



0000056357

Transcript Exhibit(s)

Docket #(s): E-010320-00-0751

Magruder-1, 2

AVIA-1, RUCO-1

S-1, S-2, JA-1

JA2, JA-3

Exhibit # : _____

Case Prepared By _____

SUMMARY OF CASE

UTILITIES DIVISION

DOCKET NO. E-01032C-00-0751, etc. TYPE OF CASE _____

RECEIVED

2003 MAY -8 P 12: 25

APPLICANT
RESPONDENT
COMPLAINANT Citizens Communications + Utilities Service AZ CORP COMMISSION
DOCUMENT CONTROL

APPLICATION SUBMITTED BY _____

PLACE Phoenix DATE 5-1, 5-2, 5-5 2003

BEFORE: Chairman _____

Commissioner William Mendell

Commissioner Michael Gleason

Hearing Officer Dwight D. Nokes, ACAW

APPEARANCES: (For Applicants) Lewis + Rose by Thomas H. Campbell + Michael Hallam

For RUCO-Scott Wakefield; For SW Gas Corp- Andrew W. Bettway;

For Mohave County- John White, Atty Deputy County Attorney

APPEARANCES: (In Opposition) For Santa Cruz County - Holly Hawon

Deputy County Attorney; For City of Nogales - Hugh Halub, Attorney

at Law. For AVIA - Walter Meek, President; Marshall

Magunder - pro per

APPEARANCES: (Staff) Jason Gellman, Lisa Vandenberg, Staff

Attorneys, Legal Div.

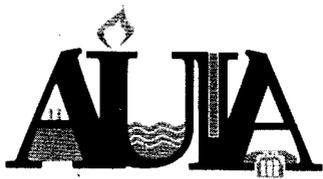
DISPOSITION OF CASE Under advisement

Dawn G Clayton

Ceceli Brozman

Official Reporter

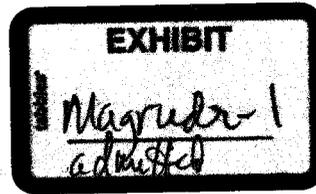
COMMISSION REMARKS: _____



P. O. Box 34805

Phoenix, Arizona 85067-4805

OCT 2001



PRSRT STD
U.S. POSTAGE
PAID
PHOENIX, AZ
PERMIT NO. 3



*****AUTO**MIXED AADC 852
MARSHALL & LUCY MAGRUDER 16
PO BOX 1267
TUBAC, AZ 85646-1267

AUIA BOARD OF DIRECTORS

Wayne Anderson • Scottsdale

Jim Apperson • Phoenix

Diane Cusack • Scottsdale

Bill Fisher • Scottsdale

Judy Gignac • Sierra Vista

Dave Iwanski • Phoenix

Anne Kleindienst • Phoenix

Sally Kur • Phoenix

Albert L. McHenry, Ph.D • Tempe

Neil Nobel • Phoenix

Bob O'Leary, Chairman • Phoenix

Keith D. Sprinkle • Scottsdale

Bill Meek, President

AUIA

P. O. Box 34805

Phoenix, Arizona 85067-4805

Ph: (602) 257-9200

Fax: (602) 254-4300

E-mail: info@auia.org

www.auia.org

HIGHER RATES PROPOSED FOR "LITTLE CALIFORNIA"



It's good news and bad news for consumers in Little California.

That's the two-county area of Arizona where Citizens Communications Company serves 70,000 electric customers and the major exception to Arizona's ability to avoid California's energy woes.

The good news is that Citizens has negotiated a new power supply contract with Arizona Public Service Company (APS), a move that may have saved its customers as much as \$70 million this year.

The bad news is that electric rates in Mohave and Santa Cruz counties will still have to go up to pay for Citizens' previous losses and ongoing higher energy costs.

Citizens has no base load generation of its own and buys its power from APS. The old APS contract allowed for adjustments to reflect market conditions and in the summer and fall of 2000, Citizens saw its power costs rise 150% and it spent \$54 million more than it could collect from customers under its authorized rates. Since last fall, Citizens' unreimbursed costs have risen to \$87 million.

The new APS contract, effective June 1, stopped most of the bleeding. It provides for a price of 5.9 cents per kilowatt-hour (kWh) over seven years. That's up from 4.8 cents per kWh under the old contract, but the new price is fixed, with no adjustments for market volatility.

Citizens paid 12 cents per kWh during the summer of 2000 and as much as 20 cents in May 2001. The company says it saved \$15 million in June under the new contract.

Nevertheless, Citizens is asking the Arizona Corporation Commission to let it raise rates by about 2.7 cents per kWh over seven years to recover the uncollected \$87 million and to cover the ongoing cost of the APS contract.

If the increase is granted, Citizens estimates it would add about \$16 a month to a typical residential bill in Kingman and Nogales and about \$25 a month in Lake Havasu City.

The ACC has not scheduled a hearing on Citizens' application.

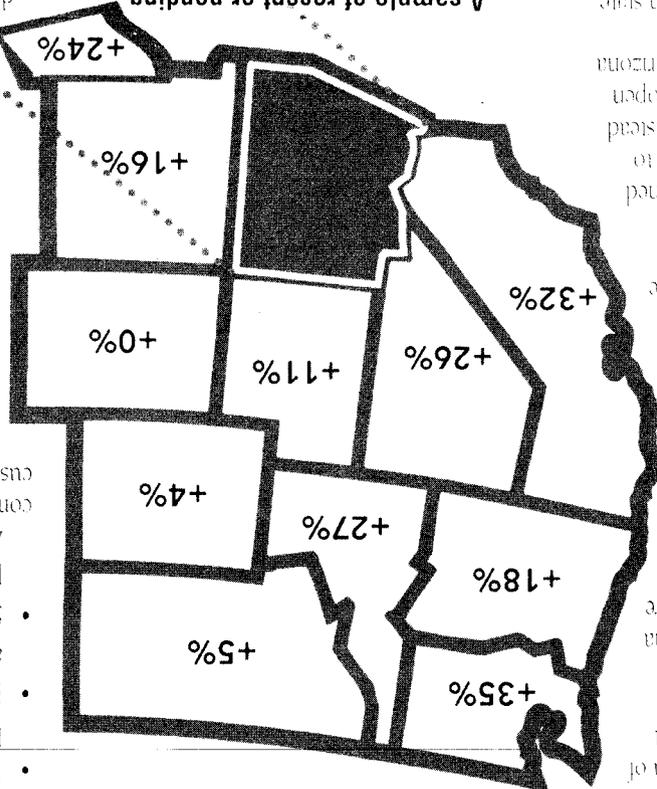
WELCOME TO ARIZONA ISLAND — THE ELECTRIC PARADISE

- Power shortages punctuated by rolling blackouts and forced business shutdowns.
- Price increases for electric customers averaging 32%.
- State government in control of electric power purchases.

At its high point in 1998, California retail competition drew only about 2.5% of residential customers and 13% of industrial and commercial customers who chose new power suppliers. Expired contracts reduced those numbers substantially before the CPUC acted on Sept. 20.

Arizona's situation is that retail choice is available, but there are no viable suppliers offering alternative power supplies to consumers. Wholesale power prices have been too volatile to encourage end users or retail marketers to enter the competitive market.

Arizona regulators have until the end of 2004, when rate caps start to expire, to evaluate the condition of the western market and determine the states future place to be.



Since 1998
 APS -5.6%
 SRP -5.4%
 TEP -3.1%



- half years, it left this legacy.
- About \$1.3 billion of private utility debt.
- \$12.5 billion of public debt.
- The states largest electric utility in bankruptcy.
- its second largest utility headed there.

Arizona has become an island in a sea of rising electric costs and failed attempts at deregulation.

According to figures compiled by Arizona Public Service Co. (APS), Arizona is the only one of 11 western states where electric rates are going down.

Since 1998, when Arizona embarked on electric deregulation, the states major utilities — APS, Salt River Project and Tucson Electric Power — have lowered rates. APS has scheduled further reductions in 2002 and 2003. Meanwhile, rates are going up in nearly all other western states.

Arizona is different for two key reasons. First, Arizona utilities have planned ahead and are able, more often than not, to rely on their own generation resources instead of buying more expensive power on the open market. Second, retail electric prices in Arizona are capped through 2004.

Today, Arizona is also the only western state in which electric deregulation is still in process. In all other western states, electric competition has been rejected or put on hold.

On Sept. 20, the California Public Utilities Commission (CPUC) quietly ended that states disastrous experiment with deregulation by eliminating the right of California consumers to choose their electric power providers. Although California deregulation lasted only three-and-a-

The water probably will taste the same, but 100,000 water customers of Citizens Communications Company will see a succession of owners over the next couple of years, each one bigger than the last.

First, Citizens water operations are being sold to Arizona-American Water Company, a subsidiary of American Water Works (NYSE: AWW) for approximately \$231 million.

The Arizona Corporation Commission approved the sale last April and it is expected to close in mid-October.

American Water Works, based in Voorhees, N.J., is the largest privately-owned water utility operator in the United States, providing water, waste-water and other services to some 10 million people in 23 states and 1,300 communities. The company had operating revenues of \$1.4 billion last year.

Division, which serves developing west side communities, and systems in Sun City, Sun City West, Lake Havasu City and Tubac.

But nothing lasts forever.

On September 16, in the first merger announcement after the World Trade Center attack, American Water Works agreed to be purchased by RWE AG, a German utility, for \$4.6 billion. The deal is a cash buyout for \$40 a share, 30% above American's average share price in August.

RWE is a multi-utility company with annual revenues of \$4.8 billion and 172,000 employees. It owns Thames Water, the largest water utility in the United Kingdom and the third largest in the world. Thames operates across the globe and has American operations based in Stamford, Conn.

Analysis believe the RWE purchase will take 18 to 24 months to be complete, including regulatory approvals in a number of states. When it is completed, American Water Works probably will be folded in with the Thames U.S. operation.

Marshall Magruder
April 4, 2003
Page 6

MM 6.76 – Joint Applicants believe that this language speaks for itself and object to the extent this request calls for a legal conclusion.

MM 6.77 – All intervenors' positions and testimony will be considered by the Administrative Law Judge at the May 1 hearing and by the Commissioners in an open meeting.

MM 6.78 – Joint Applicants sent you a reply on March 27, 2003.

Very truly yours,

LEWIS AND ROCA LLP

Thomas H. Campbell

THC/bjg

MM 6.65 – Please see Appendix C to the Settlement Agreement. Joint Applicants are not required under the Rules of Civil Procedure to perform additional analyses in response to discovery requests.

MM 6.66 – This provision only relates to recovery from retail ratepayers and does not address recovery from Pinnacle West Capital Corporation.

MM 6.67 – Object on the grounds this data request calls for a legal conclusion. As part of the Settlement Agreement, and as an incentive to UniSource to use good faith to renegotiate the agreement, the parties agreed that 40% of the benefit would go to UniSource.

MM 6.68 – In this sentence, parties means the parties to the Settlement Agreement.

MM 6.69 – The intent here is to maintain the current safety practices that exist.

MM 6.70 – See answer to MM 6.69.

MM 6.71 – Object to the extent the request calls for a legal conclusion. The parties to the Settlement Agreement believe that it is in the public interest to waive prudence reviews of expenditures prior to October 29, 2002, in exchange for other benefits from this transaction, including reduction of the rate base.

MM 6.72 – The current agreement is a fixed price contract.

MM 6.73 – The Negotiated Sales Program (“NSP”) was first approved in Arizona Corporation Commission Decision No: 59399 issued in November 1995, and reaffirmed by Decision No. 60423 issued in September 1997. The NSP permits Citizens Arizona Gas to compete for the gas commodity business of its transportation service-only customers in Northern Arizona. The current gas rate case now before the Commission proposes to expand participation in the NSP to qualifying customers in Santa Cruz County.

MM 6.74 – The notices will conform with all ACC requirements.

MM 6.75 – This Agreement is being filed in the Commission public docket on April 1, 2003, almost 120 days before the transaction occurs. Notice of this proceeding was given to customers prior to that time through bill inserts and newspaper publications. (Please see affidavit filed in this proceeding).

MM 6.50 – “Municipal aggregation” occurs when a municipality purchases power on behalf of multiple end users within the city limits pursuant to the ACC Electric Competition Rules.

MM 6.51 – Joint Applicants believe those words speak for themselves and object to this data request on the grounds it calls for a legal conclusion.

MM 6.52 – Please see answer to MM 6.27.

MM 6.53 – This information has previously been provided to you both in the settlement meetings and in Kevin Larson’s testimony. Please let me know if you need another copy of the two county bond financing hand-out provided to all participants in the second settlement meeting.

MM 6.54 – Please see answer to MM 6.7.

MM 6.55 – The purchase of these assets has already been approved by the UniSource Board of Directors.

MM 6.56 – UniSource Energy Corporation will pay the interest from its cash flow which includes dividend payments from its subsidiaries.

MM 6.57 – No request.

MM 6.58 – No request.

MM 6.59 – Object on the grounds this request is vague and ambiguous.

MM 6.60 – Object on the grounds this request is vague and ambiguous.

MM 6.61 – Object on the grounds this request calls for legal conclusions.

MM 6.62 – A time limit is not needed because the waiver is based on how the proceeds will be used.

MM 6.63 – Object on the grounds that this request is vague and ambiguous. See Citizens gas rate case filing and testimony for explanation of rate design.

MM 6.64 – The PWCC Agreement effective July 1, 2001.

Marshall Magruder

April 4, 2003

Page 3

MM 6.29 – Joint Applicants object on the grounds that this request is vague and ambiguous. What do you mean by the phrase “ratepayer cost was omitted?”

MM 6.30 – Joint Applicants object on the grounds that this is not a request, but merely a statement of your position.

MM 6.31 – Please see UniSource Annual Report and 10K materials.

MM 6.32 – The Joint Applicants and the ACC staff believe that this Settlement Agreement is in the public interest. The parties that you list will have an opportunity to comment on the Settlement Agreement and participate in a public hearing. The Commission will make the final decision as to whether this Settlement Agreement is in the public interest.

MM 6.33 – This Settlement Agreement is conditioned on gaining Commission approval in time for this transaction to close by July 28, 2003. The Commissioners will determine the date on which they will rule on this proposed settlement.

MM 6.34 – Joint Applicants object on the grounds this request calls for a legal conclusion.

MM 6.35 – The other parties to this proceeding were given the opportunity to file testimony and comments on April 21, 2003. The Administrative Law Judge and the Commission will consider these filings in reaching their determinations.

MM 6.36 – The Presidential Permits will be transferred as a result of this transaction.

MM 6.37 – The Commission’s normal procedure is to condition CC&N approvals and transfers on the filing franchises, licenses and other authorizations as a condition subsequent. This provision is consistent with Commission procedures.

MM 6.38 – See answer to MM 6.37.

MM 6.39 – No costs will be recovered from the ratepayers without Commission approval after an appropriate proceeding and hearing. Please also see the testimony of Kevin Larson.

MM 6.40 through MM 6.49 - See answer to MM 6.14.

MM 6.7 – The New Companies will be incorporated prior to closing and those articles of incorporation will be filed with the Commission.

MM 6.8 – The Joint Applicants and the City of Nogales are involved in negotiations regarding the franchise. In addition, there are on-going discussions with the City of Nogales' about the City's desire to purchase certain utility assets in Santa Cruz County. Those discussions are confidential and are not the subject of this proceeding.

MM 6.9 – Joint Applicants object to this request to the extent it calls for a legal conclusion. Notwithstanding that objection, the right to the PPFAC balance and the process for seeking that recovery was established by the Commission and is subject to review by the Commission.

MM 6.10 – Joint Applicants object on the grounds that it calls for a legal conclusion.

MM 6.11 – The attached Purchased Power and Fuel Adjustor Bank Balance Report shows the calculation of the under collection for the month of December 2002.

MM 6.12 – Joint Applicants object on the grounds that it calls for a legal conclusion.

MM 6.13 – Please see Part B of the Settlement Agreement that contains the terms of the financing, including the "hold harmless" provision. (See 16 (d))

MM 6-14 through MM 6-26 – These questions relate to retail competition in the current Citizens' service area and are neither relevant nor reasonably calculated to lead to admissible evidence in this case. The staff has requested a commitment from UniSource to open up these areas to retail electric competition by December 31, 2004. The details of that process are to be set forth in a filing with the Arizona Corporation Commission 120 days after the order in this case. Issues related to retail competition should be addressed in that proceeding. *See also* ACC Electric Competition Rules and related proceedings.

MM 6.27 – Please see ACC Decision #62103.

MM 6.28 – TEP has not developed a procedure for preparing this feasibility plan.

Phoenix Office
40 North Central Avenue
Phoenix, Arizona 85004-4429
Facsimile (602) 262-5747
Telephone (602) 262-5311

Tucson Office
One South Church Avenue
Suite 700
Tucson, Arizona 85701-1611
Facsimile (520) 622-3088
Telephone (520) 622-2090

Las Vegas Office
3993 Howard Hughes Parkway
Suite 600
Las Vegas, Nevada 89109
Facsimile (702) 949-8398
Telephone (702) 949-8200

Thomas H. Campbell
Direct Dial: (602) 262-5723
Direct Fax: (602) 734-3841
Internet: TCampbell@lrilaw.com
Admitted in Arizona

Our File Number 35867-0009

April 4, 2003

VIA EMAIL

Marshall and Lucy Magruder
P.O. Box 1267
Tubac, AZ 85646-1267

*Re: Joint Application for Sale of Assets
Docket Nos: E-01032C-00-0751; G-01032A-02-0598; E-
01933A-02-0914; E-01032C-02-0914; and
G-01032A-02-0914
Magruder Data Requests Six*

Dear Mr. and Ms. Magruder:

This letter is the Joint Applicants' response to Magruder Data Request Six, which contained 78 requests, some with subparts. After you have reviewed this letter, please feel free to call me to discuss.

MM 6.1 – You were provided copies of the attachments to the proposed settlement agreement on April 1.

MM 6.2 – The information requested is in your possession because you have attended by phone or in person each of the “all intervenors” meetings. In addition, the Joint Applicants met weekly with staff and had additional meetings with intervenors, including you.

MM 6.3 – See answer to 6.2. The invitation list was based on the Arizona Corporation Commission's service list in the consolidated proceedings.

MM 6.4 – Joint Applicants object to this request because it calls for information not in their possession and, to the extent it is in their possession, it is privileged and confidential settlement materials not admissible in this proceeding.

MM 6.5 – The referenced parties are the Staff and the Joint Applicants.

MM 6.6 – The principal negotiators were Mr. Ernest Johnson and Mr. Steve Glaser.

MM-6.72 On page 19, paragraph 39, since the PWCC agreement is for longer than three years, will electricity rates be stable until that agreement expires?

MM-6.73 On page 20, paragraph 40, could you define the scope and purpose of the "negotiated sales program" found in the last line.

MM-6.74 On page 20, paragraph 43, will the bill inserts use a readable font and size, such as Arial or New Times Roman at least 10 points in size, so that ratepayers can read the inserts?

MM-6.75 On page 20, paragraph 43, will this agreement be provided to ratepayers at least 60 days before the transaction occurs, so that ratepayers comments can be submitted to the ACC Consumer's Section?

MM-6.76 On page 21, paragraph 46, are the War on Terrorism or the Second Gulf War considered as force majeure?

MM-6.77 When will our Settlement Agreement Conditions be considered?

MM-6.78 When will we receive a reply to our Settlement Agreement Conditions?

MM-6.54 On page 10, paragraph 15, please indicate that that all of these entities shall be incorporated prior to the closing date of the Purchase Agreement.

MM-6.55 On page 11, paragraph 16, will the UniSource Board of Directors unanimous, super majority, or simple majority approval be required for this financial plan and final acquisition approval?

MM-6.56 On page 12, paragraph 16, in (b), what entity pays the interest rate for this loan? Will this interest be passed on to any ratepayers or passé on to shareholders.

MM-6.59 On page 12, paragraph 16, in (d), how will UniSource "demonstrable" the impacts of lower bond ratings will not impact ratepayers since interest rates will increase.

MM-6.60 On page 12, paragraph 16, in (d) last sentence, confirm that such cost will be requested in future TEP rate cases.

MM-6.61 On page 13, paragraph 17, since new companies are being formed in mostly rural areas, what is the rationale for not forming rural cooperatives in these areas, under management of UniSource.

MM-6.62 On page 13, paragraph 18, why does the requested waiver has no time limit.

MM-6.63 On page 14, paragraph 25, in (b) a 40% increase in monthly service charge. As this impacts all ratepayers, rationale for such an increase is requested.

MM-6.64 On page 15, paragraph 27, were these values derived from the PPWCC Agreement (effective 1 July 2001) or the older APS Agreement?

MM-6.65 On page 15, paragraph 27, please compare the present rates with those proposed.

MM-6.66 On page 15, paragraph 27, last sentence, will this permit Citizens to recover costs associated with its billing dispute with APS (PWCC)?

MM-6.67 On page 15, paragraph 28, second sentence, how can UniSource expect to claim 40% of the rate reduction since electricity costs are "passed through" from the wholesaler to the present distribution system? What is the legal basis for such a charge?

MM-6.68 On page 15, paragraph 28, third sentence; does "parties" mean UniSource and PWCC or the parties to these hearings.

MM-6.69 On page 16, paragraph 31, does this prohibit hiring of specialists, who have unique operational and maintenance expertise not presently in the labor pool?

MM-6.70 On page 16, paragraph 31, what is the benefit to safety, cost, or operations when additional, uniquely qualified personnel are prohibited from being hired to augment the present work force?

MM-6.71 On page 18, paragraph 36, why should the Commission be prohibited from conducting such reviews of a public service company under its jurisdiction?

MM-6.54 On page 10, paragraph 15, please indicate that that all of these entities shall be incorporated prior to the closing date of the Purchase Agreement.

MM-6.55 On page 11, paragraph 16, will the UniSource Board of Directors unanimous, super majority, or simple majority approval be required for this financial plan and final acquisition approval?

MM-6.56 On page 12, paragraph 16, in (b), what entity pays the interest rate for this loan? Will this interest be passed on to any ratepayers or passé on to shareholders.

MM-6.59 On page 12, paragraph 16, in (d), how will UniSource "demonstrable" the impacts of lower bond ratings will not impact ratepayers since interest rates will increase.

MM-6.60 On page 12, paragraph 16, in (d) last sentence, confirm that such cost will be requested in future TEP rate cases.

MM-6.61 On page 13, paragraph 17, since new companies are being formed in mostly rural areas, what is the rationale for not forming rural cooperatives in these areas, under management of UniSource.

MM-6.62 On page 13, paragraph 18, why does the requested waiver has no time limit.

MM-6.63 On page 14, paragraph 25, in (b) a 40% increase in monthly service charge. As this impacts all ratepayers, rationale for such an increase is requested.

MM-6.64 On page 15, paragraph 27, were these values derived from the PPWCC Agreement (effective 1 July 2001) or the older APS Agreement?

MM-6.65 On page 15, paragraph 27, please compare the present rates with those proposed.

MM-6.66 On page 15, paragraph 27, last sentence, will this permit Citizens to recover costs associated with its billing dispute with APS (PWCC)?

MM-6.67 On page 15, paragraph 28, second sentence, how can UniSource expect to claim 40% of the rate reduction since electricity costs are "passed through" from the wholesaler to the present distribution system? What is the legal basis for such a charge?

MM-6.68 On page 15, paragraph 28, third sentence, does "parties" mean UniSource and PWCC or the parties to these hearings.

MM-6.69 On page 16, paragraph 31, does this prohibit hiring of specialists, who have unique operational and maintenance expertise not presently in the labor pool?

MM-6.70 On page 16, paragraph 31, what is the benefit to safety, cost, or operations when additional, uniquely qualified personnel are prohibited from being hired to augment the present work force?

MM-6.71 On page 18, paragraph 36, why should the Commission be prohibited from conducting such reviews of a public service company under its jurisdiction?

MM-6.26 Page 4, under (e), what mechanisms will be in place before retail competition commences that ensure fair and reasonable charges are passed to the ratepayers.

MM-6.27 Page 4, under (f), please confirm that the TEP (or UniSource) can file this rate case earlier than the three years after the purchase specified on page 19 in paragraph 39.

MM-6.28 Page 4, under (f), will the feasibility plan include real and actual public participation and public open meetings to ensure that the ratepayers concerns in Santa Cruz County are considered.

MM-6.29 On page 4, under (f), in second sentence, is there any rationale or basis that "ratepayer cost" was omitted as an objective for this study.

MM-6.30 On page 4, under (g), this does not appear to be a unique statement as Citizens was already a participant under EPS. If UniSource would want to double the EPS requirements, then such a statement would be valid.

MM-6.31 On page 5, under (i), please provide rationale, as also requested in Data Request Five, that supports UniSource (not TEP's) reputations so claimed.

MM-6.32 On page 5, paragraph 1, first sentence, as proposed, only the utility companies and ACC Staff are indicated as signatures for the Settlement Agreement. The terms "Parties" and "manner consistent with the public interest" fails to include the public represented by RUCO, Santa Cruz County, Mohave County, City of Nogales, and at least one ratepayer. How can such a claim can be made without any of those entities supporting this Agreement.

MM-6.33 On page 5, paragraph 1, in (3), the date July 28, 2003 implies that "approval must be given in a timely fashion" is an Applicant's self imposed deadline. This process must be timely and deadlines met, however "must be given" should not be accomplished as a primary goal, but only as a reasonable secondary objective. Why the Commissioners 'must' meet any such deadline (repeated several times) when other factors may intervene.

MM-6.34 On page 5, paragraph 1, third line from bottom, the word "unreasonable" appears to be too strong as most Parties do not agree with the Applicants efforts under the "old" and "new" electricity purchase contracts which must result in "fair and reasonable" rates. Please define the use of unreasonable in the context of this statement.

MM-6.35 On pages 6 and 7, paragraphs 3 to 7, discusses modifications of this proposed agreement. Can the other Parties to these hearings submit an Alternate Settlement Agreement for consideration by the Commissioners? In this reply, indicate if such an Alternate Settle Agreement from the other Parties could include, say a new Article Three for consideration.

MM-6.36 On page 7, paragraph 8, the Citizens Presidential permits to export electricity to Mexico are not included. Will these permits also be transferred on the closing date?

