indenture states that we cannot make payments of principal, premium, or interest on the subordinated debt if:

- the principal, premium or interest on senior debt is not paid when due and the applicable grace period for the default has ended and the default has not been cured or waived; or
- the maturity of any senior debt has been accelerated because of a default.

The Indenture provides that we must pay all senior debt in full before the holders of the subordinated debt securities may receive or retain any payment if our assets are distributed to our creditors upon any of the following:

- dissolution;
- winding-up;
- liquidation;
- reorganization, whether voluntary or involuntary;
- bankruptcy;
- insolvency;
- receivership; or
- any other proceedings.

The Indenture provides that when all amounts owing on the senior debt are paid in full, the holders of the subordinated debt securities will be subrogated to the rights of the holders of senior debt to receive payments or distributions applicable to senior debt.

The Indenture defines senior debt as the principal, premium, interest and any other payment due under any of the following, whether outstanding at the date of the Indenture or thereafter incurred, created or assumed:

- all of our debt evidenced by notes, debentures, bonds, or other securities we sell for money, including all of our first mortgage bonds;
- all debt of others of the kinds described in the preceding bullet point that we assume or guarantee in any manner; and
- all renewals, extensions, or refundings of debt of the kinds described in either of the two preceding bullet points.

However, the preceding will not be considered senior debt if the document creating the debt or the assumption or guarantee of the debt states that it is not superior to or that it is on equal footing with the subordinated debt securities.

The Indenture does not limit the aggregate amount of senior debt that we may issue. As of June 30, 2002, there was approximately \$1.7 billion of senior debt outstanding and there was no subordinated debt outstanding.

Form, Exchange, and Transfer

Each series of debt securities will be issuable only in fully registered form and without coupons. In addition, unless otherwise specified in a prospectus supplement, the debt securities will be issued in denominations of \$1,000 and multiples of \$1,000. We, the trustee, and any of our agents may treat the registered holder of a debt security as the absolute owner for the purpose of making payments, giving notices, and for all other purposes.

The holders of debt securities may exchange them for any other debt securities of the same series, in authorized denominations, and equal principal amount. However, this type of exchange will be subject to the terms of the Indenture and any limitations that apply to global securities.

A holder may transfer debt securities by presenting the endorsed security at the office of a security registrar or at the office of any transfer agent we designate. The holder will not be charged for any exchange or registration of transfer, but we may require payment to cover any tax or other governmental charge in connection with the transaction. We have appointed the trustee under each Indenture as security registrar. A prospectus supplement will name any transfer agent we designate for

any debt securities if different from the security registrar. We may designate additional transfer agents or rescind the designation of any transfer agent or approve a change in the office through which any transfer agent acts at any time, except that we will maintain a transfer agent in each place of payment for debt securities.

If the debt securities of any series are to be redeemed in part, we will not be required to do any of the following:

- issue, register the transfer of, or exchange any debt securities of that series and/or tenor beginning 15 days before the day of mailing of a notice of redemption of any debt security that may be selected for redemption and ending at the close of business on the day of the mailing; or
- register the transfer of or exchange any debt security selected for redemption, except for an unredeemed portion of a debt security that is being redeemed in part.

Payment and Paying Agents

Unless otherwise indicated in the applicable prospectus supplement, we will pay interest on a debt security on any interest payment date to the person in whose name the debt security is registered.

Unless otherwise indicated in the applicable prospectus supplement, the principal, premium, and interest on the debt securities of a particular series will be payable at the office of the paying agents that we may designate. However, we may pay any interest by check mailed to the address, as it appears in the security register, of the person entitled to that interest. Also, unless otherwise indicated in the applicable prospectus supplement, the corporate trust office of the trustee in The City of New York will be our sole paying agent for payments with respect to debt securities of each series. Any other paying agent that we initially designate for the debt securities of a particular series will be named in the applicable prospectus supplement. We may at any time designate additional paying agents or rescind the designation of any paying agent or approve a change in the office through which any paying agent acts, except that we will maintain a paying agent in each place of payment for the debt securities of a particular series.

All money that we pay to a paying agent for the payment of the principal, premium, or interest on any debt security that remains unclaimed at the end of two years after the principal, premium, or interest has become due and payable will be repaid to us, and the holder of the debt security may look only to us for payment.

Consolidation, Merger, and Sale of Assets

Unless otherwise indicated in the applicable prospectus supplement, we may not:

- consolidate with or merge into any other entity;
- convey, transfer, or lease our properties and assets substantially as an entirety to any entity; or
- permit any entity to consolidate with or merge into us or convey, transfer, or lease its properties and assets substantially as an entirety to us, unless the following conditions are met:
 - the successor entity is a corporation, partnership, trust, or other entity organized and validly existing under the laws of any domestic jurisdiction and assumes our obligations on the debt securities and under the Indenture;
 - immediately after giving effect to the transaction, no event of default, and no event which, after notice or lapse of time or both, would become an event of default, shall have occurred and be continuing; and
 - other conditions are met.

Upon any merger, consolidation, or transfer or lease of properties, the successor person will be substituted for us under the Indenture, and, thereafter, except in the case of a lease, we will be relieved of all obligations and covenants under the Indenture and the debt securities.

Events of Default

Each of the following will be an event of default under the Indenture with respect to debt securities of any series:

- our failure to pay principal of or any premium on any debt security of that series when due;
- our failure to pay any interest on any debt securities of that series when due, and the continuance of that failure for 30 days;
- our failure to deposit any sinking fund payment, when due, in respect of any debt securities of that series;
- our failure to perform any of our other covenants in the Indenture relating to that series and the continuance of that failure for 90 days after written notice has been given by the trustee or the holders of at least 25% in principal amount of the outstanding debt securities of that series;
- bankruptcy, insolvency, or reorganization events involving us; and
- any other event of default for that series described in the applicable prospectus supplement.

If an event of default occurs and is continuing other than an event of default relating to bankruptcy, insolvency, or reorganization, either the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of the affected series may declare the principal amount of the debt securities of that series to be due and payable immediately. In the case of any debt security that is an original issue discount security or the principal amount of which is not then determinable, the trustee or the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series may declare the portion of the principal amount of the debt security specified in the terms of such debt security to be immediately due and payable upon an event of default.

If an event of default involving bankruptcy, insolvency, or reorganization occurs, the principal amount of all the debt securities of the affected series will automatically, and without any action by the trustee or any holder, become immediately due and payable. After any acceleration, but before a judgment or decree based on acceleration, the holders of a majority in aggregate principal amount of the outstanding debt securities of that series may rescind and annul the acceleration if all events of default, other than the non-payment of accelerated principal, have been cured or waived as provided in the Indenture.

The trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request or direction of any of the holders, unless the holders have offered the trustee reasonable indemnity. Subject to provisions for the indemnification of the trustee, the holders of a majority in principal amount of the outstanding debt securities of any series will have the right to direct the time, method, and place of conducting any proceeding for any remedy available to the trustee, or exercising any trust or power conferred on the trustee, with respect to the debt securities of that series.

No holder of a debt security of any series will have any right to institute any proceeding under the Indenture, or for the appointment of a receiver or a trustee, or for any other remedy under the Indenture, unless:

- the holder has previously given the trustee written notice of a continuing event of default with respect to the debt securities of that series;

- the holders of at least 25% in aggregate principal amount of the outstanding debt securities of that series have made written request, and the holder or holders have offered reasonable indemnity, to the trustee to institute the proceeding as trustee; and
- the trustee has failed to institute the proceeding, and has not received from the holders of a majority in aggregate principal amount of the outstanding debt securities of that series a direction inconsistent with the request within 60 days after the notice, request, and offer.

The limitations provided above do not apply to a suit instituted by a holder of a debt security for the enforcement of payment of the principal, premium, or interest on the debt security on or after the applicable due date.

We are required to furnish to the trustee annually a certificate of various officers stating whether or not we are in default in the performance or observance of any of the terms, provisions, and conditions of the Indenture and, if so, specifying all known defaults.

Modification and Waiver

In limited cases the trustee, as well as us, may make modifications and amendments to the Indenture without the consent of the holders of any series of debt securities. The trustee may make modifications and amendments to the Indenture with the consent of the holders of not less than 66-2/3% in aggregate principal amount of the outstanding debt securities of each series affected by the modification or amendment. However, without the consent of the holder of each outstanding debt security affected, no modification or amendment may:

- change the stated maturity of the principal of, or any installment of principal of or interest on, any debt security;
 - reduce the principal amount of, or any premium or interest on, any debt security;
 - reduce the amount of principal of an original issue discount security or any other debt security payable upon acceleration of the maturity of the security;
 - change the place or currency of payment of principal of, or any premium or interest on, any debt security;
 - impair the right to institute suit for the enforcement of any payment on or with respect to any debt security; or
 - reduce the percentage in principal amount of outstanding debt securities of any series, the consent of whose holders is required for modification or amendment of the Indenture necessary for waiver of compliance with certain provisions of the Indenture or of certain defaults, or modify the provisions of the Indenture relating to modification and waiver.
- Compliance with certain restrictive provisions of the Indenture may be waived by the holders of not less than 66-2/3% in aggregate principal amount of the outstanding debt securities of any series. The holders of a majority in principal amount of the outstanding debt securities of any series may waive any past default under the Indenture, except:

- a default in the payment of principal, premium, or interest; and
- a default under covenants and provisions of the Indenture which cannot be amended without the consent of the holder of each outstanding debt security of the affected series.

In determining whether the holders of the requisite principal amount of the outstanding debt securities have given or taken any direction, notice, consent, waiver, or other action under the Indenture as of any date:

- the principal amount of an outstanding original issue discount security will be the amount of the principal that would be due and payable upon acceleration of the maturity on that date,
- if the principal amount payable at the stated maturity of a debt security is not determinable, the principal amount of the outstanding debt security will be an amount determined in the manner prescribed for the debt security; and
- the principal amount of an outstanding debt security denominated in one or more foreign currencies will be the U.S. dollar equivalent of the principal amount of the debt security or, in the case of a debt security described in the previous clause above, the amount described in that clause.

If debt securities have been fully defeased or if we have deposited money with the trustee to redeem debt securities, they will not be considered outstanding.

Except in limited circumstances, we will be entitled to set any day as a record date for the purpose of determining the holders of outstanding debt securities of any series entitled to give or take any direction, notice, consent, waiver, or other action under the Indenture. In limited circumstances, the trustee will be entitled to set a record date for action by holders. If a record date is set for any action to be taken by holders of a particular series, the action may be taken only by persons who are holders of outstanding debt securities of that series on the record date. To be effective, the action must be taken by holders of the requisite principal amount of the debt securities within a specified period following the record date. For any particular record date, this period will be 180 days or any other shorter period as we may specify. The period may be shortened or lengthened, but not beyond 180 days.

Defeasance and Covenant Defeasance

We may elect to have the provisions of the Indenture relating to defeasance and discharge of indebtedness, or defeasance of restrictive covenants in the Indenture, applied to the debt securities of any series, or to any specified part of a series. The prospectus supplement describing a series of debt securities will state whether we can make these elections for that series.