MM-6.37 On page 7, paragraph 8, last sentence on page, states that "copies" of franchise, license, and authorization documentation need to be filed up to a year after the decision. Why are these documents not filed for review and approval prior to the transfer of CC&Ns for each service area.

provide any legal reference that imprudent actions (see my Testimony of 8 November 2002) are reimbursable by ratepayers.

MM-6.11 Page 3, under (a), please provide how the amount of "under-collected" PPFAC balance has been calculated.

MM-6.12 Page 3, under (a), please provide any basis or argument for UniSource to "forfeit" a right that it may not possess.

MM-6.13 Page 4, under (d), please provide enforceable mechanisms to ensure "their customers will not be harmed by the acquisition."

MM-6.14 Page 4, under (e), does the date of December 31, 2004, please indicate the date that the procedure will be issued, the date that the procedure will commence the process, and the date that retail electrical competition will have been implemented?

MM-6.15 Page 4, under (e), what does "opening up the new ElecCo's service territories" mean?

MM-6.16 Page 4, under (e), what is basis being used to establish retail competition since none is being held in this state.

MM-6.17 Page 4, under (e), please show how retail competition can be conducted if the wholesale price is fixed by the PWCC Agreement of July 2001.

MM-6.18 Page 4, under (e), how can other companies import electricity to Santa Cruz County without going through the present and/or proposed transmission lines that UniSource will control and receive transmission charges?

MM-6.19 Page 4, under (e), who will determine the transmission or wheeling charge?

MM-6.20 Page 4, under (e), please confirm that local distributed generation sources, within the service territories will be able to continue providing electricity.

MM-6.21 Page 4, under (e), please confirm that a local generation company will be able to compete for these retail services.

MM-6.22 Page 4, under (e), please confirm that a rural electrical cooperatives and municipal utilities will be able to compete for these retail services.

MM-6.23 Page 4, under (e), please indicate the steps and the approval process that will be required to establish retail competition, including any federal, state, county, and other agency approvals.

MM-6.24 Page 4, under (e), what will happen if any county or city does not approve retail competition in its area of jurisdiction?

MM-6.25 Page 4, under (e), will 25-year voter approved franchise agreements be subject to competition?

Attachment 1

Magruder Data Request Six

MM-6.1 Please provide a copy of all attachments, exhibits and addenda to the proposed "Settlement Agreement" forward on 27 March 2003.

MM-6.2 On page 2, under first WHEREAS, please provide the dates of all meetings held since 21 January 2003 that were announced by a "notice of meetings" and any other meetings held that pertained to the proposed agreement.

MM-6.3 On page 2, under first WHEREAS, please provide a list of all interveners and all other participants at these meetings, including telephonically, that were invited to any meeting held after 21 January 2003 on this proposed agreement.

MM-6.4 On page 2, under first WHEREAS, please provide a copy of all notes, minutes, handouts, or other records taken during any meeting held after 21 January 2003 which involved any parties of these proceedings.

MM-6.5 On page 2, under second WHEREAS, as used, does "Parties" include all parties or only the utility companies and the ACC Staff?

MM-6.6 On page 2, under second WHEREAS, please provide a list the principal "Party" participants and each other person who participated during these negotiations for each utility company and the ACC Staff.

MM-6.7 On page 2, under third WHEREAS, at this stage of preparation for agreement on the purchase application, the names and organizations for each element should have been determined. The Holding Company has been named in some UniSource documentation. Since all of these companies have to be incorporated prior to completion of the acquisition, please provide rationale for not using these relationships that will be determined and specified in the various Articles of Incorporation that will be submitted to the ACC as these entities must exist prior to approval of the Purchase Agreement.

MM-6.8 On page 2, under fourth WHEREAS, during the telephonic settlement agreement working meeting, held on 21 January, the lack of a franchise by the City of Nogales was mentioned as being a necessary element for acceptance by that Party of any Settlement Agreement. Please provide the status on that issue, as progress on resolution and acceptance of a franchise after the Purchase Agreement has been approved will be remote since the only action available to the City of Nogales will be condemnation.

MM-6.9 On page 3, under second WHEREAS (a), the expression "forfeit the right to pursue the recovery from retail ratepayers at the Commission of any of the under-collected Purchase Power and Fuel Adjustor Clause ("PPFAC") balance..." implies that UniSource will have some "right" to recover these funds. Please provide rationale as to how "retail" ratepayers are responsible for a billing dispute between a purchaser of electricity, namely Citizens, and a wholesaler, namely Pinnacle West (and its various subsidiaries). (also on page 15, paragraph 27)

MM-6.10 Page 3, under (a), please provide any legal reference that requires retail ratepayers to settle billing disputes between its electrical distribution company and its supplier. Please also

Magruder letter of 28 March 2003 -Data Request Six

1 | Exhibit B-4

2 |

Marshall and Lucy Magruder
47 Saddlehorn Road
Post Office Box 1267
Tubac, Arizona 85646-1267
520 (398-9587)

28 March 2003

Mr. Thomas H. Campbell
Lewis and Roca, LLP
40 North Central Avenue
Phoenix, Arizona 85004-4429

(via e-mail, original mailed)

Subject: Magruder Data Request Six

References:

(a) Proposed "Settlement Agreement: UniSource Energy Corporation's Acquisition of Citizens Communications Company's Gas and Electricity Utility Assets" forwarded by email from Jason Gillman, ACC Attorney, on 27 March 2003

(b) Joint Applications (Docket Nos. E-01032C-00-0751, G-01032C-02-0598, E-1933A-02-0914, E-0132C-02-0914, G-01032A-02-0914)

Dear Mr. Campbell:

1. Proposed "Settlement Agreement." As indicated in reference (a), additional data appears necessary to ensure we understand these for the cases indicated in reference (b).

These Data Requests are continuing in nature.

We would appreciate responses before 10:00 AM on 31 March. Respond on the Internet is preferred to marshall@magruder.org and lucy@magruder.org.

Thank you.

Sincerely,

/s/
Lucy Magruder

/s.
Marshall Magruder

Attachments:

1 -Magruder Data Request Six

Magruder letter of 28 March 2003 -Data Request Six

**LEWIS
AND
ROCA
LLP
LAWYERS**

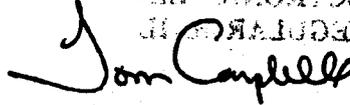
**Marshall Magruder
March 27, 2003
Page 2**

**LEWIS
AND
ROCA
LLP**

Please contact me if you have questions about the enclosed Settlement Agreement. Staff is scheduling a meeting of all parties on March 31 to discuss this Settlement Agreement. I hope you will be able to participate

Very truly yours,

LEWIS AND ROCA LLP



Thomas H. Campbell

**THC/bjg
Enclosure**

**cc: Christopher Kempley/Jason Gellman
Scott Wakefield/Daniel W. Pozefsky
John White
Holly Hawn/Martha Chase
Jose Machado/Hugh Holub**

Exhibit B-3

**LEWIS
AND
ROCA**
—LLP—
LAWYERS

Phoenix Office
40 North Central Avenue
Phoenix, Arizona 85004-4429
Facsimile (602) 262-5747
Telephone (602) 262-5311

Tucson Office
One South Church Avenue
Suite 700
Tucson, Arizona 85701-1611
Facsimile (520) 622-3088
Telephone (520) 622-2090

Las Vegas Office
3993 Howard Hughes Parkway
Suite 600
Las Vegas, Nevada 89109
Facsimile (702) 949-8398
Telephone (702) 949-8200

Thomas H. Campbell
Direct Dial: (602) 262-5723
Direct Fax: (602) 734-3841
Internet: TCampbell@lrhw.com
Admitted in Arizona

Our File Number 35867-00069

March 27, 2003

**SENT ELECTRONICALLY
AND BY REGULAR MAIL**

Marshall Magruder
P.O. Box 1267
Tubac, AZ 85646-1267

Re: Joint Application
Docket No: E-01933A-02-0914, et al.

Dear Mr. Magruder:

Thank you for your letter of March 20, 2003 proposing potential settlement conditions.

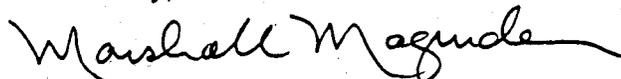
Enclosed with this letter is a Settlement Agreement between the Arizona Corporation Commission Staff and the Joint Applicants. This Settlement Agreement addresses many of the issues raised in your letter. For instance, UniSource agrees to forfeit payment of the PPFAC balance from retail ratepayers, to pursue a renegotiation of the June 2001 Pinnacle West Capital Corporation – Citizens Power Purchase agreement, to file appropriate municipal franchises and to comply with the Environmental Portfolio Standard. Some of the issues raised in your letter, such as demand side management programs, are more appropriately addressed in future ACC proceedings.

The Joint Applicants believe the enclosed Settlement Agreement is a reasonable and fair resolution of this matter and that approval of the Settlement Agreement is in the best interest of Arizona.

- demand reduction shall be the measure for accomplishment. To ensure effective implementation, all consumer electricity rates shall be reduced for the next twelve months by the percentage (to four places) when the annual goals above are not achieved.
- 3.2 Renewable energy programs, including solar hot water heaters, shall be included in the product line for UNS. The following goals shall be established, tracked and reported as a supplemental part of the regular UNS Semi-Annual DSM report. : By end of first 12 months, 1 % of consumers will have solar hot water heating, at 24 months, 3 % will have solar hot water heating, at 36 months, 6 % will have solar hot water heating, and, at 48 months, 10% will have hot water hearing. Half of the energy savings from this one program could be used as DSM credit in 3.1 above. UNS will work with solar hot water heater vendors in service area counties.
 - 3.3 UNS currently has other energy efficiency programs, which shall be proposed when the Purchase agreement is implemented.
 - 3.4 A group of not less than ten electricity ratepayers (non-utility employees) in each county: Mohave and Santa Cruz, shall be established to monitor these programs and provide an addendum to each Semi-Annual DSM report describing how public interaction is progressing and provide public feedback and ideas generated that have been accepted by the utility. UNS shall provide meeting facilities, administrative support, including insertion of flyers in monthly billings, when this group so recommends.

The Settlement Agreement proposal by UNS fails to resolve the three issues above required for acceptance. Until such an agreement is proposed, I must remain a dissenting party. Closure on these issues is very important to those who live, work and use energy in Santa Cruz County.

Sincerely,



Marshall Magruder

Copies mailed to:

Mr. Christopher Kempley, Chief Counsel
Mr. Jason Gellman, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Holly Hawn
Ms. Martha Chase
Santa Cruz County Attorney's Office
2150 North Congress Drive, Suite 201
Nogales, Arizona 85621

Mr. Scott Wakefield
Mr. Daniel W. Pozefsky
Residential Utility Consumer Office (RUCO)
1100 West Washington Street, Suite 220
Phoenix, Arizona 85007

Mr. Jose Machado, City Attorney
Mr. Hugh Holub, Attorney
City of Nogales
777 North Grand Avenue
Nogales, Arizona 85621

Mr. John White, Deputy County Attorney
Mohave County Attorney's Office
Post Office Box 7000
Kingman, Arizona 86402

2.2 The new "agreement" that meets (2.1) above shall go into force on the closing date of the sale of Citizens Arizona assets to UNS.

2.3 There shall also be a franchise application accepted by the City of Nogales.

An Alternative to 2.1, 2.2 and 2.3 above would be that UNS actively pursue the development of a local power plant in Santa Cruz County. This power plant development shall include permanently canceling the proposed TEP Transmission Line system from South Station to Nogales and building a local generation source to meet the ACC's mandate for a second source in this county. Such an application shall be submitted by the time the Citizens purchase is completed. There shall also be a franchise application accepted by the City of Nogales to resolve the long-term uncertainty in Santa Cruz County.

3. Resolution of Reduced Consumer Costs through Economical and Efficient Energy Risk Management Means. Although Citizens submitted some measures for approval, there has been no follow up during the past two and half years. Such measures are considered essential whenever a utility company requests increased rates. Again, imprudent decisions caused this lapse. Under new ownership, I would expect the Citizens service areas utility to vigorously pursue both economical and efficient improvements. This should be a synergistic effort between natural gas and electricity companies. A review of Citizens "demand side management" (DSM) showed a "shell" to obtain rebates. It failed basic tests of return on investment. DSM is a major cost saving mechanism, if properly implemented, to reduce the "demand side" of the business. DSM saves costs for both the utility and consumers. In Arizona -- where peak demands are realistically predictable -- managing demand through effective monitoring, measurement and feedback of significant customers is required. Financial incentives to ratepayers are, for example, used nationally to manage and control electrical demand during peak periods. Savings in capital and Operation & Management expenses are paid back in an effective DSM program. Other programs can save capital expense also. For example, local renewable energy use can be increased, transmission/distribution lines shortened to reduce energy losses, efficiency improved through modern generation and regeneration equipment, and probably, natural gas heating. Solar hot water heating has high, rapid payback, lowers energy (gas or electricity) demands and can reduce residential energy costs by 20 to 25%.

To resolve these issues, I would agree to a Settlement Agreement that included the following four conditions:

3.1 A significant and effective demand side management program shall be developed and implemented within two months of purchase. This program must provide economic incentives to ratepayers to reduce electricity demand during peak demand periods. The initial DSM plan should reduce ratepayer electricity demand by 5% within 12 months of implementation; reduce customer electricity demand at least 10 % and natural gas customer demand by 5% within 48 months after the Citizens purchase. Customer electricity demand will be measured in terms of kW-hr per ratepayer per year. Semi-Annual DSM reports to all parties will track progress towards these goals. Further, a "feedback" mechanism will be implemented so consumers can participate in providing suggestions and recommendations for energy saving mechanisms. This program can be augmented by other conservation measures, but customer

however, as prior submissions stated, a minor adjustment by the Western Area Power Administration (WAPA) is not being disputed. The claims by UNS that UNS will not come to ratepayers for collecting are immaterial. "Claiming" that up to \$134 million is not being pursued by UNS is not a UNS issue. This is an issue between Citizens and APS. Citizens has a right to claim damages if overcharged, especially after paying billings under protest. My 8 November 2002 testimony listed over a dozen imprudent decisions by Citizens in this matter. It is Citizen's right to continue making such decisions; however, their consequences are not reimbursable by its customers. A UNS spokesperson recently was quoted as saying these rate increases are to improve reliability and fund capital improvements not made by Citizens. This is obviously not the reason.

To resolve this issue, I would agree to a Settlement Agreement that included the following two conditions:

- 1.1 UNS, and its subsidiaries, shall agree not pursue collection of Citizens' disputed charges from its future ratepayers.
 - 1.2 UNS shall cease making misleading statements with regard to the pending Settlement in public announcements, news releases and other media and ratepayer contacts. This includes revising testimony of your witnesses to state that UNS is not involved in the APS and Citizens dispute and that UNS will not claim nor will UNS collect this amount from its future ratepayers. Such statements are, in my opinion, false, misleading and are propaganda to gain undeserved goodwill.
2. Resolution of the PWCC New Contract. As previously stated, the new, wholesale rate in the PWCC Agreement is excessive. In February 2003, the UNS CEO stated the annual wholesale rate was \$27.00 per MW-hr for 2002. APS said its Palo Verde production costs were \$12.80 per MW-hr for 2002. The new PWCC Agreement, for which approval is being sought under the ongoing joint proceedings, is for \$58.79 per MW-hr. The old APS contract was \$40.20 per MW-hr. Predictions are that electricity wholesale prices will decrease for the next few years in Arizona due to over 50% excess generation in Arizona. Therefore, any increase in the wholesale rate is without justification. It seems obvious that Citizens negotiated this proposed PWCC Agreement under stressful conditions, in May-June 2001, in a manipulated, out-of-control wholesale market environment. Those market conditions and possible multi-billion dollar excessive charges are under investigation by several legal entities. The only way to determine a fair price is to use market prices and forecasts. Such a zero-based cost estimation would indicate a goal near to \$35.00 per MW-hr is reasonable. UNS stated during its February First Call that it expects to purchase electricity in the wholesale market at between \$32 and \$34 this year.

To resolve this issue, I would agree to a Settlement Agreement that included the following three conditions or by one alternate condition:

- 2.1 UNS shall have signed an agreement with PWCC or another supplier at a wholesale price near a goal of \$35.00 per MW-hr. If this cannot be reached, then incentives shall be included in such an agreement that will benefit consumers by lowering rates through efficiency measures (see 3 below), at a maximum wholesale cost of \$40.00 per MW-hr.

Marshall Magruder
PO Box 1267
Tubac, Arizona 85646
(520) 398-8587

20 March 2003

Mr. Thomas H. Campbell
Mr. Michael T. Hallam
Lewis and Roca LLP
40 North Central Avenue
Phoenix, Arizona 85004

Subject: Settlement Conditions

Ref: Docket Numbers E-01032C-00-0751 (PPFAC), G-01032C-02-0598 (Gas Rates) and E-01933A-02-0914, E-01032C-02-0914 and G-0132A-02-0914 (Joint Application)

In September 2000, Citizens Communications ("Citizens") applied to the Arizona Corporation Commission (Commission) to change the purchased power rate for the utility customers based on charges under an Agreement with Arizona Public Service Company (APS). Citizens proposed to conduct an analysis to determine the basis for these charges. Citizens paid APS these "excessive charges" "under protest."

In September 2001, as amended, Citizens applied to the Commission for:

- (1) Approval to increase the Purchase Power and Fuel Adjustment Clause (PPFAC) rates to collect unrecovered revenues under the APS Contract,
- (2) Approval of a new purchase power contract with Pinnacle West Capital Corporation (PWCC), and
- (3) Approval of ways to reduce future costs through various economic and efficient energy risk management means.

To date, these three issues have not been resolved.

On 28 October 2002, UniSource Energy Corporation (UNS) agreed to purchase Citizens' assets in Arizona. UNS applied to the Commission for approval of that agreement. In January 2003, UNS started a settlement process with the parties in the PPFAC and the natural gas rate cases.

As a party to the original PPFAC case, I feel resolution of these three issues is necessary before continuing. As a party to the original PPFAC case, I feel that in order to close these, the following conditions would be expected in the settlement:

1. Resolution of the APS and Citizens Dispute. The request for collection of unrecovered revenues should never have been requested of the ratepayers before dispute resolution. My testimony and submissions on 8 November 2002, 17 September 2002, 13 March 2002 and 19 February 2002 stated this request to ratepayers was unfair, not justifiable and should have submitted to APS for resolution before attempting to recover from ratepayers. There are doubts as to basis of the amount being requested;

[Table excerpt]

Cost of Services
(\$ in thousands)
 For the three months ending June 30
 For the six months ending June 30

| |
|-----------|
| 2002 |
| 2001 |
| \$ Change |
| % Change |
| 2002 |
| 2001 |
| \$Change |
| %Change |

Electric energy and fuel oil purchased

| |
|------------|
| \$28,987 |
| \$29,969 |
| \$ (982) |
| -3% |
| \$55,667 |
| \$59,655 |
| \$ (3,988) |
| -7% |

Citizens
 SEC Form
 10-Q for Qtr
 ending 30
 June 2002

Pages
 26 and
 27

... Electric energy and fuel oil purchased for the three and six months ended June 30, 2002 decreased as compared with the prior year periods primarily due to lower purchase power prices. Under tariff provisions, the cost of our electric energy and fuel oil purchases are primarily passed on to customers.

During the past two years, power supply costs have fluctuated substantially, forcing companies in some cases to pay higher operating costs to operate their electric businesses. In Arizona, **excessive power costs charged by our power supplier in the amount of approximately \$111.3 million through June 30, 2002 have been incurred.** We believe that we are allowed to recover these charges from ratepayers through the Purchase Power Fuel Adjustment clause, that was approved by the Arizona Corporation Commission and has been in place for several years. However, in an attempt to limit "rate shock" to our customers, we requested in September 2001 that our unrecovered power costs, plus interest, be recovered over a seven-year period. As a result, we have deferred these costs on the balance sheet in anticipation of recovering through the regulatory process. Parts of our proposal have been contested by one or more parties to a pending Arizona Commission proceeding convened to consider the matter. A determination regarding recovery could be made in 2002 but the timing is not certain.

Citizens
SEC Form
10-Q for Qtr
ending 31
March 2002

Pages
17, 23,
and 24

(16) Commitments and Contingencies:

On December 21, 2001, we entered into a settlement agreement resolving all claims in a class action lawsuit pending against the company in Santa Cruz County, Arizona (*Chilcote, et al v. Citizens Utilities Company*, No. CV 98-471). The lawsuit arose from claims by a class of plaintiffs that includes all of our electric customers in Santa Cruz County for damages resulting from several power outages that occurred during the period January 1, 1997, through January 31, 1999. Under the terms of the settlement agreement, and without any admission of guilt or wrongdoing by us, we will pay the class members \$5.5 million in satisfaction of all claims. The court approved the settlement agreement on March 29, 2002, and the lawsuit against us was dismissed with prejudice. We have accrued the full settlement amount, plus an additional amount sufficient to cover legal fees and other related expenses, during the fourth quarter of 2001....[page 23] [Table excerpt]

Cost of Services

(\$ in thousands)

For the three months ending March 31

| | 2002 | 2001 | % Change |
|--|----------|----------|----------|
| Electric energy and fuel oil purchased | \$26,680 | \$29,686 | -10% |

... [page 24] Electric energy and fuel oil purchased for the three months ended March 31, 2002 decreased \$3.0 million, or 10%, as compared with the prior year period primarily due to lower purchase power prices and decreased consumption. Under tariff provisions, the cost of electric energy and fuel oil purchases are primarily passed on to customers. During the past two years, power supply costs have fluctuated substantially, forcing companies in some cases to pay higher operating costs to operate their electric businesses. In Arizona, **excessive power costs charged by our power supplier in the amount of approximately \$105 million through March 31, 2002 have been incurred. We are allowed to recover these charges from ratepayers through the Purchase Power Fuel Adjustment clause.** However, in an attempt to limit "rate shock" to our customers, we requested in September 2001 that this deferred amount, plus interest, be recovered over a seven-year period. As a result, we have deferred these costs on the balance sheet in anticipation of recovering through the regulatory process.

Document

Quote

Citizens
SEC Form
10-Q for Qtr
ending 30
September
2001

Pages
20 and
31

During the past two years the decrease in the availability of power in certain areas of the country has caused power supply costs to increase substantially, forcing companies to pay higher operating costs to operate their electric businesses. As a result, companies have attempted to offset these increased costs by either renegotiating prices with their power suppliers or passing these additional costs on to their customers through a rate proceeding. In Arizona, excessive power costs charged by our power supplier in the amount of approximately \$98 million through September 30, 2001, have been incurred. We are allowed to recover these charges from ratepayers through the Purchase Power Fuel Adjustment clause. In an attempt to limit "rate shock" to our customers, we will request in September 2001 that this deferred amount, plus interest, be recovered over a seven-year period. As a result, we have deferred these costs on the balance sheet in anticipation of recovering through the regulatory process.

On July 16, 2001, Citizens terminated our existing contract with Arizona Public Service and entered into a new seven-year purchase power agreement. This agreement allows us to purchase all power required for operations at a fixed rate per kilowatt hour. This agreement is retroactive to June 1, 2001 and will mitigate further increases in the deferred power cost account.
[page 31] [Table excerpt]

Cost of Services

(\$ in thousands)

For the three months ending September 30
For the six months ending September 30

| | |
|--|----------|
| | 2001 |
| | 2000 |
| | % Change |
| | 2001 |
| | 2000 |
| | % Change |
| Electric energy and fuel oil purchased | |
| | \$36,149 |
| | \$32,540 |
| | 11% |
| | \$95,804 |
| | \$84,514 |
| | 13% |

... During the past two years ... [same as page 20] ... in anticipation of recovering through the regulatory process.

On July 16, 2001, Citizens terminated ... [same as page 20] ... will mitigate further increases in the deferred power cost account.

Citizens
SEC Form
10-Q for Qtr
ending 30
June 2001

Page 25

[Table excerpt]

(\$ in thousands)

Cost of Services

For the three months ending June 30
For the six months ending June 30

| | |
|--|----------|
| | 2001 |
| | 2000 |
| | % Change |
| | 2001 |
| | 2000 |
| | % Change |
| Electric energy and fuel oil purchased | |
| | \$29,969 |
| | \$27,801 |
| | 8% |
| | \$59,655 |
| | \$51,974 |
| | 15% |

... Electric energy and fuel oil purchased for the three and six months ended June 30, 2001 increased \$2.2 million, or 8%, and \$7.7 million, or 15% respectively, as compared with the prior year periods, primarily due to higher purchased power prices. During the past two years the decrease in the availability of power in certain areas of the country has caused power supply costs to increase substantially, forcing companies to pay higher operating costs to operate their electric businesses. As a result, companies have attempted to offset these increased costs by either renegotiating prices with their power suppliers or passing these additional costs on to their customers through a rate proceeding. In Arizona, excessive power costs charged by our power supplier in the amount of approximately \$88 million through June 30, 2001, has been incurred. We are allowed to recover these charges from ratepayers through the Purchase Power Fuel Adjustment clause. In an attempt to limit "rate shock" to our customers, we will request that this deferred amount, plus interest, be recovered over a extended time period. As a result, we have deferred these costs on the balance sheet in anticipation of recovering through the regulatory process. On July 16, 2001, Citizens terminated its existing contract with Arizona Public Service and entered into a new seven year purchase power agreement. This agreement allows us to purchase all power required for operations at a fixed rate per kilowatt hour. This agreement is retroactive to June 1, 2001 and will minimize any further increase in the deferred power cost account.

| Document | Quote | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|-------------------------|---|-----------|------|------|--|--|----------|--|--|--|----------|--|----------|--|--|--|-----------|--|------|--|----------|--|-----|--|--|--|--|--|----------|--|-----|--|--|
| Quarterly SEC 10-Q for Quarter ending 31 March 2001 | Page 19 | <p>[Table excerpt]</p> <p style="text-align: center;">Cost of Services</p> <p style="text-align: center;">(\$ in thousands)</p> <p style="text-align: center;">For the three months ended March 31</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 10%; text-align: center;">2001</th> <th style="width: 10%; text-align: center;">2000</th> <th style="width: 10%;"></th> </tr> <tr> <th></th> <th colspan="2" style="text-align: center;">% Change</th> <th></th> </tr> </thead> <tbody> <tr> <td>Electric energy and fuel oil purchased</td> <td></td> <td></td> <td style="text-align: right;">\$29,686</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">\$24,173</td> </tr> <tr> <td></td> <td colspan="2" style="text-align: center;">23 %</td> <td></td> </tr> </tbody> </table> <p>... Electric energy and fuel oil purchased for the three months ended March 31, 2001, increased \$5.5 million, or 23%, as compared with the prior year period primarily due to higher purchase power prices. For [There was no mention of these PPFAC proceedings in this report.]</p> | | 2001 | 2000 | | | % Change | | | Electric energy and fuel oil purchased | | | \$29,686 | | | | \$24,173 | | 23 % | | | | | | | | | | | | | | |
| | 2001 | 2000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | % Change | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Electric energy and fuel oil purchased | | | \$29,686 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | \$24,173 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 23 % | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| SEC Form 10-K dated 8 March 2001 (inserted and bound in the Citizens 2000 Annual Report) | Pages 11, 21, 26 and 30 | <p>... [page 11] During the past year the decrease in the availability of power has caused power supply costs to increase substantially, forcing companies to pay higher operating costs to operate their electric businesses. As a result, companies have attempted to offset these increased costs by either renegotiating prices with their power suppliers or passing these additional costs on to their customers through a rate proceeding. In Arizona, we are currently disputing excessive power costs charged by our power supplier in the amount of approximately \$57 million through December 31, 2000. We are allowed to recover these charges from ratepayers through the Purchased Power Fuel Adjustment clause. In an attempt to limit "rate shock" to our customers, we have deferred these costs on the balance sheet in anticipation of recovering certain amounts either through renegotiations or through the regulatory process.</p> <p>... [page 21] During the past year ... [same as page 11] ... through renegotiations or through the regulatory process.</p> <p>... [page 26] During the past year ... [same as page 11] ... through renegotiations or through the regulatory process.</p> <p>[Table excerpt]</p> <p style="text-align: center;">Cost of Services</p> <table style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 80%;"></th> <th style="width: 10%; text-align: center;">2000</th> <th style="width: 10%; text-align: center;">1999</th> <th style="width: 10%;"></th> </tr> <tr> <th></th> <th colspan="2" style="text-align: center;">Amount</th> <th></th> </tr> <tr> <th></th> <th colspan="2" style="text-align: center;">% Change</th> <th></th> </tr> </thead> <tbody> <tr> <td>Electric energy and fuel oil purchased</td> <td></td> <td></td> <td style="text-align: right;">\$113,965</td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">\$98,533</td> </tr> <tr> <td></td> <td colspan="2" style="text-align: center;">16%</td> <td></td> </tr> <tr> <td></td> <td></td> <td></td> <td style="text-align: right;">\$87,930</td> </tr> <tr> <td></td> <td colspan="2" style="text-align: center;">12%</td> <td></td> </tr> </tbody> </table> <p>... Electric energy and fuel oil purchased increased \$15.4 million or 16% primarily due to higher supplier prices and increased consumption. Electric energy and fuel oil purchased increased \$10.6 million, or 12%, in 1999 primarily due to increased consumption and consumer growth. Under tariff provisions, increases in our costs of electric energy and fuel oil purchased are largely passed on to customers. Gas, electric energy and fuel purchased excludes amounts deferred for future recovery in rates.</p> <p>... [page 30] During the past year ... [same as page 11] ... through renegotiations or through the regulatory process.</p> | | 2000 | 1999 | | | Amount | | | | % Change | | | Electric energy and fuel oil purchased | | | \$113,965 | | | | \$98,533 | | 16% | | | | | | \$87,930 | | 12% | | |
| | 2000 | 1999 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | Amount | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | % Change | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Electric energy and fuel oil purchased | | | \$113,965 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | \$98,533 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 16% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | | \$87,930 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | 12% | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

| Document | | Quote | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|--|---------|---|-------------------|--|------------------|--|------|--|------|------|--|--|--------|----------|--|--|--------|----------|--|--|--------|--|--|--|-----------|--|--|--|-----|----------|--|--|-----|----------|
| Citizens 2000 Annual Report (c.a. February 2001) | Page 26 | <p>[Table excerpt]</p> <table border="1"> <thead> <tr> <th colspan="2" data-bbox="445 223 630 266">(\$ in thousands)</th> <th colspan="2" data-bbox="882 223 1066 266">Cost of Services</th> </tr> <tr> <th data-bbox="445 287 512 329">1998</th> <th data-bbox="445 351 512 393"></th> <th data-bbox="949 287 1016 329">2000</th> <th data-bbox="949 351 1016 393">1999</th> </tr> <tr> <td></td> <td></td> <th data-bbox="932 436 1033 478">Amount</th> <th data-bbox="932 478 1033 521">% Change</th> </tr> <tr> <td></td> <td></td> <th data-bbox="932 521 1033 563">Amount</th> <th data-bbox="932 563 1033 606">% Change</th> </tr> <tr> <td></td> <td></td> <th data-bbox="932 606 1033 649">Amount</th> <td></td> </tr> </thead> <tbody> <tr> <td data-bbox="445 606 848 649">Electric energy and fuel oil purchased</td> <td></td> <td data-bbox="1402 627 1503 670">\$113,965</td> <td></td> </tr> <tr> <td></td> <td></td> <td data-bbox="949 670 999 712">16%</td> <td data-bbox="1402 691 1503 734">\$98,533</td> </tr> <tr> <td></td> <td></td> <td data-bbox="949 734 999 776">12%</td> <td data-bbox="1402 755 1503 798">\$87,930</td> </tr> </tbody> </table> <p data-bbox="445 798 1503 946">... Electric energy and fuel oil purchased increased \$15.4 million, or 16%, in 2000 primarily due to higher supplier prices and increased consumption. Electric energy and fuel oil purchased increased \$10.6 million, or 12%, in 1999 primarily due to increased consumption and customer growth. Under tariff provisions, increases in our costs of electric energy and fuel oil purchased are largely passed on to customers. Gas, electric energy and fuel oil purchased excludes amounts deferred for future recovery in rates.</p> | (\$ in thousands) | | Cost of Services | | 1998 | | 2000 | 1999 | | | Amount | % Change | | | Amount | % Change | | | Amount | | Electric energy and fuel oil purchased | | \$113,965 | | | | 16% | \$98,533 | | | 12% | \$87,930 |
| (\$ in thousands) | | Cost of Services | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1998 | | 2000 | 1999 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Amount | % Change | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Amount | % Change | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Amount | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Electric energy and fuel oil purchased | | \$113,965 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 16% | \$98,533 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 12% | \$87,930 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Citizens 2000 Annual Report (c.a. February 2001) | Page 26 | <p>[Table excerpt]</p> <table border="1"> <thead> <tr> <th colspan="2" data-bbox="445 968 630 1010">(\$ in thousands)</th> <th colspan="2" data-bbox="882 968 1066 1010">Cost of Services</th> </tr> <tr> <th data-bbox="445 1032 512 1074">1998</th> <th data-bbox="445 1095 512 1138"></th> <th data-bbox="949 1032 1016 1074">2000</th> <th data-bbox="949 1095 1016 1138">1999</th> </tr> <tr> <td></td> <td></td> <th data-bbox="932 1159 1033 1202">Amount</th> <th data-bbox="932 1202 1033 1244">% Change</th> </tr> <tr> <td></td> <td></td> <th data-bbox="932 1244 1033 1287">Amount</th> <th data-bbox="932 1287 1033 1330">% Change</th> </tr> <tr> <td></td> <td></td> <th data-bbox="932 1330 1033 1372">Amount</th> <td></td> </tr> </thead> <tbody> <tr> <td data-bbox="445 1330 848 1372">Electric energy and fuel oil purchased</td> <td></td> <td data-bbox="1402 1351 1503 1393">\$113,965</td> <td></td> </tr> <tr> <td></td> <td></td> <td data-bbox="949 1393 999 1436">16%</td> <td data-bbox="1402 1415 1503 1457">\$98,533</td> </tr> <tr> <td></td> <td></td> <td data-bbox="949 1457 999 1500">12%</td> <td data-bbox="1402 1478 1503 1521">\$87,930</td> </tr> </tbody> </table> <p data-bbox="445 1521 1503 1685">... Electric energy and fuel oil purchased increased \$15.4 million, or 16%, in 2000 primarily due to higher supplier prices and increased consumption. Electric energy and fuel oil purchased increased \$10.6 million, or 12%, in 1999 primarily due to increased consumption and customer growth. Under tariff provisions, increases in our costs of electric energy and fuel oil purchased are largely passed on to customers. Gas, electric energy and fuel oil purchased excludes amounts deferred for future recovery in rates.</p> | (\$ in thousands) | | Cost of Services | | 1998 | | 2000 | 1999 | | | Amount | % Change | | | Amount | % Change | | | Amount | | Electric energy and fuel oil purchased | | \$113,965 | | | | 16% | \$98,533 | | | 12% | \$87,930 |
| (\$ in thousands) | | Cost of Services | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| 1998 | | 2000 | 1999 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Amount | % Change | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Amount | % Change | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | Amount | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Electric energy and fuel oil purchased | | \$113,965 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 16% | \$98,533 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| | | 12% | \$87,930 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

1
2
3
4
5
6

Exhibit B

Documentation Exhibits

The following Exhibits are contained herein:

| Exhibit | Exhibit Description | Reference in Testimony |
|--------------------|---|-------------------------------|
| Exhibit B-1 | Excerpts from Citizens Communications SEC Forms 10-Q and 10-K and Annual Reports | |
| Exhibit B-2 | Marshall Magruder letter, "Proposed Settlement Agreement Conditions" of 20 March 2003 | |
| Exhibit B-3 | Mr. Tom Campbell, Lewis & Roca LLC letter of 28 March 2003 [Reply to Magruder Proposed Settlement Conditions letter, Exhibit B-2] | |
| Exhibit B-4 | Marshall Magruder letter "Magruder Data Request Six" of 28 March 2003 | |
| Exhibit B-5 | Mr. Tom Campbell, Lewis & Roca LLC letter of 4 April 2003 [Reply to Magruder Data Request Six, Exhibit B-4] | |

7

1 build-to-implementation approach for major Army, Navy, Coast Guard, Air Force, DoD, and
2 the United Kingdom Minister of Defense programs.

3
4 Q. What is the purpose of your testimony?

5 A. My testimony represents my assessment of the Citizens Communications Company's (CZN)
6 application and amendments for its Purchase Power Fuel Adjustment (PPFAC) and some of
7 the issues involved with the purchase of CZN by UniSource. I have tried to make some helpful
8 and beneficial recommendations toward resolving the conflicts these applications present.

9
10 Q. What is your role in these hearings?

11 A. I am an Intervenor. I am not a Protestor. In some areas, I support the joint Applicants.

12
13 Q. What the goal for your testimony?

14 A. My goal is to achieve progress towards having a quality, integrated, electric and natural gas
15 utility system in Santa Cruz County. These hearings should protect all customers, ratepayers
16 and shareholders and the environment. All want all to be proud to be associated with my utility.

17
18 Q. Why did you submit testimony?

19 A. I submitted my testimony to facilitate all parties understanding the issues and their impacts on
20 consumers, residents and ratepayers in Santa Cruz County.⁷⁹

21
22 Q. Do you have in financial interest in this matter?

23 A. No. All of my efforts in these hearings are unpaid. I do not expect nor would I accept payment
24 or employment resulting from participation in these cases.⁸⁰

⁷⁹ I used the A.R.S. and A.A.R., from the Arizona State Legislature website, at www.az.gov for all statutory and administrative rule references in this Testimony. No attorney or attorneys provided such advice. This is the response to Citizens Data Request 1.06.

⁸⁰ Response to Citizens Data Request No. 1.01

1 in my "Operations Management for Total Quality" MBA classes. I have "forecast" very difficult
2 underwater acoustic and geophysical conditions for large and small areas worldwide and as a
3 proven and qualified naval geophysical subspecialist that routinely involved meteorology,
4 electromagnetic natural and temporal conditions, and oceanic environmental conditions. Using
5 knowledge from statistical, probabilistic, and numeric forecasting and predictions classes, I
6 have prepared business proposals nearly continuously for the past two decades, all of which
7 provided foreknowledge and understanding of forecasting.

8
9 Q. What experience do you have with electric systems?

10 A. At the US Naval Academy, my curriculum consisted of two years of electricity and electronics
11 classes and laboratory sessions with additional emphasis in other related engineering
12 courses. I have worked in a destroyer's engine room and boiler firerooms at all operational
13 positions providing operational and maintenance experiences from steam, gas turbine and
14 electric generation through distribution of electricity throughout the ship systems. Later in my
15 career, while qualifying to be an Engineering Department Head, I operated every engineering
16 positions in "casualty" modes, imposing outages, including "black ship" dead-in-the-water,
17 restart operations, again at all positions. I have lit-off boilers, synchronized electrical loads,
18 split and distributed electrical power, and even manually rerouted power with emergency
19 cables. As a naval instructor, I managed and coordinated afloat engineering training cruises
20 on gas turbine and steam-powered ships. I have also conducted operational and maintenance
21 inspections on fossil and nuclear-powered ships, including eight aircraft carriers. As the lead
22 systems engineer for new classes of aircraft carrier and surface combatant programs, I have
23 participated in the design of these electric-drive ships. The ships' propulsion systems will, in
24 essence, be large electric motors, as the US Navy transforms toward all-electric ships in the
25 next decade. These new aircraft carriers will have six times the electric generation capability
26 of today's carriers, in order to drive the electro-magnetic aircraft recovery system/electro-
27 magnetic aircraft launching system (EARS/EMALS) systems, directed energy weapons
28 systems and other information technology equipment.

29
30 I served as a member of the Academic Board at the US Naval Postgraduate School, where I
31 recommended and had approved an additional "electromagnetic compatibility" course for a
32 technical curriculum. As a systems architect, my recent consulting contracts have been
33 developing the operational, technical and systems architectures, using relational database
34 management systems to integrate, coordinate and correlate an interoperable design through a

1 procurements. I do this for industry and various federal and state government agencies as a
2 prime or as a subcontractor. I have led major program teams for several projects valued in
3 billions of dollars.
4

5 Q. What is your educational background?

6 A. I graduated from the United States Naval Academy in 1962 with a Bachelor of Science degree
7 with extra courses in operational and systems analysis; in 1970, from the United States Naval
8 Postgraduate School with a Master of Science degree in Physical Oceanography; and, in
9 1980, the University of Southern California with a Master of Science degree in Systems
10 Management (MSSM). In addition, I took post-masters level courses in electrical engineering
11 at the University of Rhode Island and while employed at Hughes Aircraft Company/Raytheon.
12 I participated in many technical, engineering and company management courses primarily
13 concerning engineering management, total systems analysis including total ownership and
14 life-cycle cost estimation, all phases of software development, system and program risk
15 management systems implementation and monitoring processes, and arranged and took the
16 only C4ISR Systems Architecture Implementation course on-site for fellow employees. I have
17 completed at least two-dozen income tax courses, varying in length from three to sixty-six
18 hours. As a naval instructor, consultant, and University of Phoenix MBA instructor, I have
19 taught tactical oceanography, underwater acoustics, anti-submarine warfare, joint command
20 and control, and operations management for over seven years.
21

22 Q. What is your primary experience with business management?

23 A. After a career in the US Navy, I was a senior systems engineer at Hughes Aircraft Company,
24 now Raytheon for almost 18 years. During most of that time, I was leading new, innovative
25 development projects, many times, working directly with and/or for the business development
26 or marketing department. In writing proposals, we always had to understand what our
27 customer said they wanted, what could be provided, and account for other natural, physical,
28 economic, and environmental factors. These factors required an in-depth understanding of the
29 customer, the total environment for the life of the item(s) to be developed, and forecast for
30 technology, customer demand and growth, and evolving markets in a transitional markets.
31

32 This required understanding forecasting.⁷⁸ A current basis for this understanding are the
33 courses I teach on business forecasting and the implementation of statistical process control

⁷⁸ This was provided in my response to Citizens Data Request 1.08.

1 **Exhibit A**

2 Additional Background Information

3
4 Q. Please provide additional background information about yourself.

5 A. At present, my consulting practice involves systems engineering and systems architecture for
6 military and aerospace companies. This year, for example, I performed consulting tasks for
7 Raytheon groups in San Diego and Fullerton, California and Marlborough, Massachusetts. I
8 performed tasks involving front-end systems engineering, architecture framework
9 development, interoperability planning, with reconfiguration analysis studies and presentations
10 for the Joint Command and Control Ship (JCCX Program Office) and developing an initial IT
11 architecture framework proposal for the Raytheon group in Plano Texas for the Objective
12 Force Warrior (OFW), Land Warrior III Program Office; the US Army at Fort Huachuca,
13 Arizona, for the Development Testing Command's Virtual Proving Ground (VPG), and Minister
14 of Defence in the United Kingdom, Defense Procurement Agency, Future Aircraft Carrier
15 (CVF) Programs Office, Abby Hill Station, Bristol, United Kingdom. I also prepare income
16 taxes for H&R Block as a seasonal employee and for the IRS Tax Consulting for the Elderly
17 program as AARP volunteer. I teach operations management and managing innovation
18 courses in the University of Phoenix MBA curricula. I was appointed and served as a
19 Commissioner on the Santa Cruz County/City of Nogales Energy Commission starting in
20 spring 2001.

21
22 Q. On whose behalf are you testifying in this proceeding?

23 A. I am testifying solely on my behalf as a resident, ratepayer, and concerned citizen of Santa
24 Cruz County and as an Arizona taxpayer who is interested in ensuring fair and equitable rates
25 with steady, reliable and efficient electrical service.⁷⁷

26
27 Q. Please describe your experience in more detail.

28 A. I have broad systems engineering background which has involved design and development of
29 large systems, varying from the Kingdom of Saudi Arabia to multi-state training ranges to
30 naval battle groups with platforms varying from aircraft carriers to all classes of warships to
31 individual soldiers with self-contained combat systems. As a systems engineer, I have
32 performed the preliminary front-end analyses, including site surveys, to assess the situation
33 that leads to defined requirements that are specified for various acquisitions and

⁷⁷ Response to Citizens Data Request 1.01.

1 A. No. I have not received a response from the Applicants for my Data Requests Five and Six. The
2 facts herein are from references that have been furnished by UniSource, Citizens or from my
3 files compiled during these hearings. Where unique references were considered important, they
4 are provided in the text. A few numbers were derived from data. When arithmetic was used to
5 change a value, it was described, and usually the steps are shown. When costs were in \$ per
6 kW-hr, they were changed to \$ per MW-hr throughout this testimony so consistent comparisons
7 can be easily made.

8 Thank you for your attention.

1 **Service List**

2 **ORIGINAL and 15 COPIES of the foregoing filed this 21st day of April 2003, with:**

3 Docket Control
4 Arizona Corporation Commission
5 1200 West Washington Street
6 Phoenix, Arizona 85007
7

8 **COPIES of the foregoing mailed this 21st day of April 2003 to:**

9 Dwight D. Nodes, Assistant Chief Administrative Law Judge
10 Christopher Kempley, Legal Division
11 Jason Gellman, Legal Division
Lisa V. VandenBerg, Legal Division
Ernest Johnson, Director Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Thomas H. Campbell
Michael T. Hallam
Lewis & Roca, LLP
40 N. Central Avenue
Phoenix, Arizona 85004

Steve W. Chiefetz and Robert J. Metti
Chiefetz & Iannitelli, P.C.
3238 North 16th Street
Phoenix, Arizona 85016

Scott Wakefield
Daniel W. Pozefsky
Residential Utility Consumer Office (RUCO)
2828 North Central Avenue, Suite 1200
Phoenix, Arizona 85004

Raymond S. Heyman
Roshka Heyman & DeWulf
400 East Van Buren, Suite 800
Phoenix, Arizona 95004

Martha S. Chase, County Attorney
Holly J. Hawn, Assistant County Attorney
Santa Cruz County Attorneys Office
2150 North Congress Drive, Suite 201
Nogales, Arizona 85621

John White, Deputy County Attorney
Mohave County Attorney's Office
P.O. Box 7000
Kingman, Arizona 86402

Jose Machado, City Attorney
Hugh Holub, Attorney
City of Nogales
777 North Grand Avenue
Nogales, Arizona 85621

Bill Meek, President
Arizona Utility Investor's Association (AUIA)
2100 North Central Avenue, Suite 210
Phoenix, Arizona 85004

L. Russell Mitten, General Counsel
Raymond Mason, Director of Corp. Regulatory Affairs
Citizens Communications Company
3 High Ridge Park
Stamford, Connecticut 06905

Gary Smith
Citizens Communications Company
2901 W. Shamrell Blvd., Suite 110
Flagstaff, Arizona 86001

Tom Ferry
Citizens Communications Company
P.O. Box 3099
Kingman, Arizona 86402-3099

Deborah R. Scott, Associate General Counsel
Citizens Communications Company
2901 N. Central Avenue, Suite 1660
Phoenix, Arizona 85012

John D. Draghi and Susan Mikes Doherty
Huber, Lawrence & Abell
605 3rd Avenue
New York, NY 10158

Nicholas J. Enoch
Lubin & Enoch, PC
349 North Fourth Avenue
Phoenix, Arizona 85003

Andrew Bettwy, Assistant General Counsel
Randall W. Sable, Manager State Regulatory Affairs
Southwest Gas Corporation
5241 Spring Mountain Road
Las Vegas, Nevada 89150

Robert A. Taylor, City Attorney
City of Kingman
310 North 4th Street
Kingman, Arizona 86401

1 None.

2
3 16. Facts and Conclusions for the proposed Settlement Agreement.

4 The proposed Settlement Agreement, see Part III above, failed to achieve its goals and needs
5 additional work which involves all "parties" to these hearings.
6
7

8 **Part VI – Recommendations for these Cases**

9
10 17. Recommendations for the PPFAC Case.

11
12 Q. What are your recommendations for reimbursement to Citizens as requested by the Amended
13 PPFAC Application?

14 A. The following Application requested reimbursements are recommended:

- 15 a. For any disputed fuel costs under the Old APS Agreement – zero
16 b. For non-disputed fuel, costs under the Old APS Agreement – after a judgment from
17 litigation, dispute resolution, or negotiations – then a future hearing can determine what is
18 fair and reasonable.
19 c. For interest on disputed fuel PPFAC Bank Loan costs under Old APS Agreement – zero
20 d. For increases in the rates from the New PWCC Agreement – to a value equal to the Old
21 Agreement rates to closing, e.g., no change for Citizens ratepayers.
22 e. For increases in rates for the WASA Agreement – as requested.
23 f. For risk management programs – zero

24
25 Q. What are your recommendations with respect to the Citizens Dispute with APS?

26 A. From **Exhibit B-2**,

27
28 Q. Do you have additional recommendations?

29 A. Yes, see my Comments of 13 March 2002 to this docket for recommendations, not included in
30 this testimony. Some of those recommendations were modified herein based on circumstances
31 and information received since then.
32

33 **Conclusion of Testimony.**

34 Q. Has this testimony been made by you without reservations?

1 A. Yes, the disputed terms should have been resolved in much shorter period of time so that they
2 would have been minimal or insignificant. Citizens failed to act in a timely, prudent manner to
3 prevent or to avoid more and excessive charges.
4

5 Q. Do you have any conclusions concerning the New Agreement and the Valencia turbines?

6 A. Yes, this contract fails to allow Citizens free use of its own generation capabilities to avoid higher
7 avoid charges by APS/PWC. This should be changed.
8

9 Q. Did the New Agreement solve the disputed billing charges of the Old Agreement?

10 A. No, the New Agreement did not solve the disputed billing charges from the Old Agreement.
11 Citizens failed to use all available means to recover these costs and interest other than this
12 Application for recovery from the ratepayers. This attempt to avoid collection from APS/PWCC is
13 unconscionable and shows an unethical corporate attitude towards its customers, who have no
14 option but to use Citizens as their electrical provider. Until the disputed costs have been
15 validated as not disputed costs, Citizens should not be reimbursed for them or any interest
16 associated with them.⁷⁶
17

18 Q. Do the WASA Agreement costs appear to be fair and reasonable?

19 A. These costs, as described in the Application, appear fair and reasonable and probably should be
20 recovered from the ratepayers.
21

22 Q. Should Citizens receive credit for developing DSM programs?

23 A. No, the DSM plan implemented by Citizens fails to shape the load. The ACC Staff has,
24 apparently, failed to provide appropriate and effective feedback to Citizens. Until the ACC Staff
25 reviews the Semi-Annual DSM Program Report must provide appropriate feedback to all utilities,
26 Citizens and the other utilities should not be permitted to deduct DSM expenses. There needs
27 to be measures and indicators that show actual DSM load-shaping results.
28

29 15. Facts and Conclusions for the Gas Case Case.

⁷⁶ In response to Magruder Data Request MM-3-02(15), Citizens responded "No amounts paid APS are currently in dispute." Also, Magruder Data Request MM-3.02(7) asked Citizens "Are all APS Monthly Purchase Power and Fuel Costs charges .. "paid under protest" to APS?". In response to this data request dated 3 January 2003, Citizens stated "The category "Purchased Power and Fuel costs" includes power supply bills received from APS, transmission service bills received from WAPA, and the cost of generation fuel consumed at the Valencia facility. No portion of such reported costs is in dispute at this time." [emphasis added]. Thus, as of January, 2003 after the Purchase Agreement had been made public, Citizens in its delayed reply to Magruder Data Request Three does not dispute the APS costs.

Table 5 Defects Observed in the Proposed Settlement Agreement.

| Location | Present Wording | Impact | Recommended Corrective Action |
|---------------------|------------------|---|---|
| | | investigations appears to prevent future investigations into illegal activity that are in the public interest. ⁷⁴ See suggested rewording. | |
| Page 19, ¶39, title | Rate Moratorium. | This paragraph discussed Rate Moratorium. When the current PPFAC case is concluded purchase power costs will remain constant, assuming the present PWCC Agreement remains a fixed price contract ⁷⁵ for 8 years, lasting through 31 May 2009. Only non-PPFAC issues would be included in a General Rate case. However, a new test year may be necessary, thus only energy loss charges appear change related. Suggest changing title and adding new sentence at end. | a. Suggest changing Title to: "General Rate Case Moratorium" b. Add new sentence at end to read: "New PPFAC cases will not be submitted until after the PWCC Purchase Agreement expires; however, if a test year is conducted during a general rate case, after the three years, an energy loss adjustment to PPFAC may be necessary." |

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16

Part IV – Joint Application for Approval of Sale of Electricity and Gas Utility Assets and Certificates of Convenience and Necessity (CC&N) from Citizens to UniSource Case, Dockets E-01933A-02-0914, E-01032C-02-0914, and G-01032A-02-0914

13. Joint Application Issues.

Q. Did you participate in the

Part V – Facts and Conclusions in these Cases

14. Facts and Conclusions for the PPFAC Case.

Q. Do you have any conclusions concerning the Old Agreement?

⁷⁴ In response to Magruder Data Request MM-6.71, the Joint Applicants stated "the parties to the Settlement Agreement believe that it is in the public interest to waive prudency reviews of expenditures prior to October 29, 2002, in exchange for other benefits from this transactions, including reduction of the rate base." Unfortunately, the gas rate request is to increase the rates about 28%.