Defeasance and Discharge

We will be discharged from all of our obligations with respect to the debt securities of a series if we deposit with the trustee money in an amount sufficient to pay the principal, premium, and interest on the debt securities of that series when due in accordance with the terms of the Indenture and the debt securities. We can also deposit securities that will provide the necessary monies. However, we will not be discharged from the obligations to exchange or register the transfer of debt securities, to replace stolen, lost, or mutilated debt securities, to maintain paying agencies, and to hold moneys for payment in trust. The defeasance or discharge may occur only if we deliver to the trustee an opinion of counsel stating that we have received from, or there has been published by, the United States Internal Revenue Service a ruling, or there has been a change in tax law, in either case to the effect that holders of such debt securities:

- will not recognize gain or loss for federal income tax purposes as a result of the deposit, defeasance, and discharge; and
- will be subject to federal income tax on the same amount, in the same manner, and at the same times as would have been the case if the deposit, defeasance, and discharge were not to occur.

Defeasance of Covenants

We may elect to omit compliance with restrictive covenants in the Indenture and any additional covenants that may be described in the applicable prospectus supplement for a series of debt securities. This election will preclude some actions from being considered defaults under the Indenture for the applicable series. In order to exercise this option, we will be required to deposit, in trust for the benefit of

the holders of debt securities, funds in an amount sufficient to pay the principal, premium and interest on the debt securities of the applicable series. We may also deposit securities that will provide the necessary monies. We will also be required to deliver to the trustee an opinion of counsel to the effect that holders of the debt securities will not recognize gain or loss for Federal income tax purposes as a result of such deposit and defeasance of certain obligations and will be subject to Federal income tax on the same amount, in the same manner and at the same times as would have been the case if the deposit and defeasance were not to occur. If we exercise this option with respect to any debt securities and the debt securities are declared due and payable because of the occurrence of any event of default, the amount of funds deposited in trust would be sufficient to pay amounts due on the debt securities at the time of their respective stated maturities but may not be sufficient to pay amounts due on the debt securities on any acceleration resulting from an event of default. In that case, we would remain liable for the additional payments.

Governing Law

The law of the State of New York will govern the Indenture and the debt securities.

Global Securities

Some or all of the first mortgage bonds or debt securities of any series may be represented, in whole or in part, by one or more global securities, which will have an aggregate principal amount equal to that of the first mortgage bonds or debt securities they represent. We will register each global security in the name of a depository or nominee identified in a prospectus supplement and deposit the global security with the depository or nominee. Each global security will bear a legend regarding the restrictions on exchanges and registration of transfer, referred to below and other matters specified in a supplemental Indenture to the Mortgage or the Indenture.

No global security may be exchanged for first mortgage bonds or debt securities registered, and no transfer of a global security may be registered, in the name of any person other than the depository for the global security or any nominee of the depository, unless:

- the depository has notified us that it is unwilling or unable to continue as depository for the global security or has ceased to act as depository;
- a default has occurred and is continuing with respect to the first mortgage bonds or debt securities represented by the global security; or
- any other circumstances exist that may be described in the applicable supplemental Indenture and prospectus supplement.

We will register all securities issued in exchange for a global security or any portion of a global security in the names specified by the depository.

As long as the depository or its nominee is the registered holder of a global security, the depository or nominee will be considered the sole owner and holder of the global security and the first mortgage bonds or debt securities that it represents. Except in the limited circumstances referred to above, owners of beneficial interests in a global security will not:

- be entitled to have the global security or first mortgage bonds or debt securities registered in their names;
- receive or be entitled to receive physical delivery of certificated first mortgage bonds or debt securities in exchange for a global security; and
- be considered to be the owners or holders of the global security or any first mortgage bonds or debt securities for any purpose under the Mortgage or the Indenture.

We will make all payments of principal, premium, and interest on a global security to the depository or its nominee. The laws of some jurisdictions require that purchasers of securities take physical delivery of securities in definitive form. These laws make it difficult to transfer beneficial interests in a global security.

Ownership of beneficial interests in a global security will be limited to institutions that have accounts with the depository or its nominee, referred to as Participants, and to persons that may hold beneficial interests through Participants. In connection with the issuance of any global security, the depository will credit, on its book-entry registration and transfer system, the respective principal amounts of first mortgage bonds or debt securities represented by the global security to the accounts of its Participants. Ownership of beneficial interests in a global security will only be shown on records maintained by the depository or the Participant. Likewise, the transfer of ownership interests will be effected only through the same records. Payments, transfers, exchanges, and other matters relating to beneficial interests in a global security may be subject to various policies and procedures adopted by the depository from time to time. Neither we, the trustee, nor any of our agents will have responsibility or liability for any aspect of the depository's or any Participant's records relating to, or for payments made on account of, beneficial interests in a global security, or for maintaining, supervising, or reviewing any records relating to the beneficial interests.

Regarding the Trustees

The Bank of New York is the trustee under the Mortgage and the trustee under the Indenture relating to the subordinated debt securities. We maintain normal banking arrangements with The Bank of New York, which include:

- a \$15.6 million commitment by The Bank of New York pursuant to a revolving credit agreement, none of which was outstanding at June 30, 2002.

The Bank of New York also serves as:

- trustee for the holders of several issues of pollution control bonds issued on our behalf;
- trustee under our senior note indenture;
- investment manager for our nonunion post-retirement medical fund; and
- custodian of international fixed-income assets for our pension plan.

An affiliate of The Bank of New York is the remarketing agent for a series of our pollution control bonds.

JPMorgan Chase Bank is the trustee under the Indenture relating to the senior debt securities. We maintain normal banking arrangements with JPMorgan Chase Bank. JPMorgan Chase Bank also:

- serves as trustee for the holders of several series of bonds issued by a party unaffiliated with us, secured by, among other things, our payments under our Palo Verde Nuclear Generating Station leases;
- serves as administrative agent and issuing bank with respect to a reimbursement agreement related to a letter of credit securing our payments under our Palo Verde Nuclear Generating Station leases ("Letter of Credit");
- has a \$31.9 million credit commitment under the Letter of Credit, none of which was outstanding as of June 30, 2002;
- serves as fiscal agent for certain of our privately-placed notes;
- serves as an issuing and paying agent with respect to our commercial paper program; and

- has a commitment to lend us up to \$56.3 million under a revolving credit agreement, none of which was outstanding as of June 30, 2002.

In addition, an affiliate of JPMorgan Chase Bank is the owner participant under a trust to which we sold and leased back a portion of Unit 2 of the Palo Verde Nuclear Generating Station.

Plan of Distribution

We intend to sell up to \$500,000,000 in aggregate principal amount of the offered securities to or through underwriters or dealers, and may also sell the offered securities directly to other purchasers or through agents, as described in the prospectus supplement relating to an issue of first mortgage bonds or debt securities.

We may distribute the offered securities from time to time in one or more transactions at a fixed price or prices, which may be changed, or at market prices prevailing at the time of sale, at prices related to prevailing market prices, or at negotiated prices.

In connection with the sale of the offered securities, underwriters may receive compensation from us or from purchasers of offered securities for whom they act as agents in the form of discounts, concessions, or commissions. Underwriters may sell offered securities to or through dealers, and the dealers may receive compensation in the form of discounts, concessions, or commissions from the underwriters and/or commissions from the purchasers for whom they act as agents. Underwriters, dealers, and agents who participate in the distribution of offered securities may be considered to be underwriters, and any discounts or commissions received by them from us and any profit on the resale of offered securities by them may be considered to be underwriting discounts and commissions under the Securities Act of 1933. We will identify any person considered to be an underwriter, and we will describe any compensation received from us in the prospectus supplement.

We may agree to indemnify underwriters, dealers, and agents who participate in the distribution of the offered securities against liabilities, including liabilities under the Securities Act of 1933.

Experts

The financial statements and the related financial statement schedule incorporated in this prospectus by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 2001 have been audited by Deloitte & Touche LLP, independent auditors, as stated in their report (which report expresses an unqualified opinion and includes an explanatory paragraph relating to the change in 2001 in the method of accounting for derivatives and hedging activities in order to comply with the provisions of Statement of Financial Accounting Standards No. 133), which is incorporated herein by reference, and have been so incorporated in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

Legal Opinions

Snell & Wilmer L.L.P., One Arizona Center, Phoenix, Arizona 85004 will opine on the validity of the offered securities. We currently anticipate that Sullivan & Cromwell, 1888 Century Park East, Los Angeles, California 90067 will opine on the validity of the offered securities for any underwriters of securities. In giving their opinions, Sullivan & Cromwell and Snell & Wilmer L.L.P. may rely as to matters of New Mexico law upon the opinion of Keleher & McLeod, P.A., Albuquerque Plaza, 201 Third NW, 12th Floor, Albuquerque, New Mexico 87102. Snell & Wilmer L.L.P. may rely as to all matters of New York law upon the opinion of Sullivan & Cromwell. Sullivan & Cromwell may rely as to all matters of Arizona law upon the opinion of Snell & Wilmer L.L.P.

\$500,000,000



Arizona Public Service Company

\$300,000,000 4.650% Notes due 2015

\$200,000,000 5.625% Notes due 2033

PROSPECTUS SUPPLEMENT

May 7, 2003

LEHMAN BROTHERS

CITIGROUP

BARCLAYS CAPITAL

BANC OF AMERICA SECURITIES LLC

BANC ONE CAPITAL MARKETS, INC.

BNY CAPITAL MARKETS, INC.

JPMORGAN

KBC FINANCIAL PRODUCTS

UBS WARBURG

**Moody's Investors Service**

99 Church Street

New York, New York 10007

May 9, 2003

Ms. Barbara Gomez
Treasurer
Pinnacle West Capital Corporation
400 North 5th Street
Phoenix, AZ 85072-3920

Dear Barbara:

Per your request, Moody's Investors Service Rating Committee has reviewed a draft copy of the Prospectus Supplement relating to Arizona Public Service Company issuance of

- \$300,000,000 4.65% Senior Notes due May 15, 2015;
- \$200,000,000 5.625% Senior Notes due May 15, 2033.

Based upon our review and subject to final documentation, it is Moody's opinion that these securities, which are senior unsecured obligations of Arizona Public Service Company, be assigned a long-term rating of Baa1.

Moody's rating is subject to revision or withdrawal at any time. The rating and any revisions or withdrawals thereof will be publicly disseminated by Moody's through normal print and electronic media and in response to oral requests to Moody's rating desk.

If I may be of further assistance, please call me at 212-553-4136.

Sincerely,

A. J. Sabatelle
Vice President & Senior Credit Officer

STANDARD
& POOR'S

Ronald M. Barone
Managing Director
Utilities, Energy, Project Finance
Corporate & Government Ratings

2122088355 P. 02/05
55 Water Street
New York, NY 10041-0003
212 376 7662 tel
212 638 2134 Fax
ron:ld_barone@spandp.com

May 6, 2003

Ms. Barbara Gomez
Treasurer
Pinnacle West Capital Corp.
400 N. 5th Street, 19th Floor
Phoenix, AZ 85004

Re: Arizona Public Service Co.
\$300,000,000 Senior Unsecured Notes Due 5/1/15
\$200,000,000 Senior Unsecured Notes Due 5/1/33

Dear Ms. Gomez:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "BBB". Standard & Poor's views the outlook for this rating as Stable.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the U.S. Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

www.standardandpoors.com

To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information, if necessary, to maintain the rating. Please send all information to Kathryn Masterson at Standard & Poor's Corporate Ratings, 55 Water Street, New York, NY 10041.