⁷⁵ In response to Magruder Data Request MM-6.72, the Joint Applicants stated "the current agreement is a fixed price contract."

Table 5 Defects Observed in the Proposed Settlement Agreement.

| Location | Present Wording | Impact | Recommended Corrective Action |
|------------------------|---|--|--|
| | <p>only apply for the duration of the existing or renegotiated PWCC contract, whichever duration would expire sooner. Once that timeframe expires, any and all savings shall be passed through directly to ElecCo's customers."</p> | <p>problems with this open-ended "duration" being determined by the negotiators, for example, how long will this 40% be rewarded. Please see recommended rewording which could also be used for closure of negotiations prior to closing the Joint Application for purchase.</p> | |
| <p>Page 16, ¶31</p> | <p>"UniSource shall continue Citizens Arizona Gas Division's current practice of not using contract personnel for the performance of operation and maintenance functions, such as leak survey and valve maintenance."</p> | <p>This condition would prohibit UniSource from using qualified safety, cost, or operational specialists for short periods. This appears overly restrictive for any company as no company has all skills all the time.</p> | <p>Reword as follows: "UniSource shall continue Citizens Gas Division's current safety practice of not using contract personnel to perform any routine operational and maintenance functions, such as leak survey and valve maintenance. When skills are not available, short-term specialists maybe used in non O&M situations to provide safety, operational, training or other expertise not found in their labor pool. In general, only certified technicians, such as Certified American Corrosion Engineers, will be permitted to augment."</p> |
| <p>Page 19, ¶36(a)</p> | <p>"The Parties agree that the Commission shall not conduct any prudency reviews of Citizens' gas procurement practices, accounting practices or balances existing on or before October 29, 2002."</p> | <p>This implies that the Commission will not investigate any claims for procurement, accounting or balances prior to October 29, 2002. Ongoing FERC investigations have concluded that market manipulation, in particular in the natural gas market, was extraordinary during the 2000 to 2001 time period. In its August 2002 investigations FERC concluded that natural gas price indexes were unreliable, and on 26 March 2003 declared that natural gas market manipulation, including some in Arizona, was widespread and involved many parts of this industry. Without any possible implication of Citizens actions during this period, failure of the ACC to "not conduct" such</p> | <p>"The Parties agree that the Commission shall limit any future routine prudency reviews during the period prior to October 29, 2002. Prudency Reviews of Citizen's gas procurement practices, accounting practices or balances will only be performed in conjunction with other agencies, such as the Federal Energy Regulatory Agency, if fraud is suspected, or in conjunction with investigations which will protect the public interest."</p> |

Table 5 Defects Observed in the Proposed Settlement Agreement.

| Location | Present Wording | Impact | Recommended Corrective Action |
|------------------------------------|---|--|---|
| | right to pursue recovery from retail ratepayers of the PPFAC balance existing prior to and including the date of closing." | | from retail ratepayers any of the PPFAC balance that existed prior to date of closing; however, Citizens retains all rights to recover or receive refunds of any unrecovered charges from PWCC." |
| Page 15, ¶28 | First sentence. "This provision refers to the purchase power contract signed by Citizens and PWCC on June 1, 2001." | This sentence gives the wrong date of signing and fails to mention the effective date. The revised Citizens PPFAC Application of 21 September 2001, as shown in the title of this docket, requests approval of this Agreement. Since it is still being renegotiated, approval of the Purchase Power Agreement is premature, Closure of the PPFAC case depends upon completion of these negotiations and includes the renegotiated Agreement in this settlement agreement for approval, as requested by Citizens PPFAC Application. Thus, closure of the PPFAC case, a prerequisite prior to deciding on this final settlement agreement, is necessary for the UniSource purchase of Citizens. The PPFAC case remains suspended until the renegotiated Purchase Power Agreement is decided. | Suggest: "The provision refers to the Purchase Power Agreement signed by Citizens and PWCC on July 14, 2001 with an effective date of June 1, 2001. This contract is presently being renegotiated. Paragraphs 27 and 28 remain OPEN until completion of these negotiations. A new Purchase Power Agreement is provided for review, so that the Citizens purchase by UniSource can proceed towards closure." |
| Page 15 continuing to page 16, ¶28 | Fourth, fifth and sixth sentences: "Sixty (60) percent of the savings shall go directly towards the benefit of ElecCo's ratepayers and forty (40) percent of the savings shall go to UniSource. ⁷³ The above-described sharing from renegotiating the PWCC contract and/or amending the existing PWCC contract shall | Previously, Citizens repeatedly stated that purchase power costs were a "pass through" and no money was ever made on these transactions. What is proposed is a precedent- setting new charge, the "share" possible future savings on "pass through" with the company who is negotiating. A general fee, with some incentive, added to the next rate case, appears more appropriate. As presently worded, the higher rates will start upon closing. There are serious | Suggest: "All savings from the renegotiated agreement shall be passed through to the ElecCo's ratepayers. An incentive fee, equaling to forty (40) percent of the savings for six months, shall be awarded to UniSource. This fee should be favorably considered during the next UniSource rate case." |

relates to recovery from retail ratepayers and does not address recovery from Pinnacle West Capital Corporation."

⁷³ In response to Magruder Data Request MM-6.67, the Joint Applicants stated "the parties agreed that 40% of the benefit would go to UniSource." These "parties" are only the utility companies and ACC staff.

Table 5 Defects Observed in the Proposed Settlement Agreement

| Location | Present Wording | Impact | Recommended Corrective Action |
|------------------------|---|---|---|
| | | contract that extends until 31 May 2007. No goals are included to reduce retail ratepayer costs, which should be the primary objective for the feasibility study. | |
| Page 15, Part D. title | "Electric Purchase Power & Fuel Adjustor Clause ("PPFAC")" | PPFAC stands for Purchase Power and Fuel Adjustment Clause. | Change Part D title to: "Purchase Power and Fuel Adjustment Clause ("PPFAC")" |
| Page 15, ¶27 | First three sentences: "The Parties agree that effective from the date of the closing the purchase of Citizens' electric utility assets, the adjustor rate shall be set at \$0.01825 per kilowatt hour ("kWh"). The base rate for purchased power shall remain at \$0.05194 per kWh. The composition of the total cost for purchase power is set forth in the attached Appendix C." | This base rate of \$58.79 per MW-hr exceeds the old APS contract cost of generation by \$10.77/MW-hr (58.79 – 48.02 = \$10.77/MW-hr). This rate is between 50% and 100% higher than market. This base rate assumes an increase of 22.3% in the cost of generation and the decrease should be reflected. (Cost of production for APS Palo Verde Nuclear Generation Plan is \$12.70/MW-hr, last year's cost was \$27.00/MW-hr according to TEP's CEO. TEP's CFE predicted a \$32-34 range for 2003. Other data suggests lower purchased power costs are available in Arizona.) The PWC/APS agreement is onerously higher than fair market value. The decision whether or not this rate is fair and reasonable is the subject of the PPFAC hearings and has not been decided. The wording uses terms not in Appendix C. See reworded version to right; however, <u>this Intervenor does not agree with the values. Please note that paragraph 28 below discusses renegotiation of the Cost of Generation in this proposed PPFAC adjustment. Until those negotiations have been completed, the PPFAC clause Application by Citizens remains open. And unresolved.</u> | Change to read: "The utility and AAC Staff agree that effective from the date of closing of the purchase of Citizens' electric utility assets, the total cost of purchased power shall be \$0.07019 per kWh or \$70.19 per MWh as shown in the attached Appendix C. The present total cost equals the base rate of \$0.05194 per kWh (\$51.94 per MWh) which equals the Cost of Electric Generation (\$48.02/MWh) plus Energy transmission losses and charges (\$3.92/MWh). The PPFAC adjustment factor equals the change in cost of purchased power and change in transmission charges. The increased cost of purchased power is \$0.01392 per kWh (\$13.92 per MWh) (\$0.05879 - \$0.04802). The increase of WAPA costs transmission is \$0.00044 per kWh. The total PPFAC adjustment is the sum or \$0.01825." |
| Page 15, ¶27 | Last sentence: "UniSource, any of its subsidiaries, and Citizens shall forfeit their | This does not indicate that recovery from PWCC will still be permitted. ⁷² To clarify, please see rewording. | Last sentence: "UniSource, Citizens and any subsidiaries shall forfeit any claims or rights to recover |

⁷² Magruder Data Request MM-6-67 asked "will this permit Citizens to recover costs associated with its billing dispute with APS (PWCC)? The Joint Applicants response stated "This provision [prior to rewording] only

Table 5 Defects Observed in the Proposed Settlement Agreement.

| Location | Present Wording | Impact | Recommended Corrective Action |
|--------------|---|--|--|
| | four times. | prohibited from appealing a Commission Decision. | "Party" to read "Party or Intervenor" |
| Page 7, ¶8 | In lines 4 and 5 and 6: "...franchises, licenses and other similar authorizations.. | Citizens also has DOE Presidential permits to sell electricity to Mexico. These should also be transferred. ⁷⁰ There is no mention of an application to the DOE to transfer these international export permits. | In lines 4 and 5 and 6, change to read as: "...franchises, Presidential permits, licenses and other similar authorizations.. |
| Page 12, ¶11 | 11. <u>Opening ElecCos Service Territories to Retail Electric Competition.</u> Within one-hundred twenty (120) days of Commission approval of this Agreement, UniSource shall file for Commission approval a plan to open the ElecCo's service territories to retail electric competition. Topics which shall be addressed include, but are not limited to the following: (1) unbundled tariffs; (2) system benefits charges; (3) assisting new suppliers in using transmission; and (4) reliability must-run generation ("RMR"). The application shall include an implementation date to open the ElecCo's service territories to competition no later than December 31, 2004. UniSource further agrees to not oppose municipal aggregation in principle as part of any plan to make retail access more likely within ElecCo's service areas." | The issue of retail competition was not discussed with RUCO, Counties, Cities or individual intervenors prior to 28 March 2003. There are many unforeseen problems when two companies make ownership changes and several years may be necessary before efficient operations, higher reliability, and quality of service improve. These capabilities are what the ratepayers need. UniSource has not made prior mergers of this magnitude and is inexperienced in these challenges. There are no proven long-term (over 5 years) "retail" competition successes anywhere. All failed to meet expectations after 5 years. In view of extreme turmoil, cost, and very low benefit potential that the imposition on these already stressed ratepayers, a separate hearing on retail competition will be necessary and should not be a part of this agreement. Adding this condition by the ACC Staff ⁷¹ is a disservice to the present Citizens customers and strong opposition is expected. This will not help UniSource establish a good working relationship. UniSource is going to have its hands full maintaining the status quo long before making required improvements. In addition, starting retail competition in 2004 should not be attempted in an service area which has a fixed-price wholesale | Suggest: 11. Delete this paragraph. |

⁷⁰ See Joint Applicant's response to Magruder Data Request MM-6.36 of 18 April 2003 which states "these will be transferred as a result of this transaction."

⁷¹ In response to Magruder Data Request MM-6.14 to MM-6.26, the Joint Applicants stated "the staff requested a commitment from UniSource to open up these areas to retail competition by December 31, 2004."

Table 5 Defects Observed in the Proposed Settlement Agreement.

| Location | Present Wording | Impact | Recommended Corrective Action |
|------------|---|---|--|
| | Commission may require modifications to the terms hereof before accepting this Agreement." | Judge and Commissioners to make modifications to this Agreement. ⁶⁹ | such evaluation the Commission may require modifications to the terms hereof before accepting this Agreement." |
| Page 6, ¶4 | Last three lines: "... approval of the Agreement in a timely fashion so that the transaction can close by July 28, 2003, and thereafter the Parties shall abide by its terms." | This implies that if the Commission fails to approve this Agreement by July 28, 2003, then this Agreement will not be considered binding on the Parties. The only motivation for this is the early closure bonus of \$10 million, which does not impact UniSource financially. This condition needs to be relaxed as later closure may be more beneficial. The next paragraph permits Agreement modification as criterion for any of the signatory parties to object, which could be closing date. Recommend minor modification so that the Agreement in not null and void on 29 July 2003. | Suggest: "... approval of the Agreement in a timely fashion so that the transaction can close by July 28, 2003 or later if more beneficial, and thereafter the Parties including intervenors shall abide by its terms at closure." |
| Page 6, ¶5 | In the first sentence: "In the event that any signatory Party to this Agreement objects to any modifications to the terms of this Agreement made by the Commission, such Party shall timely file an Application for Rehearing... that Party shall be ... | As worded, this condition prohibits public sector Intervenor from filing for a Rehearing. The recommended action is to permit such possible filings for a rehearing. | Suggest: "In the event that any signatory Party or public sector Intervenor to this Agreement objects to any modifications to the terms of this Agreement made by the Commission, such Party or Intervenor shall timely file an Application for Rehearing... that Party or Intervenor shall be ... |
| Page 6, ¶6 | In the first sentence: "If a signatory Party files an Application for Rehearing that raises objections to any modifications of the terms or this agreement, then that Party shall deemed to have withdrawn... The withdrawing Party shall be ... and remaining Parties. | As worded, this condition prohibits any Intervenor from objecting to modifications of this agreement. The recommended action is to permit such objections. | Suggest: "If a signatory Party or intervenor files an Application for Rehearing that raises objections to any modifications of the terms or this agreement, then that Party or Intervenor shall be deemed to have withdrawn... The withdrawing Party or Intervenor shall be ... and remaining Parties and Intervenor." |
| Page 7, ¶7 | Similar to paragraph 5 and 6, the word "Party" | Similar to paragraph 5 and 6 above, Intervenor should not be | In the first line, third line, and fifth line (twice), change |

⁶⁹ See Joint Applicant's response to Magruder Data Request MM-6.33 of 18 April 2003.

Table 5 Defects Observed in the Proposed Settlement Agreement.

| Location | Present Wording | Impact | Recommended Corrective Action |
|---------------------|--|---|---|
| | Portfolio Standard ("EPS") | renewable improvements were proposed by UniSource. A EPS enhancement was added. | participation to exceed the Environmental Portfolio Standard ("EPS") levels by 0.5% by 2005." |
| Page 5, add new (k) | | Several times UniSource discusses quality; however, the universal quality management process, ISO 9000, is not implemented by Citizens. Business success has been directly correlated with ISO 9000 certification. In addition, the Environmental Management certification program using ISO 14400 results in significant cost reductions. Both are recommended to achieve risk reductions requested in the Citizens PPFAC application. | "(k) UniSource shall establish quality management programs for all Citizens assets by obtaining ISO 9000 quality management certification not later than 31 December 2005 and obtaining ISO 14400 environment management certification by 31 December 2006." |
| Page 5, ¶1 | First sentence: "The Parties agree that the purpose of this Agreement is to resolve contested matters in the Gas Rate Case, the PPFAC Case and the Joint Application in a manner consistent with the public interest." | The settlement negotiations to date did not involve public sector intervenors, including RUCO, Mohave County, Santa Cruz County, City of Nogales, City of Kingman, or private citizens including me, an appointed Commissioner on the Joint County-City Energy Commission. | Suggest: "The Parties consisting of the utilities and ACC Staff, agree that the purpose of this Agreement is to resolve all contested matters in the Gas Rate and PPFAC Cases, so that the Joint Application issues can be made consistent. These Parties considered public interest in making decisions that form this Agreement." |
| Page 5, ¶1 | Second sentence: "... such approval must be given in a timely fashion so that the transaction can close by July 28, 2003." | This implies that rapid approval is critical for these cases is based on a \$10M reduced cost to UniSource for closing by that date. \$10M amounts to about \$50 per ratepayer with no gain or loss to UniSource, who plans to use this \$10M as goodwill. | Suggest: "... such approval is requested by the Joint Applications by July 28, 2003, so they may receive the early transaction bonus of \$10M for ratepayers; however, if additional analysis which will benefit ratepayers by prudent decisions, then orderly closure by October 27, 2003 is requested." |
| Page 6, ¶3 | "3. <u>Commission Authority to Modify</u> . The Parties further recognize that the Commission will evaluate the terms of this Agreement, and that after such evaluation the | This statement seems to preclude comments by the public sector intervenors including Counties, Cities, and RUCO. The Joint Applications indicated the 21 April 2003 Testimony filings may be used by the Administrative Law | Suggest: " <u>3. Commission Authority to Modify</u> . The Parties recognize the Commission will evaluate the terms of this Agreement and the comments of all intervenors, and that after |

Table 5 Defects Observed in the Proposed Settlement Agreement.

| Location | Present Wording | Impact | Recommended Corrective Action |
|-----------------------------------|--|--|--|
| | 28, 2003. ⁶⁶ | | |
| Page 3, under third WHEREA S, (a) | In the third sentence, "Regardless of the actual amount of the PPFAC balance that exists at the time of the closing ..." | This implies that a legal ruling is necessary to determine the actual amount of the PPFAC balance. | Suggest the beginning of the third sentence read: "Any PPFAC balance that may possibly exist at the time of the closing..." |
| Page 3, under third WHEREA S, (a) | In the third sentence, "..., the right(s) to recover from retail ratepayers shall be forfeited by UniSource, any of its subsidiaries, and Citizens." | This also implies some "right" exists to recover from ratepayers the costs that resulted from an unresolved and disputed billing between a wholesale buyer and wholesale seller. | Suggest: "..., any possible right(s) to recover from retail ratepayers shall be forfeited by Citizens and UniSource including subsidiaries." |
| Page 4, under (e) | "UniSource shall put into place a procedure to commence the process of opening up the new ElecCo's service territories to retail electric competition by no later than December 31, 2004." | This new condition was not discussed with intervenors until 28 March and not at prior working meetings. There are several challenges to implementing "retail" competition while a new company is being formed and starting to manage this large service area. 1) The wholesale rate is fixed by the proposed New PWCC Agreement, severely restricting possible "retail" competition. This may be similar to the market structure collapse in California. 2) The fixed "wholesale" rate also restricts any possible "retail" gains. 3) UniSource has no experience in managing "retail" competition. 4) Lower retail rates are not a goal. 5) No ratepayers requested this be implemented. 6) No benefits have been presented in this case for such a program in a service area that is struggling to gain reliable and quality service. 7) Retail competition is not relevant to any of the docketed cases. | Suggest deleting (e), that is, any reference to "retail" competition. |
| Page 4, (g) | "UniSource shall ensure participation by ElecCo in the Environmental | Citizens already participates in EPS, so there is nothing new for UniSource to ensure. No | Suggest: "UniSource shall continue and expand the ElecCo |

⁶⁷ See Joint Applicants Response to Magruder Data Request MM-6.9, MM-6.10, and MM-6.12 of 28 March 2003, which states three times that the "Joint Applicants object on the grounds that it calls for a legal conclusion." See **Exhibit B-6**, page 2.

⁶⁸ A small Western Area Power Administration (WAPA) rate increase (\$0.00044 per kW-hr) for additional transmission wheeling charges is an exception and reimbursement for this cost has consistently been recommended by this intervenor. In response to Magruder Data Request MM-3-02(12), Citizens stated: "None of the WAPA charges during the period indicated were, or are in dispute."

Table 5 Defects Observed in the Proposed Settlement Agreement

| Location | Present Wording | Impact | Recommended Corrective Action |
|----------------------------------|--|--|---|
| | and comment.” | all intervenors. | meetings, with an opportunity to comment of the final version before coming to hearings. |
| Page 2, third ¶, et al. | “GasCo”, “ElecCo”, “HoldCo” and “New Companies” | As worded, this provides initial ambiguity in organizations, which will be defined prior to Commission decisions based on the required corporation filings necessary before closing. | Suggest: GasCo, ElecCo, HoldCo and New Companies to their real names to avoid confusion years after this agreement was implemented. |
| Page 2 | Third, Fourth, Fifth and Sixth paragraphs: “WHEREAS, the Parties... WHEREAS, UniSource... WHEREAS, the Parties... WHEREAS, the Parties...” | These four paragraphs concern the Joint Application and not the two cases as issue: PPFAC and Gas Rate Cases, therefore, they should be deleted. | Suggest deleting Third, Fourth, Fifth, and Sixth (which continues to page 3) paragraphs. |
| Page 3, third WEREAS | First line: “Parties agree that adoption of this Agreement is in the public interest ...” | The use of the term Parties in this sentence only means signatories, not the many Parties to these five cases. | Change “Parties” to read “signature Parties feel that adoption of this Agreement appears to be in the interest of the public...” |
| Page 3, under third WHEREAS, (a) | “UniSource shall, as part of this Agreement, forfeit its right to pursue the recovery from retail ratepayers of any under-collected Purchase Power and Fuel Adjuster Clause (“PPFAC”) balance, currently the subject of Docket No. E-01032C-00-0751, up through and including the date of closing of the purchase of Citizens’ Electric Assets and Gas Assets by UniSource. The forfeited PPFAC balance is currently estimated to be at least \$135 million as of July | As worded, it appears that a legal determination that some of “estimated” PPFAC balance is recoverable from the retail ratepayers has been made. This balance is from a wholesale “billing dispute.” This issue has not been adjudicated and is presently unresolved. A legal judgment is necessary to determine if any could be considered as reimbursable by ratepayers. ⁶⁷ At this point, there is nothing available to “forfeit”. ⁶⁸ The impact of this decision is critical, as the forfeited amount is considered “goodwill” and would be amortized for 37 years, significantly reducing income tax liabilities. | Suggest: “UniSource shall not hold the retail ratepayers liable for any Purchase Power and Fuel Adjustment Clause (PPFAC) balance due prior to closing date.” |

⁶⁶ See Joint Application of 18 December 2002, page 3, second paragraph, lines 7 to 9 which stated “and will be approximately \$138 million in July 2003, if a PPFAC base rate of \$0.07019 per kWh is adopted based on the current Pinnacle West – Citizens Contract

1 A. Upon receipt of this draft proposed SA on 27 March, I drafted Data Request Six⁶³ (**Exhibit B-4**)
 2 to clarify, modify and/or enhance the proposed SA which was sent by email (and mail) before
 3 10:00 AM on Friday 28 March 2003, prior to the Friday afternoon Negotiation Conference,
 4 hosted by the ACC Staff. The resultant response from the Joint Applicants shows that many of
 5 the more serious defects were not addressed (**Exhibit B-5**).⁶⁴

7 Q. Do you feel there any serious defects in the proposed Settlement Agreement and why?

8 A. Yes. Defects I consider needing immediate remedy are shown in Table 5 (listed in sequence, not
 9 priority). Table 5 also includes many, many smaller problems which could become significant.

Table 5 Defects Observed in the Proposed Settlement Agreement.

| Location | Present Wording | Impact | Recommended Corrective Action |
|---------------------------------|--|---|--|
| Page 1, title | Settlement Agreement – UniSource Energy Corporation’s Acquisition of Citizens Communications Company’s Gas and Electric Utility Assets | This implies that this agreement is primarily for the acquisition of Citizens by UniSource. The Procedural Order indicates this Agreement is a precursor to the acquisition. | Suggest: Settlement Agreement – Resolution of the Citizens Communications Company’s Applications and Related Issues for the PPFAC and Gas Rate Cases, as a Precursor, to the Purchase of Citizens Electric and Gas Assets by UniSource Energy Corporation |
| Page 1, first ¶, first sentence | In the first sentence: “...agree to the following proposed settlement agreement (“Agreement”) of the matters pending in Docket Nos. G-01032A-02-0598 (“Gas Rate Case”), E-01032C-00-0751 (“PPFAC Case”), and E-01933A-02-0914, E-01032C-02-0914, G-01302C-02-0914 ⁶⁵ (“Joint Application”) (collectively “Consolidated Cases”). | This implies that the proposed Settlement Agreement is comprehensive, that is covers all issues in five cases. Many items, in the PPFAC Case have not been addressed, for example, risk management and disputed cost. The emphasis seems to be changed from the original purpose of settlement agreement, which was to resolve all issues in the PPFAC and Gas Rate Cases, to a “consolidated” settlement agreement. Until PPFAC and Gas Rate cases are resolved, the Joint Application should be held in abeyance. | In the First change: “...agree to the following proposed settlement agreement (“Agreement”) of the matters pending in Docket Nos. G-01032A-02-0598 (“Gas Rate Case”), E-01032C-00-0751 (“PPFAC Case”), as a precursor to resolving issues in Docket Nos. E-01933A-02-0914, E-01032C-02-0914, G-01302C-02-0914 (“Joint Application”) (collectively “Consolidated Cases”). |
| Page 2, first ¶ | WHEREAS, all intervenors were provided ... with opportunity to participate | The intervenors were and are, to this point, only permitted to comment. The Parties drafted this agreement without participation of | Suggest: Whereas, the Parties provide notice of the settlement process and of intervenor |

⁶³ See **Exhibit B-4**, Magruder letter “Magruder Data Request Six” of 28 March 2003.

⁶⁴ See **Exhibit B-5**, Mr. Tom Campbell letter in reply to “Magruder Data Request Six” of 4 April 2003.

⁶⁵ This docket number is incorrect and it should read as “G-01-32C-02-0914.”

1 Additional weekly meetings with telephonic participation continued until the last week in
2 January. The next meeting was on Friday 28 March. A copy of the proposed SA provided to
3 parties last on Thursday 27 March.
4

5 Q. Does the proposed Settlement Agreement achieve the purpose to resolve all issues involving
6 the PPFAC and Gas cases?