Standard & Poor's is pleased to have the opportunity to be of service to you. For more information please visit our website at www.standardandpoors.com. If we can be of help in any other way, please contact us. Thank you for choosing Standard & Poor's and we look forward to working with you again.

Very truly yours,

Standard & Poor's Ratings Services,
a division of The McGraw-Hill Companies, Inc.

By: Ronald M. Barone *RM*
Name: Ronald M. Barone
Title: Managing Director

SECURED PROMISSORY NOTE

U.S. \$500,000,000

May 12, 2003

Phoenix, Arizona

FOR VALUE RECEIVED, PINNACLE WEST ENERGY CORPORATION, an Arizona corporation (the "Borrower"), hereby promises to pay to the order of ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation (the "Lender"), at the office of the Lender located at 400 North Fifth Street, Phoenix, Arizona, the principal amount of Five Hundred Million Dollars (\$500,000,000), together with interest on the principal balance outstanding hereunder, from (and including) the date of disbursement until the date of payment, at a per annum rate equal to the Stated Interest Rate specified below or, to the extent applicable, the Default Interest Rate specified below, in accordance with the following terms and conditions:

1. Contracted For Rate of Interest. The contracted for rate of interest of the indebtedness evidenced hereby shall consist of the following:

(a) The Stated Interest Rate (as hereinafter defined), as from time to time in effect, calculated daily on the basis of actual days elapsed over a 360-day year, applied to the principal balance from time to time outstanding hereunder; and

(b) The Default Interest Rate (as hereinafter defined), as from time to time in effect, calculated daily on the basis of actual days elapsed over a 360-day year, applied to the principal balance from time to time outstanding hereunder.

The Borrower agrees to pay an effective contracted for rate of interest which is the sum of the Stated Interest Rate referred to in Section 1(a) above, plus any additional rate of interest resulting from the application of the Default Interest Rate referred to in Section 1(b) above.

2. Stated Interest Rate. Except as provided in Section 3 below, the principal balance outstanding hereunder from time to time, together with all other amounts that may become due hereunder, shall bear interest at the Stated Interest Rate. The Stated Interest Rate shall be equal to 6.39% per annum.

3. Default Interest Rate. The Default Interest Rate shall be equal to the Stated Interest Rate, plus 2% per annum. The principal balance outstanding hereunder, together with all other amounts that may become due hereunder, from time to time shall bear interest at the Default Interest Rate from the date of the occurrence of an Event of Default (as hereinafter defined) hereunder until the earlier of: (a) the date on which the principal balance outstanding hereunder, together with all accrued interest and other amounts payable hereunder, are paid in full; or (b) the date on which such Event of Default is timely cured in a manner satisfactory to Lender, if, following acceleration of the loan hereunder pursuant to Section 10 below, Lender, in its sole and absolute discretion, permits such Event of Default to be cured.

4. **Payments.** This Secured Promissory Note shall be payable as follows:

(a) **Principal.** The principal balance outstanding hereunder, together with all accrued interest and other amounts payable hereunder, if not sooner paid as provided herein, shall be due and payable on May 12, 2007 (the "Maturity Date").

(b) **Interest.** Accrued and unpaid interest at the Stated Interest Rate or, to the extent applicable, the Default Interest Rate, shall be payable from time to time from and including May 12, 2003 or from the most recent Interest Payment Date (as defined below) to which interest has been paid, in arrears on November 1 and May 1 of each year, commencing on November 1, 2003, and on the Maturity Date (each, an "Interest Payment Date").

5. **Application and Place of Payments.** Payments received by the Lender with respect to the indebtedness evidenced hereby shall be applied in such order and manner as the Lender in its sole and absolute discretion may elect. Unless otherwise elected by the Lender, with notice in writing to the Borrower, all such payments shall first be applied to accrued and unpaid interest at the Stated Interest Rate and, to the extent applicable, the Default Interest Rate; next to other costs or added charges provided for herein; and the remainder to the principal balance then outstanding hereunder. Payments hereunder shall be made at the address of the Lender first set forth above, or at such other address as the Lender may specify to the Borrower in writing from time to time, in immediately available funds, without reduction by reason of any set-off or counterclaim. Whenever any payment hereunder shall be due on a day which is not a Business Day (as defined below), the date for payment thereof shall be extended to the next succeeding Business Day. "Business Day" means any day except a Saturday, Sunday, or other day on which commercial banks in Phoenix, Arizona are authorized or required by law to close.

6. **Prepayments.** Payments of principal hereof may be made at any time, or from time to time, in whole or in part, without penalty, provided that all interest and other charges accrued to the date of prepayment are also paid in full. Notwithstanding any partial prepayment of principal hereof, there will be no change in the due date or amount of scheduled payments due hereunder unless the Lender, in its sole and absolute discretion, agrees in writing to such change.

7. **Security.** The Borrower's obligations under this Secured Promissory Note are secured by three separate Deeds of Trust and Fixture Filings (With Assignment of Rents and Security Agreement), dated as of December 4, 2002, each as amended by a separate Amendment No. 1 to Deed of Trust and Fixture Filing (With Assignment of Rents and Security Agreement), dated May 12, 2003 (collectively, the "Deeds of Trust"), executed by the Borrower, as trustor, to First American Title Insurance Company, as trustee, for the benefit of the Lender, creating a first lien on the "Trust Estate" as such term is defined in the Deeds of Trust.

8. **Representations and Warranties.** The Borrower represents and warrants that:

(a) **Corporate Existence and Power.** The Borrower is a corporation duly incorporated, validly existing and in good standing under the laws of Arizona, and has all corporate powers and all material governmental licenses, authorizations, consents and approvals required to carry on its business as now conducted, unless the failure to have any such license, authorization, consent or approval would not have a material adverse affect on the financial condition or financial prospects of the Borrower and its consolidated subsidiaries taken as a whole.

(b) **Corporate and Governmental Authorization; No Contravention.** The execution, delivery and performance by the Borrower of this Secured Promissory Note are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, require no action by or in respect of, or filing with, any governmental body, agency or official and do not contravene, or constitute a default under, any provision of applicable law or regulation or of the certificate of incorporation or by-laws of the Borrower or of any agreement, judgment, injunction, order, decree or other instrument binding upon the Borrower or any of its subsidiaries or result in the creation or imposition of any lien on any asset of the Borrower or any of its subsidiaries, except as otherwise contemplated herein.

(c) **Binding Effect.** This Secured Promissory Note constitutes a valid and binding agreement of the Borrower, enforceable in accordance with its terms; subject, however, to the application by a court of general principles of equity and to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar laws affecting creditors' rights generally.

(d) **Litigation.** Except as disclosed to Lender prior to the execution and delivery of this Secured Promissory Note, there is no action, suit or proceeding pending, or to the knowledge of the Borrower threatened, against or affecting the Borrower or any of its subsidiaries before any court or arbitrator or any governmental body, agency or official which in any manner draws into question the validity of this Secured Promissory Note.

9. **Covenants.** From and after the date of this Secured Promissory Note until all of the liabilities and obligations of the Borrower to Lender pursuant to this Secured Promissory Note are repaid and performed in full, the Borrower shall comply with the following:

(a) **Information.** The Borrower will deliver to the Lender:

(i) as soon as available and in any event within 120 days after the end of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its consolidated subsidiaries and an unconsolidated balance sheet of the Borrower as of the end of such fiscal year and the related consolidated and unconsolidated statements of income and a consolidated statement of cash flow

for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year;

(ii) as soon as available and in any event within 60 days after the end of each of the first three quarters of each fiscal year of the Borrower, a consolidated balance sheet of the Borrower and its consolidated subsidiaries and an unconsolidated balance sheet of the Borrower as of the end of such quarter and the related consolidated and unconsolidated statements of income and a consolidated statement of cash flow for such quarter and for the portion of the Borrower's fiscal year ended at the end of such quarter, setting forth in the case of such statements of income and of cash flow in comparative form the figures for the corresponding quarter and the corresponding portion of the Borrower's previous fiscal year;

(iii) simultaneously with the delivery of each set of financial statements referred to in clause (i) and (ii) above, a certificate of an authorized officer (as defined below) of the Company stating that said financial statements fairly present in all material respects the financial condition and results of operations of the Borrower and its consolidated subsidiaries in accordance with generally accepted accounting principles, consistently applied (except as disclosed therein), as at the end of and for the applicable periods;

(iv) as soon as possible and in any event within five Business Days after an authorized officer obtains knowledge of any Event of Default, if such Event of Default is then continuing, a certificate of an authorized officer setting forth the details thereof and the action which the Borrower is taking or proposes to take with respect thereto; and

(v) from time to time, such additional information regarding the financial position or business of the Borrower and its subsidiaries as Lender may reasonably request.

(b) Maintenance of Existence. The Borrower will preserve and maintain, and will cause each of its subsidiaries to preserve and maintain, its corporate existence and all rights and privileges reasonably necessary in the normal conduct of its business, unless the failure to maintain such rights or privileges would not have a material adverse effect on the financial condition or financial prospects of the Borrower and its consolidated subsidiaries, taken as a whole.

(c) Compliance with Laws. The Borrower will comply, and cause each subsidiary to comply, in all material respects with all applicable laws, ordinances, rules, regulations, and requirements of governmental authorities except where (i) the necessity of compliance therewith is contested in good faith by appropriate proceedings or (ii) the noncompliance would not have a material adverse effect on the financial condition or financial prospects of the Borrower and its consolidated subsidiaries, taken as a whole and, in either such case, the action to be taken will not result in any danger of sale, forfeiture or loss of the Trust Estate or any part thereof, or the creation of any

lien thereon (except if Borrower shall have adequately bonded such lien or otherwise made provision to protect the interests of Lender in the Trust Estate in a manner satisfactory to Lender).

(d) Use of Proceeds. The Borrower will use the proceeds of the loan made under this Secured Promissory Note to repay indebtedness to Pinnacle West Capital Corporation ("Pinnacle West") so that Pinnacle West may repay an equivalent amount of Pinnacle West indebtedness incurred to finance the construction of Redhawk Units 1 and 2, West Phoenix Combined Cycle Units 4 and 5, and Saguaro Combustion Turbine Unit 3.

10. Events of Default; Acceleration. The occurrence of any one or more of the following events shall constitute an "Event of Default" hereunder, and upon such Event of Default, the entire principal balance outstanding hereunder, together with all accrued interest and other amounts payable hereunder, at the election of the Lender, shall become immediately due and payable, upon written notice to the Borrower:

(a) the Borrower shall fail to pay (i) when due, any principal hereunder or (ii) within three business days of the date when due, interest payable hereunder;

(b) the Borrower shall fail to observe or perform any covenant or agreement contained in this Secured Promissory Note (other than those covered by Section 10(a) above) for 30 days after notice thereof has been given to the Borrower by the Lender;

(c) any representation made by the Borrower in this Secured Promissory Note shall prove to have been incorrect in any material respect when made;

(d) the Borrower shall commence a voluntary case or other proceeding seeking liquidation, reorganization or other relief with respect to itself or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, or shall consent to any such relief or to the appointment of or taking possession by any such official in an involuntary case or other proceeding commenced against it, or shall make a general assignment for the benefit of creditors, or shall fail generally to pay its debts as they become due, or shall take any corporate action to authorize any of the foregoing;

(e) an involuntary case or other proceeding shall be commenced against the Borrower seeking liquidation, reorganization or other relief with respect to it or its debts under any bankruptcy, insolvency or other similar law now or hereafter in effect or seeking the appointment of a trustee, receiver, liquidator, custodian or other similar official of it or any substantial part of its property, and such involuntary case or other proceeding shall remain undismissed and unstayed for a period of 60 days; or an order for relief shall be entered against the Borrower under the federal bankruptcy laws as now or hereafter in effect;

(f) the Borrower shall fail to observe or perform any covenant or agreement contained in any of the Deeds of Trust for 30 days after notice thereof has been given to the Borrower by the Lender, except for any such failure resulting from the Lender's gross negligence or willful misconduct; or

(g) an "Event of Default," as defined in any of the Deeds of Trust, shall have occurred.