7 A. Initially, discussions directly concerned these cases. During intervenor participation, as
8 discussed below, based on a handout⁶⁰ and discussions at the initial 13 January 2003 meeting,
9 resolution of these two cases was the primary emphasis of the discussions.
10

11 Q. Are you satisfied with the proposed Settlement Agreement?

12 A. No for many reasons. This proposed agreement was crafted and drafted by only three of the
13 Parties: the ACC Staff, UniSource and Citizens. None of the other Parties, which represented
14 the public, namely the RUCO, Mohave County, Santa Cruz County, City of Nogales, nor
15 myself participated after the last January meeting.
16

17 During the Friday 28 March meeting, it was obvious that many issues were incompletely
18 covered or contrary to the expectations of these excluded Parties. In fact, the first question
19 from a County Attorney at this meeting was "who represented the ratepayers during these
20 negotiations?" During this meeting, at least fifteen comments were verbally submitted and
21 quickly discussed. Some of these were incorporated in the final version of 1 April.
22

23 Q. Where your considerations included in the proposed Settlement Agreement?

24 A. No. Since the deadline for this agreement was 1 April 2003, I submitted proposed Settlement
25 Agreement Conditions to all concerned on 20 March (**Exhibit B-2**).⁶¹ The reply from the Joint
26 Applicants showed that none of my conditions were considered (**Exhibit B-3**).⁶²
27

28 Q. Did you try to improve the proposed Settlement Agreement?

⁵⁹ See ACC Memorandum "Settlement Discussions on the following cases ..." from Earnest Johnson, Director, Utilities Division of 7 January 2003 to Docket Control, cc: Parties of record.

⁶⁰ This handout, "Joint Applicant's Proposed Settlement, January 13, 2003" is annotated "pursuant to Arizona Rules of Evidence, Rule 408, this Proposed Settlement offer is not admissible in any action should the offer not be accepted" thus is not provided as an Exhibit.

⁶¹ See **Exhibit B-2**, Magruder letter "Proposed Settlement Agreement Conditions" of 20 March 2003.

⁶² See **Exhibit B-3**, Mr. Tom Campbell, Lewis & Roca LLC, Joint Applicant's attorney's letter of 28 March 2003.

1 approach 60 MW, upgrading that line to 100 MW could have been delayed for several years. On
2 June 18, 2002, Citizens peaked at 57.3 MW. A 5 MW load-shift would have given safer reserve.
3 Utilities usually offer financial incentives to customers to shift from peak to non-peak or from firm
4 to interruptible delivery options.

5
6 Q. Do you recommend Citizens employ load shaping in its DSM Program?

7 A. Yes. Citizens should implement financial incentives to ratepayers for load shaping, publicize
8 such a program, and statistically measure actual load shift changes to ensure compliance.
9 Further, the ACC Utility Division may be remiss in not monitoring DSM programs more closely
10 and promoting DSM actions aggressively. This can reduce capital and operations and
11 maintenance (O&M) expenses by utilities.

12
13 **Part II – Gas Rate Case, Docket E-01032A-02-0598**

14
15 11. Natural Gas Case Issues.

16
17 **Part III – Proposed Settlement Agreement for PPFAC and Gas Cases⁵⁷**

18 12. Settlement Agreement Issues.⁵⁸

19
20 Q. What is the purpose of this Settlement Agreement?

21 A. This settlement Agreement is to resolve all of the issues involved in the PPFAC and Natural
22 Gas cases, as a precursor and necessary step, so that the Purchase Agreement may then be
23 considered without these as unresolved issues as was requested by the Joint Applicants.

24
25 Q. Did you participate in the negotiations that resulted in the proposed Settlement Agreement
26 (SA) filed under these docket numbers on 1 April 2003?

27 A. On 13 January 2003, the ACC Staff called a preliminary meeting to start these negotiations.⁵⁹
28 There were representatives of most of the Parties in this case at that kickoff meeting.

⁵⁷ "Settlement Agreement – UniSource Energy Corporation's Acquisition of Citizens Communications Company's Gas and Electric Utility Assets" of 1 April 2003 as modified by Lewis & Roca, LLC letter of 2 April 2003.

⁵⁸ ACC Procedural Order for these dockets, dated 7 February 2003, directed that a final settlement agreement be filed by 1 April 2003. This Order continued the earlier ACC Procedural Orders of 3 December 2002 and 8 January 2003, which suspended the PPFAC Case Docket E-01032C-00-0751 and Gas Rate Case Docket G-01032C-02-0598. The Settlement Agreement was to meet all parties conditions necessary to close these cases as a precursor to consideration of the Purchase Agreement.

1 Q. In the original Application, Citizens proposed to reduce electric costs by effective Demand Side
2 Management (DSM). What are the results of the DSM?

3 A. Citizens' provides semi-annual reports on Demand Side Management Programs to the ACC
4 Staff. In the latest report of 30 August 2002, Citizens stated its total cost of approximately
5 \$113,227 during this six month period provided savings of 2,788 MW-h per year. A review of
6 material concerning Citizens ongoing DSM program indicated excellent literature concerning
7 energy conservation and efficiency.

8
9 Q. What is Citizens definition for DSM?

10 A. Citizens response to Marshall Magruder Data Request MM-2.11 (10), "Demand Side
11 Management is the effort to improve the efficiency of using electric energy and power."

12
13 Q. What is the Department of Energy (DOE) definition for DSM?

14 A. The DOE DSM program states:

15 Demand-side management (DSM) programs consist of the planning, implementing, and
16 monitoring activities of electric utilities which are designed to encourage consumers to
17 modify their level and pattern of electricity usage. In the past, the primary objective of most
18 DSM programs was to provide cost-effective energy and capacity resources to help defer
19 the need for new sources of power, including generating facilities, power purchases, and
20 transmission and distribution capacity additions. However, due to changes that are
21 occurring within the industry, electric utilities are also using DSM as a way to enhance
22 customer service. DSM refers to only energy and load-shape modifying activities that are
23 undertaken in response to utility-administered programs. It does not refer to energy and
24 load-shape changes arising from the normal operation of the marketplace or from
25 government-mandated energy-efficiency standards.

26 (See http://www.eia.doe.gov/cneaf/electricity/dsm/dsm_sum.html)
27

28 Q. What are the differences between these definitions?

29 A. The Citizens definition is an energy efficiency or conservation definition, admirable programs.
30 Unfortunately, the DSM action words "load-shape" is missing. It is by load-shaping saves
31 generation resources, transmission and distribution costs, during peak demand periods.

32
33 When customers shift loads from peak to non-peak periods the service areas have reduced cost
34 demand and provides non-peak power at lower rates. Having large users accept interruptible
35 instead of firm delivery services, is also a savings option for Citizens and its customers. Both of
36 these "shape" loads provide for efficient use of capital equipment results. For example, in Santa
37 Cruz County, when there was the 60 MW transmission line, by having a few key industrial loads
38 shift from peak to non-peak or to interruptible from firm service, during times when the loads

1 for a **total 57.0 % PPFAC increase**, again, without including any disputed billing charges which
2 exceeds **40% increase**.

3
4 Q. Do other claims in the Amended Application increase customer costs?

5 A. Yes, the Applicant requested all "disputed" charges and PPFAC loan interest be reimbursed by
6 ratepayers. This was proposed as the ever-increasing update to Exhibit No. 3 of the Amended
7 Application. If this is judged as a reimbursable expense, or any part of the interest considered
8 appropriate, the ratepayers will see an increase greater than 46.2%. An even larger increase is
9 likely if the "bank amortization" for the disputed charges for carrying cost (interest) is included in
10 this PPFAC settlement.

11
12 Q. Do you recommend that the Commission approve the New Agreement and WAPA Agreement
13 increases that are recommended in the proposed Amended Application?

14 A. Only the WAPA Agreement should be approved, without change, to add \$0.44 per MW-hr.

15
16 The New Application has an Energy Price that is too high compared to the wholesale market.
17 APS/PWCC covered all risks with very high prices during May-June 2001 negotiation
18 environment. Diverse financial and operational pressures may have impacted Citizens during the
19 final negotiations in May to July 2001, which may have led to the New Agreement under adverse
20 environmental conditions or duress. Market characteristics since May-June of 2001 have
21 changed. The California energy crisis of 2000 has come and gone, Enron collapsed, ACC
22 changed its deregulation plans, natural gas prices are lower again, FERC proposed a standard
23 market design plan, the ACC is planning a wholesale solicitation later in 2003 called Track B.
24 FERC has conducted several detailed investigations concerning price gouging in the Western
25 states (which could be related). In general, however, the electrical market has returned to its
26 former, more stable condition. The Joint Applicants need to have the Energy Price of \$58.79 be
27 **reduced** to a level that gives a fair and reasonable prices to the customers and reasonable
28 profits to APS/PWC, perhaps, a wholesale rate of about \$35.00 near to the 2003 forecast of \$ 34
29 to 34 per MW-hr at the most and including WAPA and APSWPC energy losses. The would give
30 a 35.00/42.08 for a 16.8% reduction.

31
32 10. Demand Side Management.

1
2 Q. Are there additional transmission charges the Citizens ratepayers could incur during the time
3 frame of the New Agreement?

4 A. Yes, additional transmission line "wheeling" charges have been agreed to by Citizens that will
5 raise the Santa Cruz County ratepayer's rate about \$15/customer per month for a 100 MW of
6 "backup" firm electricity delivery. For additional background, please see my Comments of 13
7 March 2002. Citizens' management agreed to this in the Project Development Agreement (PDA)
8 in January 2001 with Tucson Electric Company (TEP), a subsidiary of UniSource. Citizens
9 indicated that these costs would be added to PPFAC charges.⁵⁵

10
11 Q. What impact does the New Agreement have on typical customer rates of the Old Agreement?

12 A. The current customer service rate, under the old Agreement, is \$48.02 per MW-hr.⁵⁶ Under the
13 New Agreement, considering only Energy Price (increased by \$10.77 per MW-hr) and
14 transmission costs (increased by \$0.44 per MW-hr for WAPA increases and \$1.15 per MW-hr for
15 increased energy losses), the rate would be is \$12.36 per MW-hr higher. This is an increase of
16 $12.36/48.02 = 25.8\%$.

17
18 Q. Does this increase include just purchase and delivery costs and the increases from the New
19 Agreement and WAPA Agreements?

20 A. These are the increases only from these two Agreements, to "deliver electricity to the Citizens
21 ratepayers." This increase does not include any disputed charges or loan carrying charges or the
22 TEP "wheeling" charges. The ratepayer will have a 25.8% increase until May 31, 2008, for just
23 the New and WAPA Agreements increases if the Amended Application is approved. An
24 additional ~\$15.00 per customer per month will be requested by the utility when the backup
25 transmission line finally becomes operational, at least a year after the operational date of 31
26 December 2003. This \$15.00 becomes $15.00/48.02$ for a 31.2 % rate increase for the backup
27 transmission line. The total PPFAC rate increase is then

28 Additional Purchase Power Costs + Transmission Costs = Total PPFAC Increase

29 $25.8\% + 31.2\% = 57.0\%$ Increased Total PPFAC

⁵⁵ See Citizens Response to Magruder Data Request MM-3.01(18), when Citizens stated "Costs for the TEP transmission service will be added to PPFAC charges if and when the facilities have been placed in service and Citizens has made payment for services." In addition, in response to MM-3.01(13), Citizens indicated that the "electricity imported over the new 345kV TEP transmission facilities will be purchased directly from PWCC under the Market-Based Tariff [New Agreement], and not as Buyer's Other Resources."

⁵⁶ See Amended Citizens Application, page. 8.

1 results would be (1) a reduction in the AED book value and (2) ratepayer's purchased power
2 energy costs could remain constant (also please see section 9 below).

3
4 If the ACC completely granted the PPFAC Application, then the same new energy costs, debt
5 and interest are shifted to the ratepayers. Citizens and its shareholders benefit by gaining
6 \$119.4 million (as of Nov. 2002), which has already been paid to PWCC (plus interest) and while
7 the ratepayers will have to pay \$119.4 million over several years. Citizens' customers have no
8 choice but to appeal to the Commission. The ratepayers would have their rates significantly
9 increased by an average **over 40%** for seven years in order to pay for disputed charges and
10 interest **plus 25.8%** higher purchased power energy costs (see 9 below) under the New
11 Agreement **plus 31.2%** for backup transmission line wheeling charges (see 9 below). This is a
12 staggering increase for Santa Cruz County, which has high seasonal unemployment and over
13 25% below the poverty level.

14
15 9. Calculation of Purchase Power and Fuel Adjustments under the New Agreement.⁵²

16
17 Q. What are the components used to calculate the total cost of power supply in Citizens basic
18 service rates?

19 A. These components are the cost of power, called energy price, plus the costs of transmission to
20 import power into Citizens service areas.

21
22 Q. The New Agreement Energy Price.

23 A. The Amended Application established a fixed price of \$58.79 per MW-hr⁵³ for all sales by APS to
24 Citizens under the New Agreement.

25
26 Q. The New Agreement Transmission Costs.

27 A. The energy loss rate used for rate determination is 10.69% (or \$6.83 per MW-hr) based on
28 Citizens last rate case to account for the cost to deliver to customer's meters. This increases the
29 delivered electric cost from \$58.79 to \$65.83 per MW-hr.⁵⁴ In addition, Citizens has negotiated a
30 new transmission agreement with WAPA increase of \$0.44 per MW-hr or an additional \$4.36 per
31 MW-hr for a total of \$70.21 per MW-hr.

⁵² Citizens' response to Marshall Magruder Data Request Three is necessary to complete this section of testimony.

⁵³ See Amended Application, dated 21 September 2001, page 8.

⁵⁴ See Amended Application, page 7.

1 total output at a "reduced level (i.e., 30-35 MW) maximum."⁴⁹ Since this limit may unreasonably
2 restrict Citizens/UniSource from providing all of its Santa Cruz County customers with locally
3 generated electricity.⁵⁰

4
5 Q. Can this part of the agreement be modified?

6 A. There are at least two ways this could happen. Either

7 (1) Modify the New Agreement by methods discussed elsewhere, or the

8 (2) Commission could prohibit APS from restricting turbine operations when any economic cost
9 savings are possible for Citizens ratepayers.

10
11 8. Impact of these hearings on the proposed UniSource Purchase of Citizens AED and AGD.⁵¹

12
13 Q. The *Nogales International* has published articles that the City of Nogales is interested in
14 converting a part of Citizens AED into a municipal electric utility. Others have also expressed
15 interest. Do you have knowledge that these hearings have influenced these discussions?

16 A. In Citizens response to Data Request MM-2.10 (8), I learned that Citizens "does not know
17 whether the current power supply agreement with Pinnacle West Capital Corporation has
18 impacted any opportunities to sell the Arizona electric properties." Citizens indicated APS/PWCC
19 substantially interfered with opportunities to sell Citizens until the New Agreement was signed.

20
21 Impacts on a sale by a ruling from these hearings have not been determined. However, logically,
22 if Citizens is denied recovery of the approximately \$119.4 million (in Nov. 2002) through a rate
23 increase, potential sales opportunities could diminish. If the PPFAC balance was not collected
24 AED, this could significantly reduce the book value, shareholder's equity and reduce potential
25 gain from the sale for Citizens. In this scenario, Citizens and its shareholders are out \$119.4
26 million. Thus, if the ACC denied Citizens the ability to collect \$119.4 million from ratepayers, a

⁴⁹ From ¶1.9 of the New Agreement found in Amended Application, in Exhibit 2, sheets 6 and 7.

⁵⁰ Citizens in response to Marshall Magruder Data Request Three MM-3.6 (9) stated

"many times these turbines have been required to operate above 35 MW (maximum from above quote). The Estimated Metering Point Demands, by Month in MW, from Sheet 33 of the PWCC "Market-Based Rate Tariff" shows a range of values between 38.001 (November 2001) to 50.399 MW (June 2001) for the first operating year of this agreement. The estimated load requirements at Valencia Turbines is approximately 10.69% less than at Nogales Tap, using the old contracts value for transmission and distribution energy losses."

⁵¹ On 29 October 2002, both Citizens and UniSource, holding company for Tucson Electric Power Company (TEP), announced that agreement had been reached for the sale of both the Citizens AED and Arizona Gas Division to TEP for \$230M. This has not been reflected nor considered in this section of Testimony.

1 lightning storms, the Valencia turbines are "spinning without loading" so that backup, electric
2 power is available in case of an outage on the Citizens-owned 115-kV transmission line. For the
3 past five years, transmission line outages have averaged 2.049 hours per year, so such backup
4 is necessary, but infrequently necessary. As a peaking plant, these turbines can be used to
5 provide additional power.
6

7 Q. Can these turbines provide cost-effective additional generation capabilities for Santa Cruz
8 County?

9 A. These turbines are capable of providing electricity for the entire load 99.9% of the time. Further,
10 they are economical and cost-effective to run during load periods when purchased power on the
11 market exceeds their operational cost. In general, they are between one and a half (1.5) to
12 almost three (3) times more expensive to operate when compared to the fixed rate under the
13 New Agreement. They have demonstrated an average power production cost of \$151.89 per
14 MW-h for all power these turbines produced versus the \$58.79 per MW-h rate under the New
15 Agreement. These figures include extensive time periods when these turbines carried no load
16 and were operated as spinning reserves to ensure reliability, so the actual cost per MW-h is less.
17 For example, during the month of May 2002, Citizens operated these turbines to generate 863
18 MW-h at an operational cost of \$79,962.27 for value of power generated at \$92.68 per MW-h.
19 This is about 1.6 times the New Agreement fixed rate but could be economically beneficial if
20 used exclusively during advantageous peak rate times.
21

22 Q. Have these turbines been used to provide economical electricity to Santa Cruz County, at rates
23 lower than the Old Agreement?

24 A. During May of 2001, these turbines were operated during peak hours by Citizens to avoid high
25 costs (disputed) under the Old Agreement. During this month, Citizens avoided \$1,306,944 in
26 purchase power costs from APS at a cost of \$540,884 in fuel used by these generators. The
27 overall savings was \$766,060.
28

29 Q. Are there restrictions on the use of the turbines under the New Agreement?

30 A. Citizens can operate these turbines during storms for reliability purposes, but only with advanced
31 permission from APS, for economic reasons. Based on the potential savings to ratepayers
32 demonstrated during May 2001, APS/PWCC may be restricting Citizens in its ability to serve
33 customers at the best cost under the New Agreement. In addition, the New Agreement limits the

1 the consideration. The filings with FERC indicate that that FERC does not approve "rates";
2 therefore, it is the sole responsibility of the ACC to make the "fairness" and "reasonableness"
3 ruling.
4

5 Q. Are the rates specified in the New Agreement fair and reasonable? Who should prove that
6 these new rates are fair and reasonable?

7 A. The Joint Applicants, now Citizens and UniSource, should prove these new rates are fair and
8 reasonable for the ratepayers in the Citizens service areas.
9

10 Q. What proof has been offered that the New Agreement rates are fair and reasonable?

11 A. There has been no proof presented to date that \$58.79 per MW-hr is fair and reasonable. The
12 Arizona Corporation Commission sets and approves consumer electric rates in Arizona and
13 such proof including a zero-based cost analysis are the best methodology to show fairness and
14 reasonable. A price comparison is meaningless due to so many local factors, including capital
15 expenses, population locations, adequacy of local generation, and others that make cost
16 comparisons of the "same" product meaningless.
17

18 7. Valencia Turbines.
19

20 Q. What are the Valencia turbines?

21 A. Citizens' has three combustion turbines installed at the Valencia Substation in Nogales, Arizona.
22 These turbines are described by Citizens' as "peaking" or "backup" turbines. They are rated at
23 15 to 18 MW each and together have carried loads in excess of 45 MW and have served all
24 Citizens customers in Santa Cruz County.⁴⁷ Rarely does the Santa Cruz County loads exceed a
25 peak of 45 MW-hrs.⁴⁸
26

27 Q. Are these turbines important to Citizens operations in Santa Cruz County?

28 A. After the Nogales Electric Company closed down its local generators about 45 years ago,
29 Nogales has been dependent upon a single, radial 115-kV transmission line from Tucson. The
30 transmission line was operationally rated for 60 MW and recently upgraded to 100 MW. During

⁴⁶ In response to Citizens Data Request 1.15 which requests the source of Authority of the ACC to "reduce rates in a wholesale power contract. The full title of this Application includes "change the current purchased power and fuel adjustment clause rate, to establish a new purchased power rate and fuel adjustment clause bank."

⁴⁷ In response to Magruder Data Request 3.01(17), Citizens stated "Except under extreme peak conditions of limited duration, the Valencia turbines have the capability to carry the entire Santa Cruz County load."

⁴⁸ Santa Cruz County has exceeded 50 MW-hrs only on six occasions, all during the past four years.

1 (4) Negotiating with Tucson Electric Company (TEP) concerning a second source of electricity
2 for Nogales and Santa Cruz County customers,

3 (5) Keeping the agreement to sell AED and AEG to CapRock, and

4 (6) Avoiding higher energy costs before the summer of 2001.⁴⁴

5 These pressures must have impacted the May-July 2001 Citizens-APS negotiation decisions.
6

7 Q. Can anything now be done to reduce the rates of the New Agreement?

8 A. Yes. The governing FERC Order, which includes dispute mediation and arbitration, was not
9 exercised before Citizens applied for this rate increase, is a way to solve that issue.
10

11 Q. What if APS/PWCC does not want to negotiate the New Agreement?

12 A. The same options, including the good offices of the ACC, FERC dispute resolution, mediation,
13 and binding arbitration are available without extensive litigation expense.
14

15 Q. Should Citizens ratepayers pay unfair or unreasonable rates under the New Agreement?

16 A. No, in addition to the information herein, the testimony by others in these hearings has shown
17 this fixed rate is above the norm therefore unreasonable.
18

19 Q. Can the Arizona Corporation Commissioners reduce rates specified in the New Agreement if
20 they are found to be not fair and reasonable?

21 A. It appears to me this is an element of their statutory and fiduciary obligations. A.R.S. §40-203⁴⁵
22 is clear. Whenever the Commission finds "the rates, charges, demanded or collected is unjust,
23 discriminatory or insufficient, the Commission shall determine and prescribe [them]".⁴⁶ This
24 article specifies rates shall not be "unjust" or "insufficient." Based on former observations, the
25 Commission considers this "balance" in making its decisions. There is nothing in this A.R.S.
26 article which specifies "wholesale" or "retail." It appears "wholesale" and "retail" are not part of

⁴⁴ In response to Marshall Magruder Data Request 3.18 (6), Citizens Sean Breen stated "Citizens entered the new APS agreement at the time it did in large part to avoid anticipated high power prices during the summer of 2001 and believes, based on the information available at the time, that it was prudent to do so."

⁴⁵ A.R.S. §40-203 (Power of commission to determine and prescribe rates, rules and practices of public service corporations) states:

When the commission finds that the rates, fares, tolls, rentals, charges or classifications, or any of them, demanded or collected by any public service corporation for any service, product or commodity, or in connection therewith, or that the rules, regulations, practices or contracts, are unjust, discriminatory or preferential, illegal or insufficient, the commission shall determine and prescribe them by order, as provided in this title.

1 Other data, compiled from the *Wall Street Journal*, are found in Exhibit B of my prior Testimony
 2 of 8 November 2002. The data are not for Palo Verde because the *WSJ* stopped publishing its
 3 Dow Jones Palo Verde Index in March 2002. The DJ Palo Verde Index is available on a
 4 subscription basis so utilities have this information. The Dow Jones California-Oregon and
 5 Oregon-Nevada Border (DJ COB) Index are published daily. That Exhibit was constructed for
 6 the DJ COB data. Note this index did not exceeded \$50 per MW-hr during the prior 52-weeks,
 7 for even one day. Table 6 below shows all of these wholesale rates:

8 Table 6 – Various Wholesale rates.

| Rate \$/MW-hr | Firm/Non-Firm | On Peak/ Off-Peak | Market | Remarks |
|-----------------------------|-----------------------------------|----------------------|---------------------|--|
| \$12.80 | Year- around the clock | | Palo Verde | 2002, APS production costs |
| \$18.23 | Daily 52-week Low | | West | Mirant Power Index, 11/2002 |
| \$24.76 | Firm | On Peak | West | Mirant Power Index, demand weighted average 3/27/03 |
| \$27.00 | Year- around the clock | | Arizona, Palo Verde | 2002 Year-around the clock rate, Pignatelli, TEP, Feb 03 |
| \$28.00 | Third Qtr 2002 – around the clock | | Palo Verde | TEP quarterly report |
| Between \$32.00 and \$34.00 | Year- around the clock | | Arizona, Palo Verde | 2003 Year-around the clock futures, Larsen, TEP, Feb 03 |
| ~\$37.00 | 2004-2005 – around the clock | | Palo Verde | TEP forecast (DR MM-5.31) |
| \$38.00-\$25.00 | Weekly Firm (On-Peak/Off-Peak) | | Palo Verde | Week of 11/21-25/2002 |
| \$40.00 | Third Qtr 2001 – around the clock | | Palo Verde | TEP quarterly report |
| \$40.12 | Firm | On Peak | West | Mirant Power Index, 3/27/2003 |
| \$40.90 | Firm | On Peak | National | Mirant Power Index, demand weighted average 4/18/2003 |
| \$48.02 | Firm | Average | Citizens | Old APS Contract |
| \$48.75 - \$32.75 | Weekly Firm (On-Peak/Off-Peak) | | Palo Verde | Week of 04/14-18/2003 |
| \$49.64 | Daily 52-week High | | Western | Mirant Power Index, 11/2002 |
| \$58.79 | Firm | Average | Citizens | 7-year, fixed price, new PWCC Contract (proposed) |
| \$94.00 | Year- around the clock | | Arizona, Palo Verde | 2001 Year-around the clock rate, Pignatelli, TEP, Feb 03 |

9
10
11 Q. How did Citizens come to agree to this New Agreement with such high charges?