11. **No Waiver by Lender; Remedies.** No failure on the part of the Lender to exercise, and no delay in exercising, any right, power, or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right hereunder by the Lender preclude any other or further exercise thereof or the exercise of any other right. The remedies herein provided to the Lender are cumulative and not exclusive of any remedies provided by law.

12. **Governing Law.** This Secured Promissory Note shall be governed by, and construed in accordance with, the laws of the State of Arizona.

13. **Amendments.** No modification, amendment, or waiver of any provision of this Secured Promissory Note shall be effective unless the same shall be in writing and signed by the Lender and the Borrower. Any waiver of any provision of this Agreement shall be effective only in the specific instance and for the specific purpose for which given.

14. **Severability.** Any provision of this Secured Promissory Note which is prohibited, unenforceable, or not authorized in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition, unenforceability, or non-authorization without invalidating the remaining provisions hereof or affecting the validity, enforceability, or legality of such provision in any other jurisdiction.

15. **Cost of Collection.** The Borrower agrees to pay all costs of collection, including, without limitation, attorneys' fees, whether or not suit is filed, and all costs of suit and preparation for suit (whether at trial or appellate level), in the event any amount due herein is not paid when due, or to exercise any other right or remedy hereunder, or in the event the Lender is made party to any litigation because of the existence of this Secured Promissory Note, or if at any time the Lender should incur any attorneys' fees in any proceeding under any federal bankruptcy law (or any similar state or federal law) in connection with transactions contemplated herein. In the event of any court proceeding, attorneys' fees shall be set by the court and not by the jury and shall be included in any judgment obtained by Lender.

16. **Further Performance.** The Borrower, whenever and as often as it shall be requested by the Lender, shall execute, acknowledge and deliver, or cause to be executed, acknowledged and delivered such further instruments and documents and to do any and all things as may be requested in order to carry out the intent and purpose of this Secured Promissory Note.

17. **Binding Nature.** The provisions of this Secured Promissory Note shall be binding upon the Borrower and its successors and assigns, and shall inure to the benefit of the Lender and any subsequent holder of all or any portion of this Secured Promissory Note, and their respective successors and assigns. The Lender may from time to time transfer all or any part of its interest in this Secured Promissory Note, upon notice to the Borrower.

18. **Notice.** All notices, requests and other communications to either party hereunder shall be in writing (including bank wire, telex, facsimile or similar writing) and shall be given to such party: (a) at its address or facsimile number set forth in its signature block below, (b) at such other address or facsimile number as such party may hereafter specify for the purpose by notice to the other party. Each such notice, request or other communication shall be effective (i) if given by facsimile, when transmitted to the facsimile number referred to in this Section and confirmation of receipt is received, (ii) if given by mail, 72 hours after such communication is deposited in the mails with first class postage prepaid, addressed as aforesaid or (iii) if given by any other means, when delivered at the address referred to in this Section.

19. **Authorized Officer.** When used in this Secured Promissory Note, the term "authorized officer" means any of the Chairman of the Board, Chief Executive Officer, President, Treasurer, Controller, Chief Operating Officer, Chief Financial Officer, any Vice President or any Assistant Treasurer of the Borrower.

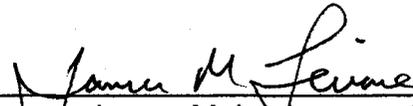
20. **Captions.** The captions contained in this Secured Promissory Note are for convenience only and shall not affect the construction or interpretation of any provisions of this Secured Promissory Note.

21. **Counterparts; Integration.** This Agreement may be signed in any number of counterparts, each of which shall be an original, with the same effect as if the signatures thereto and hereto were upon the same instrument. This Agreement constitutes the entire agreement and understanding among the parties hereto and supersedes any and all prior agreements and understandings, oral or written, relating to the subject matter hereof.

IN WITNESS WHEREOF, the Borrower and the Lender have executed this Secured Promissory Note as of the date first set forth above.

Borrower

PINNACLE WEST ENERGY CORPORATION

By:  _____

Name: James M. Levine

Title: President

400 North 5th Street

Phoenix, Arizona 85004

Facsimile number: (602) 250-3393

Lender

ARIZONA PUBLIC SERVICE COMPANY

By: Barbara M. Gomez

Name: Barbara M. Gomez

Title: Treasurer

400 North 5th Street

Phoenix, Arizona 85004

Facsimile number: (602) 250-5640

1238102.6

When Recorded Return To:

Snell & Wilmer, LLP
One Arizona Center
Phoenix, Arizona 85004
Attn: David J. Carroll

Recorder's Use

(SAGUARO POWER PLANT)

AMENDMENT NO. 1 TO DEED OF TRUST AND FIXTURE FILING
(WITH ASSIGNMENT OF RENTS AND SECURITY AGREEMENT)

DATE: May 12, 2003

PARTIES:

Trustor: PINNACLE WEST ENERGY CORPORATION,
an Arizona corporation

Trustor Address: 400 North 5th Street
Phoenix, Arizona 85004

Trustee: FIRST AMERICAN TITLE INSURANCE COMPANY,
a California corporation

Trustee Address: P.O. Box 2922
Phoenix, Arizona

Beneficiary: ARIZONA PUBLIC SERVICE COMPANY,
an Arizona corporation

Beneficiary Address: 400 North 5th Street
Phoenix, Arizona 85004

RECITALS:

A. Beneficiary has extended to PINNACLE WEST CAPITAL CORPORATION ("PWCC") credit (the "PWCC Loan") in the principal amount of up to One Hundred Twenty-Five Million and No/100 Dollars (\$125,000,000.00) pursuant to that certain 364 - Day Credit Agreement, dated as of December 4, 2002 (the "Loan Agreement"), and evidenced by the Notes referenced therein (collectively, the "PWCC Notes"). Capitalized terms not otherwise defined in the Deed of Trust (defined below) shall have the same meaning as set forth in the Loan Agreement and shall survive the termination of the Loan Agreement.

B. The PWCC Loan is secured by, among other things, that certain Deed of Trust and Fixture Filing (With Assignment of Rents and Security Agreement), dated as of December 4, 2002 (the "Original Deed of Trust" and as amended by this Amendment No. 1 thereto, the "Deed of Trust"), by Trustor, for the benefit of Beneficiary, recorded on February 6, 2003, as Fee number 2003-008115, in the records of Pinal County, Arizona.

C. Beneficiary has now extended credit directly to Trustor (the "PWEC Loan") in the amount of Five Hundred Million and No/100 Dollars (\$500,000,000.00), evidenced by that certain Secured Promissory Note, dated of even date herewith, in the principal amount of Five Hundred Million and No/100 Dollars (\$500,000,000.00).

D. Trustor and Beneficiary desire to amend the Original Deed of Trust for the purpose of adding the PWEC Loan as one of the "Obligations" secured by the Original Deed of Trust.

NOW, THEREFORE, in consideration of the premises and promises hereafter set forth, the parties hereto agree as follows:

AGREEMENTS:

SECTION 1. ACCURACY OF RECITALS. TRUSTOR HEREBY ACKNOWLEDGES THE ACCURACY OF THE FOREGOING RECITALS.

SECTION 2. AMENDMENT TO DEED OF TRUST.

2.1 The "Securing Clause" of the Original Deed of Trust which commences at the bottom of page 2 of the Original Deed of Trust and continues on page 3 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

FOR THE PURPOSE OF SECURING (in such order of priority as Beneficiary may elect) the following (the "Obligations"):

(a) all obligations of Borrower to Beneficiary pursuant to the Loan Agreement in the maximum principal amount of **ONE HUNDRED TWENTY-FIVE MILLION AND NO/100 DOLLARS (\$125,000,000.00)**, as more particularly evidenced by those certain notes issued thereunder (the "PWCC Notes") (the Loan Agreement contains a provision providing for a variable rate of interest under the PWCC Notes);

(b) all obligations of Trustor to Beneficiary evidenced by that certain Secured Promissory Note dated May 12, 2003 in the principal amount of **FIVE HUNDRED MILLION AND NO/100 DOLLARS (\$500,000,000.00)** (the "PWEC Note");

(c) payment of all sums advanced by Beneficiary to protect the Trust Estate, with interest thereon equal to the Base Rate plus three percent (3%) (the "Default Rate");

(d) performance of every obligation of Borrower and/or Trustor contained in the PWCC Notes, the PWEC Note (hereinafter, collectively, the "Notes") and the other Financing Documents (as defined below);

(e) performance of every obligation of Trustor contained in any agreement, document, or instrument now or hereafter executed by Trustor reciting that the obligations thereunder are secured by this Deed of Trust; and

(f) for the benefit of Beneficiary, compliance with and performance of each and every provision of any declaration of covenants, conditions and restrictions, any maintenance, easement and party wall agreement, or any other agreement, document, or instrument by which the Trust Estate is bound or may be affected.

This Deed of Trust, the Notes, the Loan Agreement, and any other deeds of trust, mortgages, agreements, guaranties or other instruments given to evidence or further secure the payment and performance of any or all of the Obligations, as the foregoing may be amended, modified, extended, or renewed from time to time may hereinafter be collectively referred to as the "Financing Documents."

2.2 Section 1.02 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

1.02 Required Insurance. Trustor will maintain insurance on the Trust Estate with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which Trustor operates; provided, however, that the Trustor may self-insure to the same extent as other companies engaged in similar businesses and owning similar properties in the same general areas in which the Trustor operates. All such policies of insurance required by the terms of this Deed of Trust or the Loan Agreement shall contain an endorsement or agreement by the insurer that any loss shall be payable in accordance with the terms of such policy notwithstanding any act or negligence of Trustor or any party holding under Trustor that might otherwise result in forfeiture of said insurance and the further agreement of the insurer waiving all rights of setoff, counterclaim or deductions against Trustor.

2.3 Section 1.22 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

1.22 Rights of Beneficiary. With respect to the Obligations (excluding Trustor's obligations under the PWEC Note), Trustor authorizes Beneficiary to perform any or all of the following acts at any time in its sole discretion, all without notice to or the consent or approval of Trustor and without affecting Trustor's obligations under this Deed of Trust:

(a) Beneficiary may alter any Obligation, including renewing, compromising, extending or accelerating, or otherwise changing the time for payment of, or increasing or decreasing the rate of interest on, all or any part of any Obligation.

(b) Beneficiary may take and hold security for any Obligation, accept additional or substituted security therefor, and subordinate, exchange, enforce, waive, release, compromise, fail to perfect, and sell or otherwise dispose of any such security.

(c) Beneficiary may direct the order and manner of any public or private sale of all or any part of any security assigned to Beneficiary by Borrower or any other person, or otherwise to comply with the Uniform Commercial Code of Arizona with respect to any personal property collateral, and Beneficiary may also bid at any such sale.

(d) Beneficiary may apply any payments or recoveries from Borrower, any guarantor (a "Guarantor") of any Obligation or any other source, and any proceeds of any security, to the Obligations in such manner, order and priority as Beneficiary may elect, whether or not those obligations are secured at the time of the application.

(e) Beneficiary may release Borrower or any other person of its liability for all or any part of any Obligation.

(f) Beneficiary may substitute, add, or release any one or more Guarantors or endorsers.

(g) In addition to the Obligations, Beneficiary may extend other credit to Borrower, and may take and hold security for the credit so extended, all without affecting Trustor's liability under this Deed of Trust.

2.4 The term "Loan Documents" in the last sentence of Section 1.24 of the Original Deed of Trust is revised to read "Loan Agreement."

2.5 Section 1.25 of the Original Deed of Trust is amended by adding the following at the end of the proviso in such section:

and further provided that Trustor may at any time receive payments of such subordinated obligations to the extent that Trustor utilizes the same to make payment to the Beneficiary of the Obligations.

2.6 The term "Loan" in clause (iii) of the first sentence of Section 1.29 of the Original Deed of Trust is revised to read "PWCC Loan."

2.7 Section 1.30 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

1.30 No Personal Liability with Respect to PWCC Notes. Beneficiary agrees that (i) Trustor shall have no personal liability with respect to the repayment of the PWCC Notes and (ii) Beneficiary's recourse against Trustor for repayment of the PWCC Notes shall be limited to Beneficiary's enforcement

of its remedies against the Trust Estate as encumbered by this Deed of Trust. Beneficiary shall have full recourse against Trustor with respect to the PWEC Note and the remainder of Trustor's Obligations hereunder.

2.8 Subsection 3.04(c) of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

(c) The proceeds of any sale under Section 3.04(a)(vi) shall be applied as follows:

(i) To the repayment of the reasonable costs and expenses of taking, holding, and preparing for the sale and the selling of the Personal Property (including, without limitation, costs of litigation and reasonable attorneys' fees) and the discharge of all Impositions, Liens and Encumbrances, and claims thereof, if any, on the Personal Property prior to the security interest granted herein (except any Impositions or Liens and Encumbrances subject to which such sale shall have been made);

(ii) To the payment of the Obligations in such order as Beneficiary shall determine; and

(iii) The surplus, if any, shall be paid to the Trustor or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. Beneficiary shall have the right to enforce one or more remedies hereunder, successively or concurrently, and such action shall not operate to estop or prevent Beneficiary from pursuing any further remedy that it may have. Any repossession or retaking or sale of the Personal Property pursuant to the terms hereof shall not operate to release Trustor until full payment of any deficiency has been made in cash.

2.9 Section 4.01 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

4.01 Events of Default. An Event of Default under any of the Financing Documents shall be an Event of Default hereunder.

2.10 Subsection 4.03(b) of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

(b) After deducting all costs, fees and expenses of Trustee and of this Trust, including, without limitation, Trustee's fees and reasonable attorneys' fees, and costs of evidence of title in connection with sale, Trustee shall apply the proceeds of sale in the following priority, to payment of: (i) first, all sums expended under the terms of the Financing Documents, not then repaid, with accrued interest at the Default Rate; (ii) second, all sums due under the Notes; (iii) all other sums, then secured hereby; and (iv) the remainder, if any, to the person or persons legally

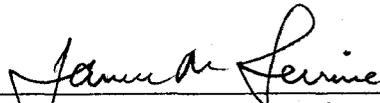
entitled thereto or as provided in A.R.S. Section 33-812 or any similar or successor statute.

SECTION 3. MISCELLANEOUS. EXCEPT FOR THE AMENDMENTS ABOVE STATED, ALL OF THE REMAINING CONDITIONS AND COVENANTS OF THE DEED OF TRUST SHALL REMAIN IN FULL FORCE EFFECT, UNCHANGED, AND THE DEED OF TRUST IS IN ALL RESPECTS RATIFIED, CONFIRMED AND APPROVED.

SECTION 4. COUNTERPARTS. THIS AMENDMENT NO. 1 TO DEED OF TRUST MAY BE EXECUTED IN ANY NUMBER OF COUNTERPARTS, EACH OF WHICH SHALL BE AN ORIGINAL, BUT ALL OF WHICH SHALL CONSTITUTE ONE AND THE SAME INSTRUMENT.

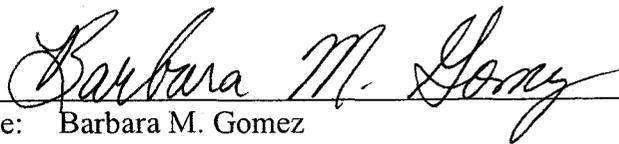
IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 to Deed of Trust as of the day and year first above written.

PINNACLE WEST ENERGY CORPORATION, an Arizona corporation

By: 
Name: James M. Levine
Title: President & CEO

“Trustor”

ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation

By: 
Name: Barbara M. Gomez
Title: Treasurer

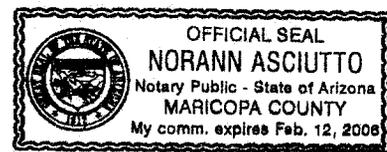
“Beneficiary”

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 9th day of May, 2003, by JAMES M. LEVINE, the PRESIDENT AND CEO, of PINNACLE WEST ENERGY CORPORATION, an Arizona corporation, on behalf of the corporation.

Norann Ascitto
Notary Public

My commission expires:
2/12/06

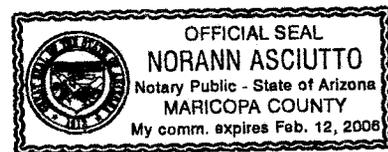


STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 9th day of May, 2003, by Barbara M. Gomez, Treasurer of ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation, on behalf of the corporation.

Norann Ascitto
Notary Public

My commission expires:
2/12/06



When Recorded Return To:

Snell & Wilmer, LLP
One Arizona Center
Phoenix, Arizona 85004
Attn: David J. Carroll

Recorder's Use

(RED HAWK - UNITS 1 AND 2)

AMENDMENT NO. 1 TO DEED OF TRUST AND FIXTURE FILING
(WITH ASSIGNMENT OF RENTS AND SECURITY AGREEMENT)

DATE: May 12, 2003

PARTIES:

Trustor: PINNACLE WEST ENERGY CORPORATION,
an Arizona corporation

Trustor Address: 400 North 5th Street
Phoenix, Arizona 85004

Trustee: FIRST AMERICAN TITLE INSURANCE COMPANY,
a California corporation

Trustee Address: P.O. Box 2922
Phoenix, Arizona

Beneficiary: ARIZONA PUBLIC SERVICE COMPANY,
an Arizona corporation

Beneficiary Address: 400 North 5th Street
Phoenix, Arizona 85004

RECITALS:

A. Beneficiary has extended to PINNACLE WEST CAPITAL CORPORATION ("PWCC") credit (the "PWCC Loan") in the principal amount of up to One Hundred Twenty-Five Million and No/100 Dollars (\$125,000,000.00) pursuant to that certain 364 - Day Credit Agreement, dated as of December 4, 2002 (the "Loan Agreement"), and evidenced by the Notes referenced therein (collectively, the "PWCC Notes"). Capitalized terms not otherwise defined in the Deed of Trust (defined below) shall have the same meaning as set forth in the Loan Agreement and shall survive the termination of the Loan Agreement.

B. The PWCC Loan is secured by, among other things, that certain Deed of Trust and Fixture Filing (With Assignment of Rents and Security Agreement), dated as of December 4, 2002 (the "Original Deed of Trust" and as amended by this Amendment No. 1 thereto, the "Deed of Trust"), by Trustor, for the benefit of Beneficiary, recorded on February 7, 2003, as Instrument number 2003-0152027, in the records of Maricopa County, Arizona.

C. Beneficiary has now extended credit directly to Trustor (the "PWEC Loan") in the amount of Five Hundred Million and No/100 Dollars (\$500,000,000.00), evidenced by that certain Secured Promissory Note, dated of even date herewith, in the principal amount of Five Hundred Million and No/100 Dollars (\$500,000,000.00).

D. Trustor and Beneficiary desire to amend the Original Deed of Trust for the purpose of adding the PWEC Loan as one of the "Obligations" secured by the Original Deed of Trust.

NOW, THEREFORE, in consideration of the premises and promises hereafter set forth, the parties hereto agree as follows:

AGREEMENTS:

1. Accuracy of Recitals. Trustor hereby acknowledges the accuracy of the foregoing Recitals.
2. Amendment to Deed of Trust.

2.1 The "Securing Clause" of the Original Deed of Trust which commences at the bottom of page 2 of the Original Deed of Trust and continues on page 3 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

FOR THE PURPOSE OF SECURING (in such order of priority as Beneficiary may elect) the following (the "Obligations"):

(a) all obligations of Borrower to Beneficiary pursuant to the Loan Agreement in the maximum principal amount of **ONE HUNDRED TWENTY-FIVE MILLION AND NO/100 DOLLARS (\$125,000,000.00)**, as more particularly evidenced by those certain notes issued thereunder (the "PWCC Notes") (the Loan Agreement contains a provision providing for a variable rate of interest under the PWCC Notes);

(b) all obligations of Trustor to Beneficiary evidenced by that certain Secured Promissory Note dated May 12, 2003 in the principal amount of **FIVE HUNDRED MILLION AND NO/100 DOLLARS (\$500,000,000.00)** (the "PWEC Note");

(c) payment of all sums advanced by Beneficiary to protect the Trust Estate, with interest thereon equal to the Base Rate plus three percent (3%) (the "Default Rate");

(d) performance of every obligation of Borrower and/or Trustor contained in the PWCC Notes, the PWEC Note (hereinafter, collectively, the "Notes") and the other Financing Documents (as defined below);

(e) performance of every obligation of Trustor contained in any agreement, document, or instrument now or hereafter executed by Trustor reciting that the obligations thereunder are secured by this Deed of Trust; and

(f) for the benefit of Beneficiary, compliance with and performance of each and every provision of any declaration of covenants, conditions and restrictions, any maintenance, easement and party wall agreement, or any other agreement, document, or instrument by which the Trust Estate is bound or may be affected.

This Deed of Trust, the Notes, the Loan Agreement, and any other deeds of trust, mortgages, agreements, guaranties or other instruments given to evidence or further secure the payment and performance of any or all of the Obligations, as the foregoing may be amended, modified, extended, or renewed from time to time may hereinafter be collectively referred to as the "Financing Documents."

2.2 Section 1.02 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

1.02 Required Insurance. Trustor will maintain insurance on the Trust Estate with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which Trustor operates; provided, however, that the Trustor may self-insure to the same extent as other companies engaged in similar businesses and owning similar properties in the same general areas in which the Trustor operates. All such policies of insurance required by the terms of this Deed of Trust or the Loan Agreement shall contain an endorsement or agreement by the insurer that any loss shall be payable in accordance with the terms of such policy notwithstanding any act or negligence of Trustor or any party holding under Trustor that might otherwise result in forfeiture of said insurance and the further agreement of the insurer waiving all rights of setoff, counterclaim or deductions against Trustor.