12 A. During the negotiations between APS and Citizens, from late winter of 2000 through July 2001,
 13 the California energy crisis was on everyone's mind. The high charges in California were
 14 impacting all western energy markets. Citizens was under pressure on many fronts, which
 15 included:

- 16 (1) Resolving the Old Contract disputed charges with APS,
 17 (2) Completing analytical studies described in the original Citizens Application,
 18 (3) Keeping customer reliability high during to a class-action law suit (*Chilcote, et al versus*
 19 *Citizens Utilities*),

1
2 In addition, from several other sources, there is usually close tracking between Palo Verde and
3 other western energy markets. For example, during two different weeks, last week and six
4 months before, we see in Table 3 that Palo Verde is relatively stable between \$34.75 (non-firm)
5 and \$38.00 (firm) for Peak and between \$21.00 (non-firm) and \$25.00 (firm) during October 21
6 to 25, 2002. As shown in Table 4, during April 14 to 18, 2003, the prices are more volatile due
7 the war in Iraq, both Venezuela and Nigeria are having internal problems, and Mexico has
8 opposed the U.S. intervention, all which could have significantly raised energy prices. During the
9 energy unrest this week, the options for Palo Verde prices are lower than the \$58.76 requested
10 by the Applicants for the PWCC New Agreement. These range from between \$48.75 for Peak
11 Firm, \$36.00 for Peak-Non Firm, \$32.75 for Off-Peak, Firm to a low of \$24.75 for Off-Peak, non-
12 firm delivery.⁴³

13 **Table 3 – Western Energy Prices, Week of October 21-25, 2002.**

| Western Electricity Prices Week of October 21-25, 2002 | | |
|---|-----------------|------------------|
| Hub | Peak (heavy) | Off-peak (light) |
| Mid-Columbia | 30.5-36 | 21.5-26 |
| COB | 33-38.5 | 24-25 |
| NP 15 | 38-43.25 | 23.5-26.75 |
| SP 15 | 37.25-43 | 23-26 |
| Palo Verde | 34.75-38 | 21-25 |

14
15 **Table 4 – Western Energy Prices, Week of April 14-18, 2003.**

| Western Electricity Prices Week of April 14-18, 2003 | | |
|---|-----------------|--------------------|
| Hub | Peak (heavy) | Off-peak (light) |
| Mid-Columbia | 21-34 | 20.25-32 |
| COB | 29-39 | N/A |
| NP 15 | 39-59 | 26.75-36.5 |
| SP 15 | 39-55.5 | 26-36 |
| Palo Verde | 36-48.75 | 24.75-32.75 |

16
17 Please note the typical closeness of Palo Verde and the other western energy markets. Also,
18 note the difference in Peak with heavy traffic and Off-Peak with light traffic
19

⁴³ Western Price Survey, "Prices Wax, Freeze, then Wane," 25 October 2002, see <http://www.newsdata.com/cem/pr102502.html> and <http://www.newsdata.com/cem/> for current week.

1 months but the latest daily average in the West Power Index as \$24.76 per MW-hr, considerably
 2 less than half the proposed new price. The new Agreement can only be defined as having
 3 excessively high rates.
 4

5 **Table 2 - Mirant National Power Indexes**

6 Demand weighted average price in \$/MW-hr for the continental United States in November 2002.
 7

| Mirant National Power Index | Mirant East Power Index | Mirant West Power Index |
|-----------------------------|-------------------------|-------------------------|
| 52-wk High | | |
| \$49.64 | 58.62 | 45.53 |
| 52-wk LOW | | |
| 18.23 | 17.59 | 14.73 |

8 **Table 3 - Mirant National Power Indexes**

9 Demand weighted average price in \$/MW-hr for the continental United States on 27 March 2002.
 10
 11

| Mirant National Power Index | Mirant East Power Index | Mirant West Power Index |
|-----------------------------|-------------------------|-------------------------|
| 52-wk High | | |
| \$152.07 | 143.81 | 114.33 |
| 27 March 2003 Firm On-Peak | | |
| \$40.12 | 44.68 | 24.76 |
| 52-wk LOW | | |
| 20.00 | 19.98 | 14.73 |

12
 13
 14 Q. Do you have additional data to support a conclusion that the "New" wholesale electric rates of
 15 \$58.79 per MW-hr are **excessive**?

16 A. Yes. Tucson Electric released a report for Third Quarter Earnings.⁴² It stated
 17

18 "In the third quarter of 2002, wholesale sales volumes were down 30.8 percent compared
 19 with the third quarter of 2001, resulting from decreased demand for power in the western
 20 United States energy markets. Wholesale revenues were \$41.1 million, down from \$206.9
 21 million in the third quarter 2001. Around-the-clock power prices on the Dow Jones Palo
 22 Verde Index averaged \$28 per MWh during the third quarter 2002 compared to \$40 per
 23 MWh in the same period last year."

⁴¹ See *Wall Street Journal*, 18 April 2003, page C12.

⁴² TEP News Release, 20 October 2002, see www.businesswire.com or www.unisource.com

1 A. It is about twice that recently charged at western states switchyards, such as at Palo Verde. On
2 8 February 2003, the Mr. Jim Pignatelli, CEO, and Mr. Keith Larsen, CFO, hosted a First Call
3 meeting with investors. During that meeting, Mr. Pignatelli stated that the "year-round wholesale
4 electricity prices as Palo Verde were \$27.00 per MW-hr"³⁷ and Mr. Larsen sated that the 2003
5 annual wholesale electricity forecast was between \$32.00 and \$34.00 per MW-hr. About one-
6 third of the electricity in Arizona is generated by the Palo Verde Nuclear Generation Station,
7 produced electricity at \$12.80 per MW-hr production costs as reported by PWC/APS.³⁸ Fixed
8 price contracts may have higher rates to cover contingencies and unknown risks, but over twice
9 the going rate is excessive.

10
11 For example,³⁹ the national market values, reported daily in the *Wall Street Journal*⁴⁰, are the
12 high and low demand weighted average prices for the past twelve months. As of November
13 2002 is shown in Table 2 below. This shows that \$58.79 per MW-hr was not reached on a single
14 day in the prior twelve months. Due to present market volatility in the past six months, three
15 have been short time periods where spikes over \$150 per MW-hr have been recorded as shown
16 in Table 3 as of 27 March 2003. These higher peaks were not evident as of 27 March 2003
17 where the peak firm prices were \$40.90 per MW-hr in the Mirant National Power Index. In
18 addition, the Firm on Peak California-Oregon and Nevada-Oregon Borders price was \$35.49 per
19 MW-hr.⁴¹

20
21 The new PWC-Citizens Agreement is higher than regional costs in the continental U.S. The fixed
22 cost of \$58.79 per MW-hr exceeds the Mirant West Power Index 52-week high of \$45.53 per
23 MW-hr in November 2002. The New Agreement greatly exceeded the 52-week low daily values
24 that vary between \$14.73 and \$18.23 per WM-hr last November, from my Testimony of 8
25 November 2002. A few daily highs for electricity exceeded \$58.79 per MW-h during the past six

³⁷ See "UniSource Energy Reports Earnings for 2002" (Business Wire) on 30 January 2003, stated "Around-the-clock power prices on the Dow Jones Palo Verde Index returned to more normal levels in 2002, averaging \$27 per megawatt hour (MWh), down from \$94 per MWh in 2001."

³⁸ See "Palo Verde Sets National Production Record, Logs Best Operational Year Ever" (Business Wire) on 15 January 2003, stated:

"The [Palo Verde Nuclear Generation] station recorded a three-year average production cost of about 1.28 cents per kilowatt-hour [which equals \$12.80 per MW-hr], among the lowest in the industry."
The PVNGS is operated by APS and owned by APS, Salt River Project, Southern California Edison, El Paso, Public Service Co. of New Mexico, Southern California Public Power Authority and Los Angeles Department of Water and Power.

³⁹ This section and Exhibit B to Marshall Magruder Testimony of 8 November 2002 responded to Citizens Data Request 1.13 for more statistical data. More data are available. Electricity traders and utilities use costly subscriptions services. I am limited to public information sources to assess non-real time situations.

⁴⁰ See *Wall Street Journal*, 4 November 2002, page C10.

Table 1 – An Initial List of Some of Citizens Imprudent Decisions.

| Imprudent Management Decision | Why I believe this Decision was imprudent |
|---|---|
| 18. Decided not to find a "buyer" for AED in a reasonable period to time. | Citizens Management searched for a buyer for its Arizona resources for years. Companies "for sale," traditionally receive "cosmetic" facelifts when put on the market, capital costs and "frills" are removed and all financial statements are cleared of items to which a potential buyer might object. This asset gamble may go on for a year of two. This current situation is now, into a fifth year. Citizens' management made AED a "disposable" resource in its SEC 10-K/Q balance sheets and ceased "depreciating" capital assets that are depreciated. |
| 19. Decided not to actively pursue innovative, renewable energy resources | Management has failed to establish an aggressive plan to reduce long-term energy requirements or to increase efficiency at all levels, other than some conservation measures. To my knowledge, no distributed generation plants are proposed to reduce energy losses, no renewable energy source incentives, no major renewable capital improvements, and no local generation resources under development. |

6. New Agreement Issues.

Q. What are the principle differences between the Old and New Agreements?

A. The New Agreement is a seven-year, fixed rate, full service agreement. Electric power is provided by APS at \$58.79 per Megawatt-Hour (MW-hr). The Old Agreement used a series of cost schedules for basic and peak loads, taking into account time of the day.

Q. Are there advantages to Citizens and APS in the New Agreement?

A. Yes, it seems to avoid the disputed terms of the Old Agreement and appears easier to administer.

Q. What are the advantages to Citizens ratepayers under to New Agreement?

A. One advantage is a guaranteed fixed rate, through May 31, 2008.

Q. Are there any disadvantages to Citizens in the New Agreement?

A. Yes. The New Agreement means higher rates (\$18.25 per MW-hr)³⁵ for its customers and some additional restrictions such as Citizens' use of its generation resources (see section 7 below).

Q. How does a fixed wholesale electricity rate at \$58.79 per MW-hr compare to today's monthly market prices?³⁶

³⁵ See proposed Settlement Agreement, Appendix C. This includes an increase of \$0.44 per MW-hr for an increase in WAPA energy transmission loss costs.

³⁶ The Old Agreement cost of electric generation is \$48.02 per WM-hr.

Table 1 – An Initial List of Some of Citizens Imprudent Decisions.

| Imprudent Management Decision | Why I believe this Decision was imprudent |
|--|--|
| 10. Decided not to reduce "energy losses" from the APS/PWCC and Citizens tie points to customers | Management has applied the same 10.96% energy loss (from last rate case) without any improvement in losses. Why has there not been any improvement in the transmission and distribution network within Citizens service area? Is this lack of improvement related to AED being "for sale" and any improvements being <u>deferred</u> to UniSource. This lack of action does not help anyone. |
| 11. Decided not to assess, understand and validate the increased "energy losses" from the WAPA | Management has applied for this increase of 4.36% for WAPA energy loss without any validation or attempts to reduce. Again, another " <u>pass through</u> " to the ratepayers, without a "peep" from Citizens management. |
| 12. Decided not to incorporate the financial impact of another "wheeling" charge on customers for backup electricity | Management signed an agreement (PDA) with TEP for backup electricity that will cost \$223,000 a month for firm delivery of 100 MW-hr at the Nogales Gateway Substation as "backup" at any time, it is needed. Management does not seem to care this will raise rates and cost more than any benefit ratepayers would receive for an average of 2.049 hours backup on this line annually. UniSource indicates this will result in \$1.7 million new revenues from ratepayers starting in 2005. As presently structured, it also appears that Mohave County ratepayers will be assessed these unique backup costs. |
| 13. Decided to add a third "transmission loss" charge increasing energy losses to over 35% | Management, when it agreed to the backup TEP transmission line charges, that involve about 20% for the TEP line energy losses, plus 10.96% for APS/PWCC energy losses and 4.36% for WAPA losses. The total energy loss of over 35% extra generation is paid to others to deliver electricity to Citizens customers in Santa Cruz County. Management at TEP appreciates Citizens for adding these "pass through" for additional revenue to TEP (over 20%), APS/PWCC (10.96%) and WAPA (4.36%). |
| 14. Decided not seek any potential customers for the 100 MW Firm delivery in Nogales, Arizona | Management has signed an agreement to pay for 100 MW of power in Nogales, Arizona, with an area customer load, that rarely exceeds 50 MW. Citizens "hopes to find" a customer for a multi-year purchase agreement of the 100 MW, but this seems unlikely without a Mexican <u>Constitutional change</u> . In addition, this could cause another dispute with PWCC since the proposed PWC/APS-Citizens Agreement limits Citizens from most other purchased power sources, such as TEP. UniSource has now lowered this to 60 MW. |
| 15. Decided to not have a second transmission line to Nogales operational at the ACC mandated date. | Management's failure will result in a \$30,000 penalty per day after the required operational date of December 31, 2003. So far, TEP is at least 18 to 24 months behind schedule. It slips more each day. This will amount to a penalty loss (obviously non-reimbursable) of \$360,000 per annum until operational. Other reasonable options are less expensive (\$86 million versus ~\$20 million, about 23% of cost), with higher reliability, lower energy losses as a favorable economic decision. |
| 16. Decided not to establish any "Energy Risk Management Techniques" requested in the Application | Management has failed to establish or even propose a "Demand Side Management (DSM)" program as promised in the Citizens Application. Citizens conservation program fails to reduce the peak "demand side" of the business when electricity is most expensive. Customers demand "fair and reasonable" prices that will result from load shaping. |
| 17. Decided not to obtain "fair and reasonable" rates for Citizens customers | Management has continually failed to aggressively pursue ways to lower customers' costs. For example, in Southern Arizona, there are at least two other utilities (TEP and SWT) from whom Citizens could have purchased wholesale electricity for its customers. Why aren't they being used to "force" wholesale competition with the present Seller? |

1

Table 1 – An Initial List of Some of Citizens Imprudent Decisions.

| Imprudent Management Decision | Why I believe this Decision was imprudent |
|--|--|
| 1. Decided not to solve the SIC issue, raised in 1999, by the spring of 2000 | Management failed to understand and anticipate the consequences with respect to rates under conditions, such as those of 2000 and 2001. Management has not yet dealt with this problem. |
| 2. Decided not to resolve the "disputed" APS/PWCC charges | Management decided to do nothing to resolve these "Disputed Charges paid under protest." Doing nothing fails to solve a problem. |
| 3. Decided not to protect their customers from "excessive" charges | Management has decided not to solve the "excessive" charges issue that was noted in almost every SEC 10-K/Q since fall of 2000 as excessive. It appears Citizens has decided it does not have a moral, ethical, or legal obligation to protect its customers from these excessive charges. "Concern" for low income customers does not prevent or protect the customers from clearly excessive charges. |
| 4. Decided not to collect a refund of Disputed Charges from APS/PWCC so that Citizens' customers are not asked pay excessive charges | Management knew these were excessive charges. They paid them, but Citizens has never asked APS/PWCC to refund any of the "excess" or overcharges. Citizens' management decided not even to try to obtain a refund for the Disputed Charges. |
| 5. Decided not to consider the impacts of complete "pass through" to customers | Management continuously states, "we make no profit" on excessive charges. This implies there is no concern, other than profit. This attitude indicates lack of concern for their customers. Citizens' customers will never accept the "pass through" of another company's excessive charges, paid under protest, by Citizens' management. What could Citizens' management be thinking? |
| 6. Decided not to complete what Citizens' indicated it would accomplish in its September 2000 Application, the Phase III Analysis | Management has failed to provide the analysis necessary to complete Phase III, as discussed in the original Application. Without this promised analysis, Citizens has failed to meet the goals it established for understanding the problems associated with APS's overcharges. This analysis was to provide a clear description of the problem. |
| 7. Decided not to have a third-party determine the value of the Disputed Charges | Management has not considered or attempted to have a third party conduct an independent analysis with APS/PWCC to mediate or arbitrate a solution to the Disputed Charge issue. Until APS/PWCC is brought before an independent body and a judgment is made as to whether the charges were fair and reasonable, the disputed payments must remain as originally declared: <u>disputed and paid under protest.</u> |
| 8. Decided not to negotiate a reasonable rate with PWCC in the proposed Agreement | Management negotiated at \$58.79/MW-hr agreement with PWC, over twice the 2002 annual Palo Verde Index wholesale electricity rate or \$27.00/MW-hr purchased by UniSource and significantly higher than \$32 to \$34/MW-hr for 2003 forecast by UniSource. APS/PWCC produced electricity for a 2002 annual rate of \$12.80 during 2002, a record low. Arizona wholesale rates should be decreasing for next few years based on an over 50% excess generation capability. Why did Citizens management negotiate nearly twice the going rate for wholesale electricity and not attempt to negotiate a fair and reasonable rate? See my Testimony of 8 November 2002 for additional detailed wholesale costs. A <u>reduction</u> not an increase should have been negotiated. |
| 9. Decided not to re-negotiate fair and reasonable rates, now that the pressures of the summer of 2001 have been relieved | Management has failed apparently to understand the proposed contract is NOT advantageous in today's environment and management has apparently not attempted to renegotiate a better deal for its customers. |

1 Q. How can UniSource in its testimony claim it will "forfeit" collection of these unrecovered
2 charges?

3 A. UniSource was not and is not involved in the disputed billings. Even after the proposed
4 UniSource purchase of Citizens, UniSource is not involved in a billing dispute since it did not
5 make the payments that Citizens made to APS/PWC. UniSource has nothing to "forfeit."
6

7 Q. Should UniSource be able to deduct "Goodwill" for the estimated amount it claimed to "forfeit?"

8 A. Of course not. Claiming an income tax deduction for amortization over 37.0 years should not
9 be permitted by auditing or regulatory agencies. Goodwill involves a business's reputation,
10 patronage, and other intangible asset. UniSource did not incur any liability or benefit from the
11 "disputed billing charge" as previously stated. Because UniSource has nothing to "forfeit", it
12 has nothing to claim for "goodwill." In response to ACC Staff Data Request JMR 1-2,
13 UniSource is claiming \$118,620,000 for "Acquisition Adjustment (Goodwill)." This large value
14 for goodwill in an asset that cost \$ 92 million. It appears to include much of the disputed billing
15 that existed between Citizens and APS/PWC.³²

16 For additional comments concerning UniSource, please see section 8 below.
17

18 5. Citizens Management Decisions.³³
19

20 Q. In the above, you discussed "imprudent" decisions made by Citizens management.
21 Could you please elaborate?

22 This is an important issue. When management makes a series of illogical, irrational, or, in general,
23 imprudent decisions, it may cost the company money, if unwise decisions result in losses. Imprudent
24 decisions cannot be legally be reimbursed.
25

26 Q. What are some of the decisions Citizens made that you consider imprudent?

27 A. In Table 1, I listed some of the imprudent Citizens' management decisions and why they are
28 considered imprudent.³⁴ It my understanding that, in many cases, only a single imprudent
29 decision is enough prevent reimbursement.

³² See UniSource Response to ACC Data Request JMR 1-2, "Citizens Utilities – Total Electrical Forecast of 11/5/02: Base Case" (page 2) which provides Actual for 1998 to 2001, Projected for 2002, and Forecast with Purchase for 2003 to 2005 in a pro forma spreadsheet. There are conflicts with the amortization schedules, as the Electric Utility Goodwill is for 25.0 years (page 2) and the Gas Utility Goodwill is for 39.0 years (page 4) which starts at \$59,210,000 for 2003.

³³ Citizens Data Request One requested that each "imprudent management decision" be identified and an explanation be given as to why it is considered to be an "imprudent" decision. This section provides a response to Data Request 1.14.

³⁴ In specific response to Citizens Data Rate 1.14.

1 A. Yes. It is clear that there is an amount that APS charged Citizens for purchased power is
2 disputed. Until the actual, fair amount is known, there is no way to determine if Citizens should
3 be granted the privilege of charging the Citizens ratepayers more for purchased power.
4

5 Q. What should be done about the PPFAC "interest" that is accruing in the PPFAC
6 account?

7 A. The Commission needs to make a decision about whether such interest is justified.
8 Citizens' argues that similar interest has been reimbursed in natural gas cases. Electricity is a
9 different type of commodity. The fact that it cannot be stored, moves very fast, and other
10 precedent setting reasons, are some rationales, why the Commission should deny such
11 interest. Citizens requested in its Application that a 6 percent (6%) interest, compounded
12 monthly, be used. Even if interest were justified, until the amount of principal is determined, it
13 will be impossible to correctly determine the interest.
14

15 Q. Should the PPFAC Loan interest³⁰ be considered for reimbursement, and added to the rates,
16 paid by Citizens customers?

17 A. No interest should be paid by ratepayers for imprudent management decisions (see next
18 section). If Citizens determined APS/PWCC "overcharged," APS/WPC is obligated pay interest
19 to Citizens, agreed to under the Old Agreement in ¶16.5 and such "interest" is non-
20 reimbursable business costs.
21

22 Q. What is the relationship between UniSource and this billing dispute?

23 A. None, UniSource was not involved in the disputed billing, interpretation of the Old Agreement,
24 nor did they pay any of the bills paid under protest by Citizens.³¹
25

³⁰ In Citizens Response dated 3 January 2003 to Magruder Data Request 3.02(7), Citizens stated:
"Citizens wishes to make it clear, in its application in this proceeding, the Company is requesting
Commission approval to begin accruing carrying charges on the PPFAC Bank prospectively from the date
of the Commission's order in this proceeding. The Company is not seeking the recovery of any carrying
charges for periods prior to such Commission order."

³¹ In response to Magruder Data Request MM-5.18, UniSource stated
"It is noted that, as part of its application for Commission approval to purchase the Arizona electric assets
of Citizens, UniSource has stated that it will not seek recovery of the balance of unrecovered costs
contained in the PPFAC Bank as of the date of the sale, now forecasted to be in excess of \$136 million.
Such commitment by UniSource, however, has no, and should not be interpreted as having any, bearing
on the issue of whether citizens' power procurement actions were prudent nor whether the unrecovered
cost are recoverable."

1
2 Q. Why is it impossible to determine the principal for this PPFAC "loan"?

3 A. The amount of the disputed billing charges remains unresolved. The Application claims the
4 disputed billing charges are the ratepayer's responsibility. Since APS/PWCC has already
5 received payments, APS/PWCC apparently has no further interest in solving this issue.
6 Avoiding these disputed billing charges appears to be their objective in the Citizens
7 Applications. The last two PWCC Annual Reports²⁸ stated it will "vigorously defend" these
8 charges, if challenged by Citizens. APS, PWC, or PWCC have not been called or summoned
9 to appear as a witness or party to these hearings to present their side of this dispute.

10
11 Q. Do you recommend that APS be summoned to be a party to these PPFAC hearings?

12 A. That is a possible solution. Another solution could be that Citizens and APS/PWCC resolve the
13 disputed purchase power billing charges before proceeding with this case.

14
15 Q. Should these disputed billing charges be verified and validated before continuing in these
16 PPFAC hearings?

17 A. Yes, that would seem a necessary first step, since the Application asks for payment from the
18 ratepayers for the Costs Not Recovered amounts

19
20 Q. How can the Commission approve an increase of customers' rates for "disputed" and
21 "unknown" billing charges that may or may not be reimbursable expenses?

22 A. I know of no way that the Commission could justify such an action.²⁹

23
24 Q. What could happen after the disputed billing charges are resolved?

25 A. After resolution, these PPFAC hearings could be resumed, with a new PPFAC Application that
26 had a basis; an amount agreed upon by APS/PWCC and Citizens.

27
28 Q. Are you saying that these PPFAC hearings should not continue until the billing disagreement
29 between Citizens and APS/PWCC under the Old Agreement is resolved?

²⁷ APS Contract 48166, ¶16.5 reads, as "Any excess amount of bill, which, through error or as a result of a dispute may have been overpaid shall be returned upon determination of the correct amount, with interest."

²⁸ PWCC Annual Reports for 2000 and 2001. The PWCC 2002 Annual Report has not been issued to date.

²⁹ In response to Magruder Data Request MM-5.18, the Joint Applicants stated "The [ACC] Commission has not yet found the costs to be either recoverable or unrecoverable."

1
2 Q. What do you mean by the Disputed Charges and why are they important?

3 A. Disputed Charges should be the difference between the Citizens interpretation of the fair and
4 reasonable charges under the Old Agreement and the interpretations made by APS/PWCC,
5 starting in May 2000, for "excess" charges that have not been reimbursed or recovered by
6 routine payments of ratepayers.

7
8 Q. Who owes the Disputed Charges?

9 A. Parties, including Citizens, have discussed fair and reasonable interpretations of the Old
10 Agreement. In my opinion, Citizens has correctly evaluated costs in accordance with the "SIC"
11 clause.²⁵

12
13 Q. If Citizens is correct, who should pay the Disputed Charges?

14 A. Under these conditions, it appears APS/PWCC overcharged Citizens. APS/PWCC should
15 reimburse Citizens²⁶ the Disputed Charges, plus accrued interest, as required by APS Contract
16 48166, ¶16.5.²⁷

17
18 Q. For how much of the Disputed Charges should the Citizens ratepayers be responsible?

19 A. Since APS and Citizens have not been able to agree on the terms of the Old Agreement, it is
20 impossible to determine this amount.

²⁵ In a letter from Mr. Daniel J. McCarthy, Citizens VP to Mr. Jack Davis, APS President, on 23 March 2000, it was clear that Citizens understood the issues involved in this billing dispute. From page 4 of this letter:

"In Citizens' view, this methodology [prior pages demonstrating Citizens interpretation of the Old Agreement], and the principles outline above, are consistent with the bargained-for provisions embodied in the Agreement, and if properly employed would have resulted in significantly lower energy billing to Citizens. Citizens is entitled to a full refund for all over-billed amounts, with interest dating back to the time the erroneous billing practices began. However, it is not clear for how long APS has been erroneously billing Citizens under the Agreement, and, moreover, based on our discussions, it is consistent with the foregoing. In the event that APS, for lack of data, cannot correct its billing errors, Citizens is willing to enter negotiations with APS for the purpose of reaching negotiated settlement to these issues."

(Bates Numbers CCC006559 to CCC0065564) This letter was originally marked CONFIDENTIAL, but released by Citizens Response to Marshall Magruder Data Request 3.16B(066) on 2 January 2003. Clearly, both sides understood this was a billing dispute, Citizens stated to APS the issues involved with billing before May 2000 when the disputed charges commenced. The above letter was answered by Mr. Jack Davis (APS) reply on 17 April 2002 to Mr. Daniel J. McCarty (Bates CCC006704 to CCC006706, forward in response to Marshall Magruder Data Request 3.16B(088) when it was downgraded from CONFIDENTIAL), by not agreeing with Citizens position and recommended personal negotiations.

²⁶ In Citizens Response to Marshall Magruder Data Request MM-3.02(17), Citizens stated "PWCC (APS) has not refunded any of the "disputed" payments made for billings of May 2000 through May 2001."