2.3 Section 1.22 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

1.22 Rights of Beneficiary. With respect to the Obligations (excluding Trustor's obligations under the PWEC Note), Trustor authorizes Beneficiary to perform any or all of the following acts at any time in its sole discretion, all without notice to or the consent or approval of Trustor and without affecting Trustor's obligations under this Deed of Trust:

(a) Beneficiary may alter any Obligation, including renewing, compromising, extending or accelerating, or otherwise changing the time for payment of, or increasing or decreasing the rate of interest on, all or any part of any Obligation.

(b) Beneficiary may take and hold security for any Obligation, accept additional or substituted security therefor, and subordinate, exchange, enforce, waive, release, compromise, fail to perfect, and sell or otherwise dispose of any such security.

(c) Beneficiary may direct the order and manner of any public or private sale of all or any part of any security assigned to Beneficiary by Borrower or any other person, or otherwise to comply with the Uniform Commercial Code of Arizona with respect to any personal property collateral, and Beneficiary may also bid at any such sale.

(d) Beneficiary may apply any payments or recoveries from Borrower, any guarantor (a "Guarantor") of any Obligation or any other source, and any proceeds of any security, to the Obligations in such manner, order and priority as Beneficiary may elect, whether or not those obligations are secured at the time of the application.

(e) Beneficiary may release Borrower or any other person of its liability for all or any part of any Obligation.

(f) Beneficiary may substitute, add, or release any one or more Guarantors or endorsers.

(g) In addition to the Obligations, Beneficiary may extend other credit to Borrower, and may take and hold security for the credit so extended, all without affecting Trustor's liability under this Deed of Trust.

2.4 The term "Loan Documents" in the last sentence of Section 1.24 of the Original Deed of Trust is revised to read "Loan Agreement."

2.5 Section 1.25 of the Original Deed of Trust is amended by adding the following at the end of the proviso in such section:

and further provided that Trustor may at any time receive payments of such subordinated obligations to the extent that Trustor utilizes the same to make payment to the Beneficiary of the Obligations.

2.6 The term "Loan" in clause (iii) of the first sentence of Section 1.29 of the Original Deed of Trust is revised to read "PWCC Loan."

2.7 Section 1.30 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

1.30 No Personal Liability with Respect to PWCC Notes. Beneficiary agrees that (i) Trustor shall have no personal liability with respect to the repayment of the PWCC Notes and (ii) Beneficiary's recourse against Trustor for repayment of the PWCC Notes shall be limited to Beneficiary's enforcement

of its remedies against the Trust Estate as encumbered by this Deed of Trust. Beneficiary shall have full recourse against Trustor with respect to the PWEC Note and the remainder of Trustor's Obligations hereunder.

2.8 Subsection 3.04(c) of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

(c) The proceeds of any sale under Section 3.04(a)(vi) shall be applied as follows:

(i) To the repayment of the reasonable costs and expenses of taking, holding, and preparing for the sale and the selling of the Personal Property (including, without limitation, costs of litigation and reasonable attorneys' fees) and the discharge of all Impositions, Liens and Encumbrances, and claims thereof, if any, on the Personal Property prior to the security interest granted herein (except any Impositions or Liens and Encumbrances subject to which such sale shall have been made);

(ii) To the payment of the Obligations in such order as Beneficiary shall determine; and

(iii) The surplus, if any, shall be paid to the Trustor or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. Beneficiary shall have the right to enforce one or more remedies hereunder, successively or concurrently, and such action shall not operate to estop or prevent Beneficiary from pursuing any further remedy that it may have. Any repossession or retaking or sale of the Personal Property pursuant to the terms hereof shall not operate to release Trustor until full payment of any deficiency has been made in cash.

2.9 Section 4.01 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

4.01 Events of Default. An Event of Default under any of the Financing Documents shall be an Event of Default hereunder.

2.10 Subsection 4.03(b) of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

(b) After deducting all costs, fees and expenses of Trustee and of this Trust, including, without limitation, Trustee's fees and reasonable attorneys' fees, and costs of evidence of title in connection with sale, Trustee shall apply the proceeds of sale in the following priority, to payment of: (i) first, all sums expended under the terms of the Financing Documents, not then repaid, with accrued interest at the Default Rate; (ii) second, all sums due under the Notes; (iii) all other sums, then secured hereby; and (iv) the remainder, if any, to the person or persons legally

entitled thereto or as provided in A.R.S. Section 33-812 or any similar or successor statute.

3. Miscellaneous. Except for the amendments above stated, all of the remaining conditions and covenants of the Deed of Trust shall remain in full force effect, unchanged, and the Deed of Trust is in all respects ratified, confirmed and approved.

4. Counterparts. This Amendment No. 1 to Deed of Trust may be executed in any number of counterparts, each of which shall be an original, but all of which shall constitute one and the same instrument.

IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 to Deed of Trust as of the day and year first above written.

PINNACLE WEST ENERGY CORPORATION, an Arizona corporation

By: *James M. Levine*
Name: *James M. Levine*
Title: *President & CEO*

“Trustor”

ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation

By: *Barbara M. Gomez*
Name: Barbara M. Gomez
Title: Treasurer

“Beneficiary”

STATE OF ARIZONA)
) ss.
County of MARICOPA)

The foregoing instrument was acknowledged before me this 9th day of May, 2003, by JAMES M. LEVINE, the President and CEO, of PINNACLE WEST ENERGY CORPORATION, an Arizona corporation, on behalf of the corporation.

Norann Ascitto
Notary Public

My commission expires:
2/12/06

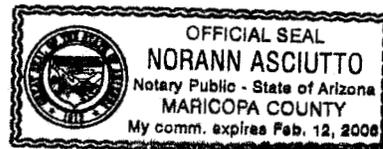


STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 9th day of May, 2003, by Barbara M. Gomez, Treasurer of ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation, on behalf of the corporation.

Norann Ascitto
Notary Public

My commission expires:
2/12/06



When Recorded Return To:

Snell & Wilmer, LLP
One Arizona Center
Phoenix, Arizona 85004
Attn: David J. Carroll

Recorder's Use

(WEST PHOENIX - UNITS 4 AND 5)

AMENDMENT NO. 1 TO DEED OF TRUST AND FIXTURE FILING
(WITH ASSIGNMENT OF RENTS AND SECURITY AGREEMENT)

DATE: May 12, 2003

PARTIES:

Trustor: PINNACLE WEST ENERGY CORPORATION,
an Arizona corporation

Trustor
Address: 400 North 5th Street
Phoenix, Arizona 85004

Trustee: FIRST AMERICAN TITLE INSURANCE COMPANY,
a California corporation

Trustee
Address: P.O. Box 2922
Phoenix, Arizona

Beneficiary: ARIZONA PUBLIC SERVICE COMPANY,
an Arizona corporation

Beneficiary
Address: 400 North 5th Street
Phoenix, Arizona 85004

RECITALS:

A. Beneficiary has extended to PINNACLE WEST CAPITAL CORPORATION ("PWCC") credit (the "PWCC Loan") in the principal amount of up to One Hundred Twenty-Five Million and No/100 Dollars (\$125,000,000.00) pursuant to that certain 364 - Day Credit Agreement, dated as of December 4, 2002 (the "Loan Agreement"), and evidenced by the Notes referenced therein (collectively, the "PWCC Notes"). Capitalized terms not otherwise defined in the Deed of Trust (defined below) shall have the same meaning as set forth in the Loan Agreement and shall survive the termination of the Loan Agreement.

B. The PWCC Loan is secured by, among other things, that certain Deed of Trust and Fixture Filing (With Assignment of Rents and Security Agreement), dated as of December 4, 2002 (the "Original Deed of Trust" and as amended by this Amendment No. 1 thereto, the "Deed of Trust"), by Trustor, for the benefit of Beneficiary, recorded on February 7, 2003, as Instrument number 2003-0152028, in the records of Maricopa County, Arizona.

C. Upon subsequent review of the Original Deed of Trust, it was discovered that a typographical error was inadvertently made in one of the calls to the metes and bounds description on Exhibit A to the Original Deed of Trust.

D. Beneficiary has now extended credit directly to Trustor (the "PWEC Loan") in the amount of Five Hundred Million and No/100 Dollars (\$500,000,000.00), evidenced by that certain Secured Promissory Note, dated of even date herewith, in the principal amount of Five Hundred Million and No/100 Dollars (\$500,000,000.00).

E. Trustor and Beneficiary desire to amend the Original Deed of Trust for the purpose of (i) amending the legal description in the Original Deed of Trust to the correct legal description and (ii) adding the PWEC Loan as one of the "Obligations" secured by the Original Deed of Trust.

NOW, THEREFORE, in consideration of the premises and promises hereafter set forth, the parties hereto agree as follows:

AGREEMENTS:

SECTION 1. ACCURACY OF RECITALS. TRUSTOR HEREBY ACKNOWLEDGES THE ACCURACY OF THE FOREGOING RECITALS.

SECTION 2. AMENDMENT TO DEED OF TRUST.

- 2.1 Exhibit A to the Original Deed of Trust is hereby deleted in its entirety and the Exhibit A attached hereto is inserted in place thereof.
- 2.2 The "Securing Clause" of the Original Deed of Trust which commences at the bottom of page 2 of the Original Deed of Trust and continues on page 3 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

FOR THE PURPOSE OF SECURING (in such order of priority as Beneficiary may elect) the following (the "Obligations"):

- (a) all obligations of Borrower to Beneficiary pursuant to the Loan Agreement in the maximum principal amount of **ONE HUNDRED TWENTY-FIVE MILLION AND NO/100 DOLLARS (\$125,000,000.00)**, as more particularly evidenced by those certain notes issued thereunder (the "PWCC Notes") (the Loan Agreement contains a provision providing for a variable rate of interest under the PWCC Notes);

(b) all obligations of Trustor to Beneficiary evidenced by that certain Secured Promissory Note dated May 12, 2003 in the principal amount of **FIVE HUNDRED MILLION AND NO/100 DOLLARS (\$500,000,000.00)** (the "PWEC Note");

(c) payment of all sums advanced by Beneficiary to protect the Trust Estate, with interest thereon equal to the Base Rate plus three percent (3%) (the "Default Rate");

(d) performance of every obligation of Borrower and/or Trustor contained in the PWCC Notes, the PWEC Note (hereinafter, collectively, the "Notes") and the other Financing Documents (as defined below);

(e) performance of every obligation of Trustor contained in any agreement, document, or instrument now or hereafter executed by Trustor reciting that the obligations thereunder are secured by this Deed of Trust; and

(f) for the benefit of Beneficiary, compliance with and performance of each and every provision of any declaration of covenants, conditions and restrictions, any maintenance, easement and party wall agreement, or any other agreement, document, or instrument by which the Trust Estate is bound or may be affected.

This Deed of Trust, the Notes, the Loan Agreement, and any other deeds of trust, mortgages, agreements, guaranties or other instruments given to evidence or further secure the payment and performance of any or all of the Obligations, as the foregoing may be amended, modified, extended, or renewed from time to time may hereinafter be collectively referred to as the "Financing Documents."

2.3 Section 1.02 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

1.02 Required Insurance. Trustor will maintain insurance on the Trust Estate with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which Trustor operates; provided, however, that the Trustor may self-insure to the same extent as other companies engaged in similar businesses and owning similar properties in the same general areas in which the Trustor operates. All such policies of insurance required by the terms of this Deed of Trust or the Loan Agreement shall contain an endorsement or agreement by the insurer that any loss shall be payable in accordance with the terms of such policy notwithstanding any act or negligence of Trustor or any party holding under Trustor that might otherwise result in forfeiture of said insurance and the further agreement of the insurer waiving all rights of setoff, counterclaim or deductions against Trustor.

2.4 Section 1.22 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

1.22 Rights of Beneficiary. With respect to the Obligations (excluding Trustor's obligations under the PWEC Note), Trustor authorizes Beneficiary to perform any or all of the following acts at any time in its sole discretion, all without notice to or the consent or approval of Trustor and without affecting Trustor's obligations under this Deed of Trust:

(a) Beneficiary may alter any Obligation, including renewing, compromising, extending or accelerating, or otherwise changing the time for payment of, or increasing or decreasing the rate of interest on, all or any part of any Obligation.

(b) Beneficiary may take and hold security for any Obligation, accept additional or substituted security therefor, and subordinate, exchange, enforce, waive, release, compromise, fail to perfect, and sell or otherwise dispose of any such security.

(c) Beneficiary may direct the order and manner of any public or private sale of all or any part of any security assigned to Beneficiary by Borrower or any other person, or otherwise to comply with the Uniform Commercial Code of Arizona with respect to any personal property collateral, and Beneficiary may also bid at any such sale.

(d) Beneficiary may apply any payments or recoveries from Borrower, any guarantor (a "Guarantor") of any Obligation or any other source, and any proceeds of any security, to the Obligations in such manner, order and priority as Beneficiary may elect, whether or not those obligations are secured at the time of the application.

(e) Beneficiary may release Borrower or any other person of its liability for all or any part of any Obligation.

(f) Beneficiary may substitute, add, or release any one or more Guarantors or endorsers.

(g) In addition to the Obligations, Beneficiary may extend other credit to Borrower, and may take and hold security for the credit so extended, all without affecting Trustor's liability under this Deed of Trust.

2.5 The term "Loan Documents" in the last sentence of Section 1.24 of the Original Deed of Trust is revised to read "Loan Agreement."

2.6 Section 1.25 of the Original Deed of Trust is amended by adding the following at the end of the proviso in such section:

and further provided that Trustor may at any time receive payments of such subordinated obligations to the extent that Trustor utilizes the same to make payment to the Beneficiary of the Obligations.

2.7 The term "Loan" in clause (iii) of the first sentence of Section 1.29 of the Original Deed of Trust is revised to read "PWCC Loan."

2.8 Section 1.30 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

1.30 No Personal Liability with Respect to PWCC Notes. Beneficiary agrees that (i) Trustor shall have no personal liability with respect to the repayment of the PWCC Notes and (ii) Beneficiary's recourse against Trustor for repayment of the PWCC Notes shall be limited to Beneficiary's enforcement of its remedies against the Trust Estate as encumbered by this Deed of Trust. Beneficiary shall have full recourse against Trustor with respect to the PWCC Note and the remainder of Trustor's Obligations hereunder.

2.9 Subsection 3.04(c) of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

(c) The proceeds of any sale under Section 3.04(a)(vi) shall be applied as follows:

(i) To the repayment of the reasonable costs and expenses of taking, holding, and preparing for the sale and the selling of the Personal Property (including, without limitation, costs of litigation and reasonable attorneys' fees) and the discharge of all Impositions, Liens and Encumbrances, and claims thereof, if any, on the Personal Property prior to the security interest granted herein (except any Impositions or Liens and Encumbrances subject to which such sale shall have been made);

(ii) To the payment of the Obligations in such order as Beneficiary shall determine; and

(iii) The surplus, if any, shall be paid to the Trustor or to whomsoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct. Beneficiary shall have the right to enforce one or more remedies hereunder, successively or concurrently, and such action shall not operate to estop or prevent Beneficiary from pursuing any further remedy that it may have. Any repossession or retaking or sale of the Personal Property pursuant to the terms hereof shall not operate to release Trustor until full payment of any deficiency has been made in cash.

2.10 Section 4.01 of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

4.01 Events of Default. An Event of Default under any of the Financing Documents shall be an Event of Default hereunder.

2.11 Subsection 4.03(b) of the Original Deed of Trust is hereby deleted in its entirety and amended to read as follows:

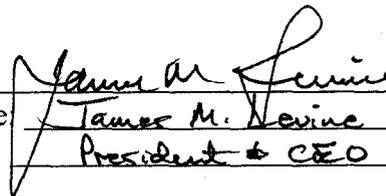
(b) After deducting all costs, fees and expenses of Trustee and of this Trust, including, without limitation, Trustee's fees and reasonable attorneys' fees, and costs of evidence of title in connection with sale, Trustee shall apply the proceeds of sale in the following priority, to payment of: (i) first, all sums expended under the terms of the Financing Documents, not then repaid, with accrued interest at the Default Rate; (ii) second, all sums due under the Notes; (iii) all other sums, then secured hereby; and (iv) the remainder, if any, to the person or persons legally entitled thereto or as provided in A.R.S. Section 33-812 or any similar or successor statute.

SECTION 3. MISCELLANEOUS. EXCEPT FOR THE AMENDMENTS ABOVE STATED, ALL OF THE REMAINING CONDITIONS AND COVENANTS OF THE DEED OF TRUST SHALL REMAIN IN FULL FORCE EFFECT, UNCHANGED, AND THE DEED OF TRUST IS IN ALL RESPECTS RATIFIED, CONFIRMED AND APPROVED.

SECTION 4. COUNTERPARTS. THIS AMENDMENT NO. 1 TO DEED OF TRUST MAY BE EXECUTED IN ANY NUMBER OF COUNTERPARTS, EACH OF WHICH SHALL BE AN ORIGINAL, BUT ALL OF WHICH SHALL CONSTITUTE ONE AND THE SAME INSTRUMENT.

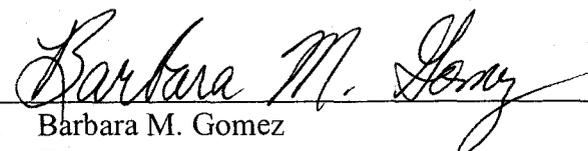
IN WITNESS WHEREOF, the parties have executed this Amendment No. 1 to Deed of Trust as of the day and year first above written.

PINNACLE WEST ENERGY CORPORATION, an Arizona corporation

By: 
Name: James M. Devine
Title: President & CEO

"Trustor"

ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation

By: 
Name: Barbara M. Gomez
Title: Treasurer

"Beneficiary"

STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 9th day of May, 2003, by JAMES M. LEVINE, the President & CEO, of PINNACLE WEST ENERGY CORPORATION, an Arizona corporation, on behalf of the corporation.

Norann Ascitto
Notary Public

My commission expires:
2/12/06



STATE OF ARIZONA)
) ss.
County of Maricopa)

The foregoing instrument was acknowledged before me this 9th day of May, 2003, by Barbara M. Gomez, Treasurer of ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation, on behalf of the corporation.

Norann Ascitto
Notary Public

My commission expires:
2/12/06

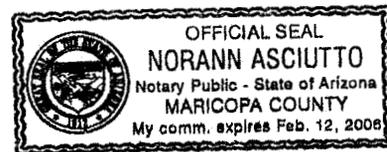


EXHIBIT A

Parcel 1 - Unit 4

A parcel of land being located in the Southeast quarter of Section 9, Township 1 North, Range 2 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona. Said parcel being more particularly described as Parcel 1, Unit 4 and

COMMENCING at the South quarter corner of said section;

Thence, North 00° 18' 01" West along the West line of the Southeast quarter of Section 9, Township 1 North, Range 2 East, a distance of 1,486.38 feet;

Thence North 89° 17' 24" East a distance of 40 feet to the TRUE POINT OF BEGINNING of the parcel herein described;

Thence, continuing Northeast along the same bearing a distance of 317.26 feet, along the North line of said parcel;

Thence South 01° 11' 27" East a distance of 95.08 feet;

Thence North 89° 17' 24" East a distance of 49.43 feet;

Thence South 00° 42' 36" East a distance of 100.14 feet;

Thence North 89° 17' 24" East a distance of 43.34 feet;

Thence South 00° 42' 36" East a distance of 105.96 feet;

Thence South 89° 20' 44" West along the South line of the parcel herein described, a distance of 412.99 feet;

Thence North 00° 18' 01" West along the West line of said parcel, a distance of 300.78 feet to the TRUE POINT OF BEGINNING of the parcel herein described, said parcel containing 2.543 acres more or less.

Parcel 2 - Unit 5

A parcel of land located in the Southeast quarter of Section 9, Township 1 North, Range 2 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona. Said parcel being more particularly described as Parcel 2, Unit 5 and

COMMENCING at the East quarter corner of said section;

Thence, South 89° 21' 48" West along the North line of the Southeast quarter of Section 9, Township 1 North, Range 2 East, a distance of 2,622.28 feet;

Thence South 00° 18' 01" East along the West line of the Southeast quarter of said section, a distance of 94.82 feet;

Thence North 89° 17' 24" East a distance of 30 feet to the TRUE POINT OF BEGINNING of the parcel herein described;

Thence, continuing Northeast along the same bearing a distance of 1,040.41 feet along the North line of said parcel;

Thence, South 45° 00' 00" East a distance of 85.85 feet;

Thence, South 00° 42' 36" East a distance of 88.39 feet;

Thence South 89° 17' 24" West a distance of 481.33 feet;

Thence South a distance of 293.07 feet;

Thence South 89° 17' 24" West a distance of 618.57 feet;

Thence North 00° 18' 01" West a distance of 442.90 feet to the TRUE POINT OF BEGINNING of the parcel herein described, said parcel containing 7.911 acres more or less.

Parcel 3 - Water Containment Area

A parcel of land located in the Southwest quarter of Section 9, Township 1 North, Range 2 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona. Said parcel being more particularly described as Parcel 3, Water Containment Area and

COMMENCING at the South quarter corner of said section;

Thence, North $00^{\circ} 18' 01''$ West along the East line of the Southwest quarter of Section 9, Township 1 North, Range 2 East, a distance of 1,281.67 feet;

Thence, South $89^{\circ} 17' 36''$ West a distance of 40 feet to the TRUE POINT OF BEGINNING of the parcel herein described;

Thence, continuing Southwest along the same bearing a distance of 629.09 feet along the South line of the parcel herein described;

Thence North $00^{\circ} 13' 26''$ West along the West line of the parcel herein described, a distance of 1,123.64 feet;

Thence North $89^{\circ} 21' 48''$ East a distance of 221.11 feet;

Thence South $00^{\circ} 36' 52''$ East a distance of 781.97 feet;

Thence North $89^{\circ} 17' 24''$ East a distance of 402.19 feet;

Thence South $00^{\circ} 18' 01''$ East a distance of 341.39 feet to the TRUE POINT OF BEGINNING of the parcel herein described, said parcel containing 8.946 acres more or less.

Parcel 4 - Temporary Generator Area

A parcel of land located in the Southeast quarter of Section 9, Township 1 North, Range 2 East of the Gila and Salt River Base and Meridian, Maricopa County, Arizona. Said parcel being more particularly described as Parcel 4, Temporary Generator Area, and

COMMENCING at the Southeast corner of said section;

Thence, North $00^{\circ} 03' 22''$ East along the East line of Section 9, Township 1 North, Range 2 East a distance of 1,359.93 feet;

Thence, South $89^{\circ} 21' 48''$ West a distance of 40 feet to the TRUE POINT OF BEGINNING of the parcel herein described;

Thence, continuing Southwest along the same bearing a distance of 302.93 feet, along the South line of the parcel herein described;

Thence, North $00^{\circ} 03' 22''$ East along the West line of said parcel, a distance of 669.00 feet;

Thence North $89^{\circ} 21' 48''$ East along the North line of said parcel, a distance of 302.93 feet;

Thence South $00^{\circ} 03' 22''$ West along the East line of said parcel, a distance of 669.00 feet to the TRUE POINT OF BEGINNING of the parcel herein described, said parcel containing 4.652 acres more or less.

SECURED PROMISSORY NOTE INTEREST DETERMINATION CERTIFICATE

The following methodology was employed to determine the interest rate payable on the Secured Promissory Note, dated May 12, 2003, from Pinnacle West Energy Corporation ("Pinnacle West Energy") to Arizona Public Service Company ("APS") in the aggregate principal amount of \$500,000,000 (the "Secured Promissory Note"):

1. On May 7, 2003, APS requested the investment banks listed in Paragraph 2 (the "Investment Banks") to independently develop an interest rate on APS debt that could have been issued on that same date with the following terms, which mirror the terms of the Secured Promissory Note:

- \$500,000,000 aggregate principal amount;
- four-year maturity;
- secured; and
- callable.

2. Each of the Investment Banks is a participant in APS' offering and sale of its 4.650% Notes due 2015 and its 5.625% Notes due 2033 (the "Notes"), which priced on May 7, 2003. The Investment Banks provided the following interest rates on the debt described in Paragraph 1:

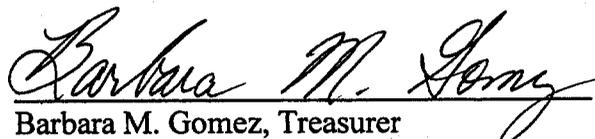
- UBS Warburg LLC: 3.375%;
- Lehman Brothers Inc. ("Lehman Brothers"): 3.75%;
- Citigroup Global Markets Inc.: 3.82%; and
- J.P. Morgan Securities Inc.: 4.10%.

3. The interest rate provided by Lehman Brothers was selected as the appropriate interest rate to be used in connection with the Secured Promissory Note because:

- Lehman Brothers is the sole book-running lead on APS' offering and sale of the Notes; and
- the other three Investment Banks provided rates that were within a reasonable range around Lehman Brothers' quote.

4. In accordance with the ACC's Order in Decision No. 65796, dated April 4, 2003, the interest rate on the Secured Promissory Note will be 6.39%, 264 basis points above 3.75%.

I have signed this Certificate on this 12th day of May, 2003.


Barbara M. Gomez, Treasurer
Arizona Public Service Company

Gomez, Barbara M(J38509)

From: Scott.Whitney@ubsw.com
Sent: Wednesday, May 07, 2003 8:41 AM
To: Gomez, Barbara M(J38509)
Cc: Ryan.Donovan@ubsw.com; Kimberly.Blue@ubsw.com; Thomas.Ming@ubsw.com; Tom.Osborne@ubsw.com; Rubayet.Saleh@ubsw.com; Tom.McErlean@ubsw.com
Subject: RE: URGENT REQUEST re APS INTEREST RATE

Barbara,

Per your request, here is UBS Warburg's indicative pricing thoughts for an Arizona Public Service offering. We have priced up both a non-call life bullet and a currently callable for your reference.

Issuer: Arizona Public Service
Maturity: 5/15/2007
Type: First Mortgage Bond
Call Feature: Currently Callable at Par
First Call Date: 5/16/2003
Call Price: \$100.00
Issue Price: \$100.00
Coupon: 3.375%

Issuer: Arizona Public Service
Maturity: 5/15/2007
Type: First Mortgage Bond
Call Feature: Non-Call Life
Issue Price: \$100.00
Coupon: 2.875%

Regards,
Scott

Scott Whitney
Director - Debt Capital Markets
UBS Warburg
203-719-4511
scott.whitney@ubsw.com

-----Original Message-----

From: Donovan, Ryan
Sent: Wednesday, May 07, 2003 10:39 AM
To: Whitney, Scott
Subject: FW: URGENT REQUEST re APS INTEREST RATE

-----Original Message-----

From: Barbara.Gomez@pinnaclewest.com
[mailto:Barbara.Gomez@pinnaclewest.com]
Sent: Wednesday, May 07, 2003 10:27 AM
To: Donovan, Ryan
Subject: FW: URGENT REQUEST re APS INTEREST RATE

> -----Original Message-----

> From: Gomez, Barbara M(J38509)
> Sent: Wednesday, May 07, 2003 7:25 AM
> To: 'kimberly.blue@ubsw.com'
> Subject: FW: URGENT REQUEST re APS INTEREST RATE

>
> In order to determine the interest rate on the inter-company loan from APS to PWEC we need to establish what the interest rate would be on APS debt sold on equivalent terms. Would you please provide me with your estimate of the coupon rate on APS debt with the following terms:

> * 4 year maturity
> * secured
> * callable

>
> I need a point estimate, not a range.

>
> Please e-mail me your response by noon today, New York City time.

>
> Thank you!
> Barbara M. Gomez
> Treasurer, APS

Visit our website at <http://www.ubswarburg.com>

This message contains confidential information and is intended only for the individual named. If you are not the named addressee you should not disseminate, distribute or copy this e-mail. Please notify the sender immediately by e-mail if you have received this e-mail by mistake and delete this e-mail from your system.

E-mail transmission cannot be guaranteed to be secure or error-free as information could be intercepted, corrupted, lost, destroyed, arrive late or incomplete, or contain viruses. The sender therefore does not accept liability for any errors or omissions in the contents of this message which arise as a result of e-mail transmission. If verification is required please request a hard-copy version. This message is provided for informational purposes and should not be construed as a solicitation or offer to buy or sell any securities or related financial instruments.

Gomez, Barbara M(J38509)

From: Bjorneby, Paul [paul.bjorneby@lehman.com]
Sent: Wednesday, May 07, 2003 11:38 AM
To: Gomez, Barbara M(J38509)
Subject: RE: URGENT REQUEST re APS INTEREST RATE

Based on current market conditions, the coupon on the security described below would be 3.75%.

The underwriting fee on the security would be 50 bps (or .5% of the face value).

Paul Bjorneby
LEHMAN BROTHERS
Global Debt Capital Markets
745 7th Avenue, 3rd Floor
(212) 526-4469
paul.bjorneby@lehman.com

-----Original Message-----

From: Barbara.Gomez@pinnaclewest.com [mailto:Barbara.Gomez@pinnaclewest.com]

Sent: Wednesday, May 07, 2003 10:25 AM

To: Bjorneby, Paul

Subject: FW: URGENT REQUEST re APS INTEREST RATE

> In order to determine the interest rate on the inter-company loan from APS to PWEC we need to establish what the interest rate would be on APS debt sold on equivalent terms. Would you please provide me with your estimate of the coupon rate on APS debt with the following terms:

- > * 4 year maturity
- > * secured
- > * callable

> I need a point estimate, not a range.

> Please e-mail me your response by noon today, New York City time.

- > Thank you!
- > Barbara M. Gomez
- > Treasurer, APS

This message is intended only for the personal and confidential use of the designated recipient(s) named above. If you are not the intended recipient of this message you are hereby notified that any review, dissemination, distribution or copying of this message is strictly prohibited. This communication is for information purposes only and should not be regarded as an offer to sell or as a solicitation of an offer to buy any financial product, an official confirmation of any transaction, or as an official statement of Lehman Brothers. Email transmission cannot be guaranteed to be secure or error-free. Therefore, we do not represent that this information is complete or accurate and it should not be relied upon as such. All information is subject to change without notice.

Gomez, Barbara M(J38509)

From: Saegusa, Yukari [FI] [yukari.saegusa@citigroup.com]
Sent: Wednesday, May 07, 2003 8:12 AM
To: Gomez, Barbara M(J38509)
Subject: Re: URGENT REQUEST re APS INTEREST RATE

4 year fixed rate is 3.82%.

-----Original Message-----

From: Barbara.Gomez@pinnaclewest.com <Barbara.Gomez@pinnaclewest.com>
To: Saegusa, Yukari [FI] <ys50974@imcnam.ssmb.com>
Sent: Wed May 07 10:23:40 2003
Subject: URGENT REQUEST re APS INTEREST RATE

In order to determine the interest rate on the inter-company loan from APS to PWEC we need to establish what the interest rate would be on APS debt sold on equivalent terms. Would you please provide me with your estimate of the coupon rate on APS debt with the following terms:

- * 4 year maturity
- * secured
- * callable

I need a point estimate, not a range.

Please e-mail me your response by noon today, New York City time.

Thank you!
Barbara M. Gomez
Treasurer, APS

Gomez, Barbara M(J38509)

From: ANISHA.MEHRA@jpmorgan.com
Sent: Wednesday, May 07, 2003 2:58 PM
To: Gomez, Barbara M(J38509)
Cc: Peter.Madonia@jpmorgan.com; McGill, James T(Z71171)
Subject: RE: FW: URGENT REQUEST re APS INTEREST RATE

Sorry for the delay in getting back to you. As we discussed, such a structure doesn't really exist in the fixed rate market so we had to do some creative thinking to come up with a theoretical price. We would be happy to discuss our methodology with you at your convenience. We believe the fixed rate coupon (assuming no fees) would be 4.10%.

Please feel free to call us if you have any questions. Thanks.

Barbara.Gomez@pinnac
lewest.com
05/07/2003 03:57 PM
INTEREST RATE

To: ANISHA.MEHRA@jpmorgan.com
cc:
Subject: RE: FW: URGENT REQUEST re APS

Not a problem -- get it as soon as you can!

-----Original Message-----

From: ANISHA.MEHRA@jpmorgan.com [mailto:ANISHA.MEHRA@jpmorgan.com]
Sent: Wednesday, May 07, 2003 12:55 PM
To: Gomez, Barbara M(J38509)
Subject: Re: FW: URGENT REQUEST re APS INTEREST RATE

We are working on the following, however, we may not be able to get you a response by 4 pm. I will try and respond as close to 4 pm as possible.
Thanks.

Barbara.Gomez@pinnac
lewest.com
anisha.mehra@jpmorgan.com
05/07/2003 02:32 PM
re APS INTEREST RATE

To:
cc:
Subject: FW: URGENT REQUEST

> In order to determine the interest rate on the inter-company loan from APS to PWEC we need to establish what the interest rate would be on APS debt sold on equivalent terms. Would you please provide me with your estimate of the coupon rate on APS debt with the following terms:

- > * 4 year maturity
- > * secured
- > * callable

>
> I need a point estimate, not a range.

> Please e-mail me your response by 4pm today, New York City time.

- > Thank you!
- > Barbara M. Gomez
- > Treasurer, APS