1 and therefore not directly impact their ratepayers. This is a matter between both companies
2 only.

3
4 Q. Should Citizens be reimbursed for these disputed charges by ratepayers?

5 A. No, reimbursement by ratepayers for unwise, imprudent management decisions by a utility
6 company is not proper, permitted, or legal.

7
8 4. Repayment of the Disputed Charges under the Old Agreement²⁰

9
10 Q. What is the amount of the Disputed Charges under the Old Agreement?

11 A. Citizens stated that there was \$ 63,673.956 of these Disputed Charges under the Old
12 ASP/PWCC Agreement at the end of the period.²¹ Citizens' also reported these disputed
13 charges as "unrecovered" from the ratepayers [see **Exhibit B-1**]. Through November 2002,
14 when these are added into the PPFAC Bank total was about \$119,427,777 million²² or
15 increasing to about \$132 million by June 2003. Citizens' reporting has been cumulative since
16 the first disputed payment.²³

17
18 Q. Are some charges not Disputed?

19 A. Yes. The Western Area Power Administration (WAPA) increased the "wheeling" charge for
20 electricity losses due to the transmission on high voltage lines managed by WAPA between
21 APS sources and Citizens meters. This charge has not been disputed.

22
23 Q. What do you mean by Costs Not Recovered?²⁴

24 A. This term was used in Citizens Testimony in March 2002 and is the same as Unrecovered
25 Costs. This is a portion of the monthly APS/PWCC bill at the current rate that reimburses
26 Citizens for purchased power. The term Cost Not Recovered is the difference between the
27 Total APS Bill for Purchased Power and WAPA charges minus Recovered Costs, where

28
29
$$\text{Cost Not Recovered} = (\text{Total Purchased Power Bill} + \text{WAPA charges}) - \text{Recovered Costs}$$

²⁰ Much information in this section needs the validated results from Magruder Data Request Three, which has not been answered by Citizens. All values in this section are "estimates," "approximately" or "about."

²¹ Citizens response to Marshall Magruder Data Request MM-3.02 (14) for computation of this total.

²² This value is from Exhibit 3 to the Citizens Revised Application as of 6/24/02 (page 2 of 8).

²³ As reported in Exhibit 3 to the Citizens Revised Applications(s) as of 6/24/02, the monthly total is cumulative. This responds to Citizens Data Request 1.10.

²⁴ Values for Recovered Costs and Costs Not Recovered should be in Citizens Response to my Data Request Three.

1 (2) Citizens was unable to correlate impacts, in a timely manner, of higher natural
2 gas prices on purchased fuel costs for electricity as these two Citizens utilities, natural gas
3 and electricity, were in different business units;

4 (3) Citizens' top management might have been more interested in ignoring such
5 difficulties because the Arizona units were for sale.

6 (4) Citizens' top management was, possibly, not focused on the immediate market;
7 and/or

8 (5) Citizens' top management was, apparently, not concerned or interested in the
9 early natural gas price increases since purchased power costs are a "pass through" to the
10 ratepayers.¹⁹

11 In other words, there are no profit incentives for Citizens to control purchased power costs.

12
13 Q. Which of these do you feel was the cause of the belated reactions by Citizens?

14 A. Primarily, (5) above. Why? Citizens PR literature and news releases stress that
15 "Citizens makes no profit on pass through purchase power costs" when discussing this case.

16
17 Q. Who was responsible for solving any disputed terms of the Old Agreement?

18 A. Both APS and Citizens have an obligation to adhere to the terms of their contract. They had a
19 dispute over the meaning of some terms. Neither APS/PWCC nor Citizens considered using the
20 FERC dispute resolution process or the offices of the ACC/PWCC to solve their disagreement.
21 They disagreed a year before the "disputed charges" occurred. After the disputed billing
22 occurred, they continued on a "discussion" track, as the "disputed charges" continued to be
23 billed to and paid by Citizens, under protest.

24
25 Q. Were these actions and decisions correct during the Old Agreement disagreements?

26 A. The decision by management to let this disagreement continue unresolved for so long is
27 imprudent (as discussed in section 5 below). These disagreements are unresolved.

28
29 Q. Are the ratepayers responsible for solving known these problem areas of the Old Agreement?

30 A. No. Since these areas had negative consequences on Citizens' ratepayers; it was Citizens'
31 duty to resolve such a dispute prior to paying the billing changes. For APS/PWC, any negative
32 consequences from such a dispute would impact their cost of doing business or profit margins

¹⁹ In Citizens Response by Mr. Carl Dabelstein to Magruder Data Request 3.02(27), Citizens "has the authority from the Arizona Corporation Commission to track and recover power supply costs. The genesis of such cost pass through authority for Citizens' Arizona Electric Division can be traced back to the early 1950s."

1 Resolution) provides mediation and arbitration processes. These are required for "all disputes
2 arising under or relating to the terms of this agreement."
3

4 Q. If the disputed conditions in the Old Agreement had been resolved prior to May 2000, would
5 there have been a claim that there were excessive purchase power charges?

6 A. No, it appears the areas impacting the disputed charges, in the Old Agreement, were known
7 by both sides and were being actively discussed. These areas were not resolved prior to June
8 2000, when the California energy and natural gas prices surges were heading towards a
9 critical situation.

10
11 Q. When did Citizens realize the impact that the summer 2000 price surges would have on the
12 unresolved areas in the Old Contract?

13 A. There is no indication that Citizens forecast this crises or was aware of the summer of 2000
14 energy and natural gas crisis situation until about July of 2000 when the first APS/PWCC bills
15 arrived using a disputed calculation method.

16
17 Q. Are there possible explanations why Citizens did not forecast¹⁶ the summer of 2000 energy
18 crisis?

19 A. Yes, some or all of the following factors could apply:¹⁷

20 (1) Citizens management had no personnel assigned to forecast energy market
21 prices, in particular fuel costs,¹⁸

¹⁶ Citizens Data Request 1.07 requested to identify "any entity other than Citizens forecast" for the summer 2000 energy crisis. No information was found during discovery that Citizens forecast or anticipated this crisis. Some records indicate during August 2000, some managers, including Sean Breen, knew there was a problem. Apparently, Citizens does not maintain a business planning organization to continuously maintain forecasts and predictions that could/may/might impact the AED or AGD product lines. In response to Citizens Data Request 1.07, by early July 2000, my personal files included news articles, in particular the situation in San Diego, natural gas refinery decreases, lack of natural gas drilling facilities, and other energy related factors that pointed to the beginning of a major energy crisis. An impact of this summer of 2000 energy crises on Santa Cruz County was very similar to in California. There was an article on the PPFAC case by the Arizona Utility Investors Association's *Investors Quarterly*, October 2001 (page 4) that described both Mohave and Santa Cruz Counties as "Little California" as mirror of the California Energy Crisis of 2000. The Federal Energy Commission, on 26 March 2003, concluded that the 2000 California Energy Crisis, a series of rulings and Orders, was caused by illegal and fraudulent market manipulations by many different energy companies.

¹⁷ Citizens Data Request 1.08 requested that the "source" of the information contained in (1) to (5) be provided. See my forecasting background in Exhibit A. The factors listed are tailored to this case, and are typical factors when management fails to properly forecast. I developed these factors based on my extensive experience in crisis management over the last 40 years. This responds to Citizens Data Request 1.08.

¹⁸ In Citizens Response by Mr. Sean Breen to Magruder Data Request 3.18(5), Citizens "does not maintain its own databases of the competitive power market prices... Citizens' relies on outside consultants, who do track these prices, to support the prudent management of contracts." ACC Staff Data Request LS 14.15 agreed, which states "Citizens does not routinely track competitive power market prices."

1 independent third-party, it could use its "judgment" capability or assist in making a formal
2 Settlement Agreement to solve a billing dispute. Billing statements and details from
3 APS/PWCC to Citizens may retain their proprietary nature under A.R.S §40-204. A.R.S. §40-
4 202A (first sentence), §40-202B, and §40-203 indicate the ACC has the authority to resolve
5 disputes. ARS §40-202D requires "establishing of just and reasonable rates for electricity."

6
7 Citizens protested, disputed and paid an "excessive" rate. The Commission could have been
8 asked to conduct an investigation and made a judgment.

9
10 Q. Are you providing legal analysis saying that Citizens is involved in the wrong process with
11 regard to the Disputed Charges?¹⁵

12 A. No. That was not my intention; however, it does seem plausible that Citizens could have used
13 these ACC-complaint processes and procedures to resolve this billing dispute more
14 expeditiously and at less cost than by this Application or litigation or filing a complaint with
15 FERC.

16
17 Q. Which of these did Citizens do?

18 A. None. Responses during discovery indicate that Citizens did not consider using the ACC to
19 resolve its dispute with APS/PWCC. Instead, Citizens filed the Application(s) to recover these
20 disputed charges from its customers.

21
22 Citizens rejected litigation of this billing dispute with APS/PWC. Citizens considered "filing a
23 complaint with the FERC on the contract interpretation matter" which was "under consideration
24 at the time as part of Citizens' legal analysis" as was clearly described by Mr. Breen's February
25 2002 Rebuttal, pages 15 to 16.

26
27 Q. Did you say that Citizens used none of these dispute resolution means?

28 A. Yes, Citizens negotiated a New Agreement with PWC. This New Agreement now has a written
29 "dispute resolution" process. In the "Power Sale Agreement between Pinnacle West Capital
30 Corporation and Citizens Communications Company. PWC's Market Rate Tariff and Service
31 Agreement," filed as Application Enclosure (2), with its Article 10 (Alternative Dispute

¹⁵ This question and answer are in response to Citizens Data Request 1.06; see Appendix A for additional response.

1 Q. Do you feel that Citizens could have used this "complaint" process?

2 A. The complaint process appears applicable for all public service companies. Citizens' is
3 APS/PWCC largest wholesale electricity customer. All "customers" have the right to make a
4 complaint. Either company could have initiated the process. Citizens should have brought the
5 dispute to the ACC for adjudication as soon as the APS/PWCC discussions became
6 unproductive.

7
8 Q. Could you expand on possible roles for the Commission in resolving this dispute?

9 A. There seems to be at least two ways. The Disputed Charges could be disputed and
10 resolved under A.A.R. §R14-2-212 like any other utility customer or under A.A.R. Title 14
11 Chapter 2 and §R14-2-1603, §R14-2-1614, and other statutes.¹⁴

12
13 Q. Are there other ways the Commission could have assisted with this dispute resolution?

14 A. The Commission has the power to conduct an investigation (formal or informal) and make a
15 judgment (similar to mediation or arbitration). In today's business environment, utility
16 companies may not want to provide some information to competitors, even when not
17 competing. A company's "confidential" proprietary information is protected by the A.R.S. §40-
18 202 and §40-203. If the Commission conducted an investigation or hearing, as an

A.R.S. §40-242 – Production of Records

A.R.S. §40-246 – Complaint by Public Service Corporation Hearing

A.R.S. §40-247 – Hearing; process to witnesses; report of proceedings; decision; service of order

A.R.S. §40-248 – Reparation of overcharge; action to recover overcharge; limitations

¹³ Corrected words were inadvertently deleted between A.R.S. §40-202 and §40-243 in the original Testimony.
This correction clarifies Citizens Data Request 1.05.

¹⁴ These other statutes and administrative regulations are titled and briefly described as to potential applicability
to solving the APS-Citizens disputed charges as follows:

A.R.S. § 30-809E – Consumer Choice, requires

"before initiating a complaint with a public power entity or the commission, the parties to a dispute
arising under subsections A through D of this section shall meet and in good faith attempt to resolve
the dispute through an information dispute resolution process; could apply but the above subsections
appear not to be directly applicable to the APS/PWCC-Citizens disputes.

A.R.S. § 30-803H – Competition in Retail Supply of Electricity; Open Markets, requires the governing body of a
public power entity to "provide a dispute resolution process including nonbinding third party arbitrators or
mediators for customers ..."

A.A.R. Title 14 – Public Service Corporations; Corporations and Associations; Security Regulation

A.A.R. Title 14, Chapter 2 – Corporation Commission Fixed Utilities

A.A.R. § R14-2-212 (Administrative Hearing Requirements, an description of various rules for hearings.

A.A.R. § R14.2-212B – Customer Bill Disputes, seem applicable to the APS/PWC-Citizens utility-customer
dispute.

A.A.R. § R14-2-212C – Commission Resolution of Service and Bill Disputed, also applicable to this dispute.

A.A.R. § R14-2-1614 – Administrative Requirements, in §R14-2-1614, the ACC may develop procedures for
resolving disputes regarding implementation of retail electric competition. NB: in order to implement "retail"
competition, some changes may be mandated to "wholesale" distributors in order to implement such
competition. This footnote provides an additional response to Citizens Data Request 1.05.

1 Federal Arbitration Act, prevailing Commercial Arbitration Rules and others.⁸ If these one-on-
2 one or FERC processes fail, the ACC could also help resolve issues since the laws of Arizona
3 govern the Old Agreement. Going to FERC for resolution as an early alternative, at least ? by
4 May 2001 was, apparently, dropped from consideration. The Old Agreement, in Section 16
5 (Billing), states "Notice shall be given [by Citizens to APS] that the disputed amount is found to
6 be incorrect, it shall be refunded, including Interest."⁹ Citizens gave such notice to APS/PWC.
7

8 Further, the governing APS Contract 48166, in Section 24 (Subsequent Service Schedule(s)
9 Approval), permits FERC filings "to determine whether any Service Schedule is just and
10 reasonable." This is a basic argument in this case. No FERC filing was made.¹⁰
11

12 Q. Could Citizens have used other means to resolve the dispute over the "disputed payments" of
13 the Old Agreement based on statutes that pertain to the ACC?¹¹

14 A. The A.R.S. §40-203, §40-204, §40-221, §40-241 and §40.242 permit the ACC to request any
15 records of any public service company in this State. A.R.S. §40-202 discusses the
16 Commission's broad supervision and regulatory controls over public service corporations and
17 §40-203 describes the Commission ratemaking authority.¹² A.R.S. §40-246,¹³ to §40-248 has a
18 process that could have been used to resolve such a complaint or dispute.

⁸ See PWC-Citizens Agreement, in the Amended Application Exhibit 2, "Pinnacle West Capital Corporation Market-Based Tariff, Rate Schedule FERC No. 4" for the ADR process under the New Agreement. The Old APS-Citizens Contracts, "Power Service Agreement between Arizona Public Service Company and Citizens Utilities Company, APS Contract 48166," all of which were also docketed and simultaneously filed with FERC (see APS Contract 48166, ¶2.3, with related schedules in APS Contract 48167 for Wholesale Power, APS Contract 48168 for Supplemental Capacity, APS Contract 48169 for Peaking Energy).

⁹ All Citizens billing payments for period May 2000 through February 2001 were annotated as "paid under protest" and referred to Article 16.4 of this contract.

¹⁰ Article 24.2 states:

"If upon the FERC filing, the FERC orders a hearing to determine whether any Service Schedule is just and reasonable, the Service Schedule shall not become effective until the date when an order no longer subject to judicial review has been issued by FERC determining the Service Schedule to be just and reasonable."

This "FERC filing" is not the "initial" filing discussed in Section 23. Article 24.3 indicated, "Citizens agrees to fully participate in any FERC hearing and/or court proceeding regarding any subsequent Service Schedule(s)." This also responded to Citizens Data Request 1.04.

¹¹ This and the next three questions/answers responded to Citizens Data Request 1.05.

¹² A.R.S. sections in this paragraph are titled as

A.R.S. §40-202 – Supervising and Regulating Public Service Corporations... Competitive Electricity Market; Rules; Duty to Comply; Exemptions for Electric Generation; Unlawful Practice

A.R.S. §40-203 – Power to Commission to determine and prescribe rates; rules and practices of public service corporations.

A.R.S. §40-204 - Reports by public service corporations to commission; duty of corporation to deliver documents to commission; confidential nature of information furnished; exception; classification

A.R.S. §40-221 – Power of commission to prescribe record-keeping methods and accounts; ...

A.R.S. §40-241 – Power to Examine Records and Personnel of Private Service Corporations; ...

1 disputed period between May 2000 and May 2001.⁶ Corrections were made by APS for
2 billings prior to the above disputed payments. At the beginning of the period of disputed bills,
3 APS was refunding a previous overcharge totaling \$2,769,629.⁷
4

5 Q. Were the APS/PWCC billing practices during this disputed period consistent with prior billing
6 practices?

7 A. No. Citizens considered that APS/PWCC had changed the method of calculating the cost for
8 purchased power. This is a core issue to be resolved in these hearings. All payments by
9 Citizens to APS/PWCC during this time were annotated "paid under protest."
10

11 Q. Were the issues that resulted in what Citizens labeled "excessive charges" known to Citizens
12 prior to this period of disputed billings?

13 A. Yes, in fact, the issues that led to the "Disputed Charges" had been under discussion for over
14 a year by teams from both companies.
15

16 Q. Did Citizens do anything to solve the Disputed Charges issue or correct the Old Agreement
17 prior to the disputed payments beginning? the summer of 2000?

18 A. Yes, Citizens initiated negotiations and had been negotiating with APS/PWCC for months,
19 apparently without success.
20

21 Q. Did Citizens use the FERC dispute resolution procedures?

22 A. Citizens stated? that they did not use any FERC dispute resolution processes or any outside
23 agencies or arbitration organizations to assist in resolution.
24

25 As indicated in the New Agreement, Article 10, Alternate Dispute Resolution (ADR), there are
26 a number of ways that disputes could be resolved, including mediation, arbitration using the

⁶ In the 3 January 2003 response to Magruder Data Request 3. 02(25), Citizens stated: "All APS charges from May through December 2000 were originally disputed. However, these charges are not currently in dispute." The excessive charges continued, until the New PWCC Agreement was implement on 1 June 2000 are included as being questionable. These charges are also included in the same category for this PPFAC case and were also requested to be recovered.

⁷ In response to Magruder Data Request 3.02(10), Citizens stated: "On November 23, 1999 the Arizona Corporation Commission issued Decision No. 62094 approving a negative surcharge of (\$0.00533/kWh), intended to: a) pass back to consumers the PPFAC Bank balance of \$(2,729,629) existing as of May 31, 1000 over a period of twelve months and b) to reflect in the ten existing power supply cost recovery level, certain reductions in demand charges being billed under the APS power supply agreement."

1 **Part I – Purchase Power and Fuel Adjustment Clause (PPFAC) Case, Docket E-01032C-00-**
2 **0751**

3
4 3. Old Agreement PPFAC Issues.

5
6 Q. What went wrong during the Old Agreement between Citizens and APS/PWC?

7 A. Citizens and APS/PWCC were unable to agree on some terms of the Old Agreement
8 for the purchase of wholesale power by Citizens from APS/PWC. This agreement makes
9 Citizens the largest wholesale customer for APS/PWCC in Arizona. Others have extensively
10 documented this billing dispute between these two companies.⁴

11
12 Q. Did this disagreement impact the financial relationship between these two
13 companies?

14 A. From May 2000 through May 2001, Citizens received monthly purchased power bills
15 from APS/PWCC that Citizens considered and described as "excessive charges."⁵ These
16 billings precipitated the initial Application to the Arizona Corporation Commission (ACC), or
17 the Commission, in September 2000. Citizens continued paying all these APS/PWCC bills
18 under protest. This was a billing dispute between two wholesale companies and about their
19 interpretation of the Old Agreement. Retail electricity ratepayers are not involved.

20
21 Q. Had APS monthly bills always been correct before this period?

22 A. No. The applicant stated that each month the APS bills were reviewed. Citizens questioned
23 several discrepancies and errors, some minor and others significant, before the above

⁴ See ACC Procedural Order (18 April 2002) on page 2 (lines 23 to 25):

"The facts surrounding this issue now before the Commission are not in dispute. During 2000 and 2001, a billing dispute arose concerning a 1995 Power Service Agreement ("PSA") between Citizens and APS/PWC. Citizens ultimately negotiated a 2001 PSA with PWCC in July 2001 to replace the 1995 agreement."

And on page 9 (lines 12 to 21):

"... the contract dispute issue is inextricably intertwined with this case because Staff and RUCO advocate litigation against APS with respect to the contract billing dispute... Staff contends that an objective observer could conclude that Citizens' decision to abandon litigation against APS is an indicate that Citizens and APS have simply agreed to let rate payers bear the PPFAC costs and avoid the necessity of litigation. Staff adds that, contrary to Citizens' assertions, the Commission's review of this issue does not constitute an attempt to regulate the practice of law, but instead involves the Commission's legitimate concern with the fairness of its proceedings."

⁵ See Exhibit B-1 for excerpts from Citizens Security Exchange Commission (SEC) Reports Forms 10-K/Q and Annual Reports which use these terms.

1 Q. Have you been in contact with any Citizens in-house attorneys during the course of this
2 case?

3 A. No, except during procedural meetings held in conjunction with this case.²
4

5 Q. Did you or will you receive any compensation for participation in this case?

6 A. No compensation or reimbursement has been received from any source nor will there be any
7 in the future.³
8

9 2. Definitions of the key parties and purchased electricity contract phases.
10

11 Q. How are the key party terms "Citizens", "UniSource", "TEP", "APS" and "APS/PWC"
12 used in this testimony?

13 A. The term "Citizens" is used herein as a generic term for the Citizens Utility Company
14 (CUC), later renamed as Citizens Communications Company (CZN) and its Arizona Electrical
15 Division (AED) and Arizona Gas Division (AGD), all implied under the term "Citizens."
16 UniSource is used herein as a term for UniSource Energy Corporation ("UNS") the holding
17 company for Tucson Electric Power Company (TEP) and other subsidiaries including those
18 being created under the propose Joint Application for the sale of CCC's AED and AGD to
19 UniSource. In addition, "APS" is used herein for the Arizona Public Service Company, now
20 an entity of Pinnacle West Capital Corporation (PWC), with related entities, such as Pinnacle
21 West Energy Company (PWEC). My use of the term "APS/PWC" includes all PWCC entities.
22

23 Q. What do you consider to be the two contract phases of the purchase power and fuel
24 adjustment clause (PPFAC) case?

25 A. There is a natural break between the time when Citizens was under different sets of
26 purchase power agreements with APS/PWCC before and after July 15, 2001. There are two
27 phases and sets of actions. The Application, Revised Application and Amendments relate to
28 both of these actions. For convenience, the pre-July 15, 2001 phase APS/PWC-Citizens is
29 under the "Old Agreement" and the present one of July 15, 2001 is the "New Agreement" was
30 retroactive to June 1, 2001.
31

² Response to Citizens Data Request No. 1.03.

³ Please see Exhibit A for additional responses to Citizens Data Request 1.01.

**Testimony of
Marshall Magruder
Evidentiary Hearings starting May 1, 2003**

1
2
3
4
5 1. Introduction.
6

7 Q. Please give us some information about you?

8 A. My name is Marshall Magruder. My residence is in Tubac, Arizona. I am self-
9 employed. Please see Exhibit A for additional background information.

10
11 Q. Did anyone provide you support or assist you in preparation of this Testimony?¹

12 A. No. I prepared this Testimony and the other documents in this docket I signed, without
13 assistance, other than from Mrs. Magruder.

14
15 Q. How is your testimony organized?

16 A. My testimony is organized into Six Parts with an introduction and conclusion as follows:
17

18 Introduction

19 Part I – Purchase Power and Fuel Adjustment (PPFAC) Case, Docket E-01032C-00-0751

20 Part II – Gas Rate Case, Docket E-01032A-02-0598

21 Part III – Proposed Settlement Agreement for PPFAC and Gas Cases

22 Part IV – Joint Application for Approval of Sale of Electricity and Gas Utility Assets and
23 Certificates of Convenience and Necessity (CC&N) from Citizens to UniSource Case,
24 Dockets E-01933A-02-0914, E-01032C-02-0914, and G-01032A-02-0914

25 Part V – Facts and Conclusions in these Cases

26 Part VI – Recommendations for these Cases

27 Conclusion of Testimony

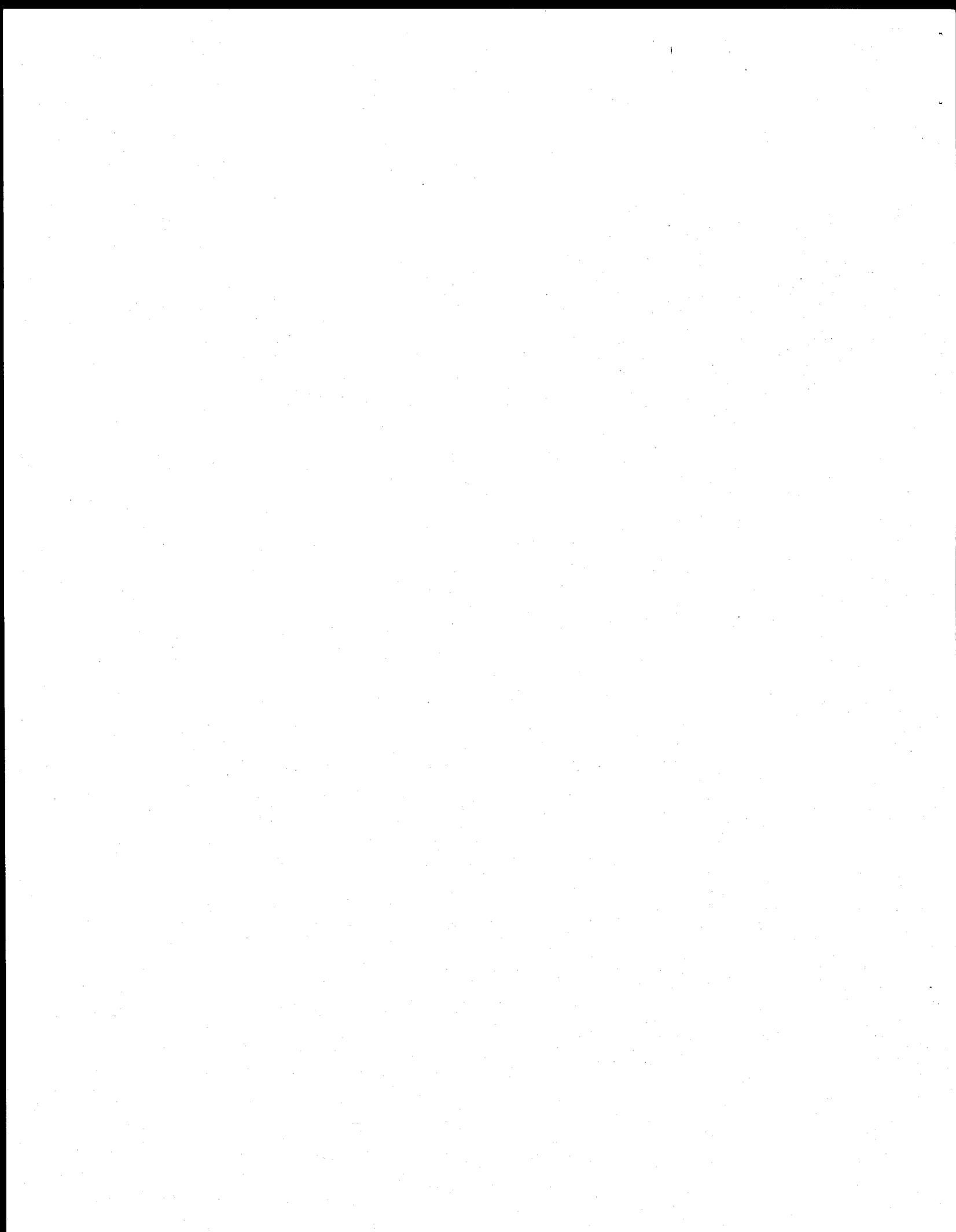
28 Exhibits

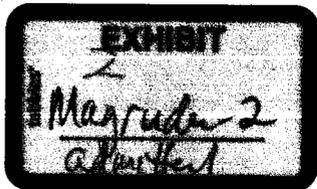
29 Exhibit A – Additional Background Information

30 Exhibit B – Documentation Exhibits

31 In general, footnotes have been provided with quotes to facilitate reading. A few of the more
32 critical and unique documents, not filed in the various Dockets, are found in Exhibit B.
33

¹ Response to Citizens Data Request No. 1.02.





BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

- MARC SPITZER, Chairman
- JIM IRVIN
- WILLIAM A. MUNDELL
- JEFF HATCH-MILLER
- MIKE GLEASON

IN THE MATTER OF THE APPLICATION OF THE ARIZONA ELECTRIC DIVISION OF CITIZENS COMMUNICATIONS COMPANY TO CHANGE THE CURRENT PURCHASE POWER AND FUEL ADJUSTMENT CLAUSE RATE, TO ESTABLISH A NEW PURCHASE POWER AND FUEL ADJUSTMENT CLAUSE BANK, AND TO REQUEST APPROVAL OF GUIDELINES FOR THE RECOVERY AND COSTS INCURRED IN CONNECTION WITH ENERGY RISK MANAGEMENT INITIATIVES.

Docket No. E-01032C-00-0751

IN THE MATTER OF THE APPLICATION OF CITIZENS COMMUNICATIONS COMPANY, ARIZONA GAS DIVISION, FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTIES FOR RATEMAKING PURPOSES, TO FIX A JUST AND RESONABLE RATE OF RETURN HEREON, AND TO APPROVE RATE SCHEDULES TO PROVIDE SUCH RATE OF RETURN.

Docket No. G-01032A-02-0598

IN THE MATTER OF THE JOINT APPLICATION OF CITIZENS COMMUNICATIONS COMPANY AND UNISOURCE ENERGY CORPORATION FOR THE APPROVAL OF THE SALE OF CERTAIN ELECTRIC UTILITY AND GAS UTILITY ASSETS IN ARIZONA, THE TRANSFER OF CERTAIN CERTIFICATES OF CONVENIENCE AND NECESSITY FROM CITIZENS COMMUNICATIONS COMPANY TO UNISOURCE ENERGY CORPORATION, THE APPROVAL OF THE FINANCING FOR THE TRANSACTIONS AND OTHER RELATED MATTERS.

Docket No. E-01933A-02-0914

Docket No. E-01032C-02-0914

Docket No. G-01032A-02-0914

TESTIMONY OF MARSHALL

MAGRUDER

APRIL 21, 2003

27

h

This document contains the Testimony of Marshall Magruder for these cases.

This testimony is arranged in parts that address each of the three cases above, the proposed Settlement Agreement, and provides Conclusions and Recommendations.

Respectfully submitted on this 21st day of April 2003.

MARSHALL MAGRUDER

Marshall Magruder
PO Box 1267, Tubac, Arizona 85646

a

Exhibit A – Additional Background Information

Exhibit B – Document Excerpts

Original and Copies are certified filed by mail/email this date as shown on Service List (last page)

h

Marshall Magruder Testimony Corrections

Attachment A, Testimony of Marshall Magruder

1. Page 23, lines 22 and 23, remove the quotation marks on each line.
2. Page 28, add new line 30 to read "During Discovery, UniSource indicated 60 MW would be used, which changes the wheeling charge to about \$9.44 per customer/month or an increase of 19.4%. Using 19.4%, then total PPFAC increase is 45.2%" and
3. Page 29, line 1, add " or (45.2% increase if 60 MW transmission line load)" after "57.0"
4. Page 33, footnote 65, change "G-01-32C-02-0914" to "G-01032C-02-0914"
5. Page 37, Table 5, under page 6, paragraph 4, fourth column, line 7 change to read "signatory Parties and Intervenors"

Attachment B, Errata to Marshall Magruder Testimony of 27 April 2003

1. Attachment B, page 5, section 17, last line, change "These Settlement Agreement conditions are summarized in Exhibit B-2 include the recommended changes in Table 5 above."
2. Attachment B, page 6,
 - a. first line, condition 2.3, after "City" add "Council"
 - b. third line, condition 3, second line, delete the word "with"



Arizona Utility
Investors Association

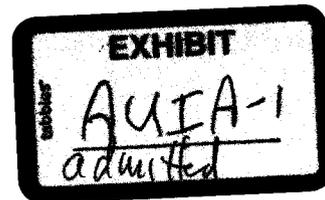
2100 N. Central, Ste. 210
P. O. Box 34805
Phoenix, AZ 85067

Tel: (602) 257-9200
Fax: (602) 254-4300

Email: info@auia.org
Web Site: www.auia.org

BEFORE THE ARIZONA CORPORATION COMMISSION

Marc Spitzer
Chairman
Jim Irvin
Commissioner
William A. Mundell
Commissioner
Mike Gleason
Commissioner
Jeff Hatch-Miller
Commissioner



IN THE MATTER OF THE APPLICATION OF THE ARIZONA ELECTRIC DIVISION OF CITIZENS COMMUNICATIONS COMPANY TO CHANGE THE CURRENT PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE, TO ESTABLISH A NEW PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE BANK, AND TO REQUEST APPROVED GUIDELINES FOR THE RECOVERY OF COSTS INCURRED IN CONNECTION WITH THE ENERGY RISK MANAGEMENT INITIATIVES.

DOCKET NO.
E-01032C-00-0751

IN THE MATTER OF THE APPLICATION OF CITIZENS COMMUNICATIONS COMPANY, ARIZONA GAS DIVISION, FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTIES FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES DESIGNED TO PROVIDE SUCH A RATE OF RETURN.

DOCKET NO.
G-01032A-02-0598

IN THE MATTER OF THE JOINT APPLICATION OF CITIZENS COMMUNICATIONS COMPANY AND UNISOURCE ENERGY CORPORATION FOR THE APPROVAL OF THE SALE OF CERTAIN ELECTRIC UTILITY AND GAS UTILITY ASSETS IN ARIZONA, THE TRANSFER OF CERTAIN CERTIFICATES OF CONVENIENCE AND NECESSITY FROM CITIZENS COMMUNICATIONS COMPANY TO UNISOURCE ENERGY CORPORATION, THE APPROVAL OF THE FINANCING FOR THE TRANSACTIONS AND OTHER RELATED MATTERS.

DOCKET NOS.
E-01933A-02-0914
E-01932C-02-0914
E-01932A-02-0914

NOTICE OF FILING

Pursuant to the Procedural Order dated February 7, 2003, the Arizona Utility Investors Association (AUIA) hereby file the direct testimony of Walter W. Meek in the above-captioned matter.

Respectfully submitted this 21st day of April, 2003



WALTER W. MEEK, PRESIDENT

CERTIFICATE OF SERVICE

Original and seventeen (17) copies of the referenced testimony were filed this 21st day of April, 2003, with:

Docket Control
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

Copies of the referenced testimony were hand-delivered this 21st day of April, 2003, to:

Chairman Marc Spitzer
Commissioner Jim Irvin
Commissioner William Mundell
Commissioner Mike Gleason
Commissioner Jeff Hatch-Miller
Paul Walker, Esq., Commissioner Wing
Kevin Barlay, Esq., Commissioner Wing
Hercules Dellas, Esq., Commissioner Wing
Jodi Jerich, Esq., Commissioner Wing
Dennis Miller, Commissioner Wing
Jason Gellman, Esq., Legal Division
Ernest Johnson, Esq., Utilities Division
Dwight Nodes, Esq., Hearing Division
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

Copies of the referenced Testimony
Were mailed this 21st day of April., 2003,
to the following parties of record:

Thomas H. Campbell, Esq.
Lewis & Roca
40 N. Central Avenue
Phoenix, AZ 85004

Daniel W. Pozefsky, Esq.
RUCO
1100 W. Washington, Suite 220
Phoenix, AZ 85007

John White, Esq.
Deputy County Attorney
P.O. Box 7000
Kingman, AZ 86402

Holly J. Hawn, Esq.
Deputy County Attorney
2150 N. Congress Drive, Ste. 201
Nogales, AZ 85621

Andrew Bettwy, Esq..
Southwest Gas Corporation
5241 Spring Mountain Road
Las Vegas, NV 89150

Deborah R. Scott, Esq.
Citizens Communications Co.
2901 N. Central Ave., Suite 1660
Phoenix, AZ 85012

Tom Ferry
Citizens Communications Co.
P.O. Box 3099
Kingman, AZ 86402

Joseph L. Machado, Esq.
City Attorney
777 N. Grand Avenue
Nogales, AZ 85621

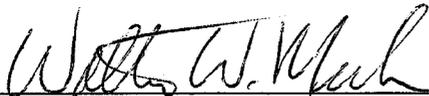
Marshall and Lucy Magruder
P.O. Box 1267
Tubac, AZ 85646-1267

Robert A. Taylor, Esq., City Attorney
City of Kingman
310 N. 4th Street
Kingman, AZ 86402

Raymond Mason, Director
Corporate Regulatory Affairs
3 High Ridge Park
Stamford, CT 06905

John D. Draghi, Esq.
Huber, Lawrence & Abell
605 N. 3rd Avenue
New York, NY 10158

Gary Smith
Citizens Communications Company
2901 W. Shamrell Blvd., Suite 110
Flagstaff, AZ 86001



Walter W. Meek

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28
29
30
31
32
33
34
35
36

DIRECT TESTIMONY

OF

WALTER W. MEEK

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Walter W. Meek. My business address is 2100 North Central Avenue, Suite 210, Phoenix, Arizona 85004.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

A. I am president of the Arizona Utility Investors Association ("AUIA" or "Association"), a non-profit organization formed to represent the interests of shareholders and bondholders who are invested in utility companies based in or doing business in the state of Arizona.

Q. ARE SOME AUIA MEMBERS SHAREHOLDERS OF THE JOINT APPLICANTS IN THIS PROCEEDING?

A. Yes. AUIA has approximately 6,500 individual members, including common shareholders of Citizens Communications Company ("Citizens," formerly Citizens Utilities), and UniSource Energy Corporation.

Q. WHAT IS YOUR BACKGROUND IN REPRESENTING SHAREHOLDER CONCERNS AND INTERESTS?

A. I have been president of AUIA for nine years. Prior to that, my consulting firm managed the affairs of the Pinnacle West Shareholders Association for 13 years. During these periods we have represented shareholders in numerous rate cases and other regulatory matters and have published many position papers, newsletters and other documents in support of shareholder interests.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I am here to represent the views of the equity owners of Citizens Communications and UniSource Energy Corporation in the proposed sale of Citizens' Arizona gas and electric assets to UniSource.

1 Q. WAS AUIA AN INTERVENOR IN DOCKET NO. E-01032C-00-0751,
2 REGARDING CITIZENS' UNDER-RECOVERED PURCHASED POWER
3 COSTS?
4 A. Yes.
5
6 Q. DID YOU SUBMIT TESTIMONY IN THAT PROCEEDING?
7 A. We filed direct testimony and numerous other pleadings.
8
9 Q. SO, YOU ARE FAMILIAR WITH THE ISSUES IN THAT CASE?
10 A. Very familiar.
11
12 Q. DID AUIA INTERVENE IN THE GAS RATE CASE THAT IS A PART OF
13 THE SETTLEMENT AGREEMENT?
14 A. No, but I am generally familiar with the elements of that case.
15
16 Q. HAS AUIA FORMED AN OPINION ABOUT THE SETTLEMENT
17 AGREEMENT?
18 A. Yes. We support the agreement, but with some reluctance.
19
20 Q. WHAT IS THE CAUSE OF AUIA'S RELUCTANCE?
21 A. The fact that this transaction is being financed on the backs of the
22 shareholders of Citizens Communications Company.
23
24 Q. IN WHAT RESPECT?
25 A. First, UniSource is paying less than 60 percent of book value for Citizens'
26 gas and electric assets, a discount of \$183 million. Second, Citizens'
27 shareholders have been subsidizing electric service in Mohave and Santa
28 Cruz counties for nearly three years and they will never recover any of that
29 expense.
30
31 Q. ARE YOU REFERRING TO THE UNDER-RECOVERED PURCHASED
32 POWER COSTS?
33 A. Yes.
34

1 Q. WHAT IS THE MAGNITUDE OF THE UNRECOVERED COSTS?
2 A. At the time testimony was filed in the fuel adjustment case, my estimate
3 was about \$100 million. The joint applicants now estimate that the
4 purchased power and fuel adjustment clause (PPFAC) bank balance will
5 reach \$135 million by the end of July, when the applicants hope to receive
6 Commission approval of this transaction.
7
8 Q. AND WHO HAS BEEN FUNDING THESE UNRECOVERED COSTS?
9 A. The shareholders of Citizens Communications Company.
10
11 Q. WHO WOULD PAY FOR THEM UNDER THE SETTLEMENT
12 AGREEMENT?
13 A. The shareholders of Citizens Communications Company.
14
15 Q. DOES AUIA BELIEVE THIS TRANSACTION AND THE SETTLEMENT
16 AGREEMENT ARE IN THE PUBLIC INTEREST?
17 A. Without question. This agreement produces between \$140 million and \$150
18 million of direct benefits to consumers. It is the best deal that Citizens'
19 ratepayers could hope to get under the circumstances and it provides the
20 means for Citizens to exit the gas and electric businesses in Arizona.
21
22 Q. WHAT WOULD HAPPEN IF THE TRANSACTION FAILED?
23 A. In the first place, Citizens would proceed to litigate its electric PPFAC case
24 aggressively, including a court appeal, if necessary. It should be
25 remembered that neither the Staff nor RUCO argued for a complete denial
26 of the unrecovered amounts.
27
28 Q. WHAT WAS IN DISPUTE?
29 As a practical matter, only the incremental cost incurred under the previous
30 APS contract, from about June 2000 through May 2001 was disputed. That
31 amounts to about \$70 million. The remedy recommended by Staff and
32 RUCO was to require Citizens to litigate the contract terms at the Federal
33 Energy Regulatory Commission (FERC).
34

- 1 Q. WHAT WOULD HAPPEN IF THE TERMS OF THE CONTRACT WERE
2 UPHELD AT FERC OR BY A COURT?
- 3 A. The Commission would be obligated to allow Citizens to collect the
4 disputed amount from ratepayers through the PPFAC.
5
- 6 Q. WHAT IS INCLUDED IN THE REST OF THE PPFAC BANK BALANCE?
- 7 A. The accumulated difference between the cost of power that Citizens is
8 authorized to collect in rates and the amount it has had to pay since June
9 2001 when it renegotiated its wholesale contract with APS/Pinnacle West
10 Energy Services.
11
- 12 Q. HOW MUCH IS THAT DIFFERENCE?
- 13 A. Including energy, transmission and line losses, the difference is a little more
14 than 1.8 cents per kilowatt-hour (kWh). The cumulative difference as of
15 July 28 would be about \$60 million.
16
- 17 Q. WHAT ARE THE CHANCES THAT CITIZENS COULD RECOVER THAT
18 MUCH FROM RATEPAYERS?
- 19 A. In my view, excellent. No one has shown that the existing contract was
20 imprudent or that it is seriously out of market.
21
- 22 Q. APART FROM THE PPFAC, WHAT ELSE WOULD HAPPEN IF THE
23 PURCHASE FELL THROUGH?
- 24 A. Citizens would pursue the full \$21 million increase in the revenue
25 requirement included in its gas rate case filing. That would be \$5.8 million
26 more than the figure arrived at in the settlement agreement. In addition,
27 Citizens probably would not volunteer to write down its gas rate base by
28 \$10 million, as UniSource has agreed to do in the settlement.
29
- 30 Q. ARE THERE OTHER CONSEQUENCES OF A FAILED TRANSACTION?
- 31 A. Citizens' assets would continue to be for sale and the company would be a
32 reluctant operator of utility systems it would like to unload. Who knows
33 what kind of buyer would make the next offer or on what terms?

1 In this instance, we have a local company that is well known to this
2 Commission, a respected member of the Arizona business community and
3 a solid contributor to the social fabric of its service territory.
4

5 Q. WHY DOES CITIZENS WANT TO SELL THESE PROPERTIES?

6 A. Citizens' national business plan since 1999 has been to expand its
7 telecommunications business and sell off its traditional utility systems,
8 partly to raise capital to pay for the purchase of telephone access lines. The
9 Arizona gas and electric divisions are the only utility properties that
10 Citizens still owns. Citizens' Arizona employees are dedicated to providing
11 quality service, but since Citizens has shrunk its utility operations, it is my
12 impression that there is diminished corporate support for the Arizona
13 business units. It is not a very positive environment.
14

15 Q. WHAT ARE UNISOURCE'S PLANS REGARDING THE PURCHASED
16 POWER CONTRACT WITH PINNACLE WEST?

17 A. Although UniSource is giving up collections on Citizens' previous losses,
18 the settlement agreement asks the Commission to approve the contract
19 charges going forward. UniSource pledges to discuss renegotiating the
20 contract with Pinnacle West and the agreement specifies that 60 percent of
21 any resulting savings would go to ratepayers.
22

23 Q. HAS THERE BEEN CRITICISM OF THE CONTRACT?

24 A. There has been what I would call ad hoc criticism of the contract, based in
25 part on the perceived weakness in today's wholesale market. However,
26 nobody has made the case that the contract was imprudent when it was
27 negotiated or that it is out of market today.
28

29 Q. WHAT IS AUIA'S VIEW?

30 A. This is a prudent contract. It was negotiated in May/June 2001, at a time
31 when few long-term contracts were being negotiated except by the State of
32 California, which shaped the market by purchasing thousands of
33 megawatts of capacity and energy. California's performance is about the

1 only available comparison to this contract. My understanding is that seven
2 cents per kWh was at the low end of California's deals and most were much
3 higher. We also have contemporary evidence in this docket, although it is
4 under confidential seal, that the contract is not out of market.

5 Some other things should be kept in perspective: The distribution company
6 makes nothing on the cost of generation; it is a straight pass-through. Also,
7 this contract is not comparable to spot market pricing. It is a firm, long-
8 term, full requirements contract with a fixed price. It also eliminates any
9 possibility of stranded costs because it allows Citizens/UniSource to reduce
10 its requirements without penalties.

11
12 Q. WHAT ARE THE EFFECTS OF THIS TRANSACTION ON TEP'S
13 RATEPAYERS?

14 A. The basic structure of the deal, utilizing separate subsidiaries that will issue
15 their own debt, holds the ratepayers harmless. There is even a ratepayer
16 benefit of more than \$5 million in the settlement agreement from the
17 interest premium on the proposed TEP loan to UniSource. Eventually, there
18 may be operating synergies that will contribute to lower TEP revenue
19 requirements.

20
21 Q. WHAT IS THE IMPACT ON UNISOURCE'S SHAREHOLDERS?

22 With regard to the shareholders, it is hard to say at this point. In general, it
23 is certainly beneficial for UniSource to grow its customer base in Arizona
24 with minimal capital investment and at a bargain basement price.
25 UniSource shareholders are also held relatively harmless by the structure of
26 the acquisition and the financing plan. While there are restrictions on
27 dividend payouts related to equity ratios, they are not unreasonable.
28 Having said that, it would not be in anyone's interest for this transaction to
29 founder due to anemic revenues.

30
31 Q. ARE YOU REFERRING TO THE GAS CASE REVENUES?

32 A. Yes. In my view, the ability to finance this acquisition and to sustain it
33 depends on an adequate revenue stream from the gas operation. In the

1 latest version of the settlement agreement, UniSource has reduced the
2 revenue deficiency by nearly \$1.5 million, compared with its original
3 settlement proposal submitted in January.
4

5 Q. DOES THAT THREATEN THE VIABILITY OF THE TRANSACTION?

6 A. I believe that the revenue requirement has been squeezed to the danger
7 point, especially when the settlement agreement prohibits a gas or electric
8 rate case for three years. It is my understanding that the electric division
9 has nearly doubled its plant in service since its last rate case and, therefore,
10 is already overdue for a rate adjustment.
11

12 Q. ARE THE FUNDAMENTALS OF THE GAS RATE CASE APPROPRIATE?

13 A. They are marginally acceptable. We believe the Fair Value Rate Base
14 (FVRB) of \$142,132,013 is understated and that the cost of equity should
15 approach 12.00 percent. Since we are not going to win those arguments, an
16 overall rate of return of 7.49 percent on FVRB is not unreasonable.
17

18 Q. DOES AUIA HAVE ANY FURTHER CONCERNS ABOUT THE
19 SETTLEMENT AGREEMENT?

20 A. Yes. We have an oblique concern about the disposition of the purchased
21 gas adjustor (PGA). The settlement agreement states that the PGA shall not
22 be affected by the agreement and that previous Commission orders shall
23 prevail regarding the PGA bank balance. The PGA balance is currently
24 scheduled to zero out in September, but we do not believe it will.
25

26 Q. WHAT EFFECT COULD THAT CREATE? _____

27 A. That raises the prospect of a continued PGA surcharge into the winter
28 months at the same time that a rate increase is being implemented. As I
29 stated earlier, we are concerned about adequate revenue streams and cash
30 flow from the gas operation. Strictly speaking, the PGA mechanism does
31 not affect operating income. However, the Commission has reacted
32 nervously in the past to a wintertime PGA surcharge and we think the issue

1 should be addressed before any ad hoc decision is made that affects cash
2 flow negatively.

3
4 Q. DO YOU HAVE ANY CONCLUDING REMARKS?

5 A. Yes. Although AUIA is not supportive of the treatment of the shareholders
6 of Citizens Communications Company, there is no question that the
7 transaction represented by the settlement agreement is a good deal for
8 Citizens' ratepayers. It contains nearly \$150 million worth of direct
9 consumer benefits.

10 The structure of the transaction and the proposed financing plan, coupled
11 with certain restrictions in the settlement agreement, provide adequate
12 buffering and risk mitigation to protect TEP and Citizens ratepayers.

13 There is also no question that UniSource Energy Corporation is a fit and
14 proper entity to acquire Citizens' gas and electric assets.

15 For these reasons, the transaction is squarely in the public interest.

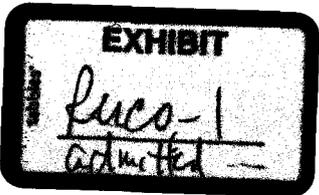
16 The public interest is also affected by the fact that Citizens wants to exit the
17 gas and electric businesses. The Commission should allow them to do so.

18 If this transaction fails, the gas and electric properties will continue to be for
19 sale and it is unlikely that any better deal will come along. In fact, any
20 probable alternative to this transaction -- whether it be Citizens' continued
21 ownership or a new offer from another buyer -- is likely to present greater
22 risk and higher liabilities for ratepayers than this transaction.

23 AUIA respectfully urges the Commission to approve the settlement
24 agreement presented by the Staff and the joint applicants.

25
26 Q. DOES THAT CONCLUDE YOUR TESTIMONY?

27 A. Yes, it does.
28
29
30



RECEIVED

2003 APR 21 P 3: 29

AZ CORP COMMISSION
DOCUMENT CONTROL

BEFORE THE ARIZONA CORPORATION COMMISSION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

- MARC SPITZER
CHAIRMAN
- JIM IRVIN
COMMISSIONER
- WILLIAM A. MUNDELL
COMMISSIONER
- JEFF HATCH-MILLER
COMMISSIONER
- MIKE GLEASON
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF THE ARIZONA ELECTRIC DIVISION OF CITIZENS COMMUNICATIONS COMPANY TO CHANGE THE CURRENT PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE RATE, TO ESTABLISH A NEW PURCHASED POWER AND FUEL ADJUSTMENT CLAUSE BANK, AND TO REQUEST APPROVED GUIDELINES FOR THE RECOVERY OF COSTS INCURRED IN CONNECTION WITH ENERGY RISK MANAGEMENT INITIATIVES.

Docket No. E-01032C-00-0751

IN THE MATTER OF THE APPLICATION OF CITIZENS COMMUNICATIONS COMPANY, ARIZONA GAS DIVISION, FOR A HEARING TO DETERMINE THE FAIR VALUE OF ITS PROPERTIES FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES DESIGNED TO PROVIDE SUCH RATE OF RETURN.

Docket No. G-01032A-02-0598

IN THE MATTER OF THE JOINT APPLICATION OF CITIZENS COMMUNICATIONS COMPANY AND UNISOURCE ENERGY CORPORATION FOR THE APPROVAL OF THE SALE OF CERTAIN ELECTRIC UTILITY AND GAS UTILITY ASSETS IN ARIZONA, THE TRANSFER OF CERTAIN CERTIFICATES OF CONVENIENCE AND NECESSITY FROM CITIZENS COMMUNICATIONS COMPANY TO UNISOURCE ENERGY CORPORATION, THE APPROVAL OF THE FINANCING FOR THE TRANSACTIONS AND OTHER RELATED MATTERS.

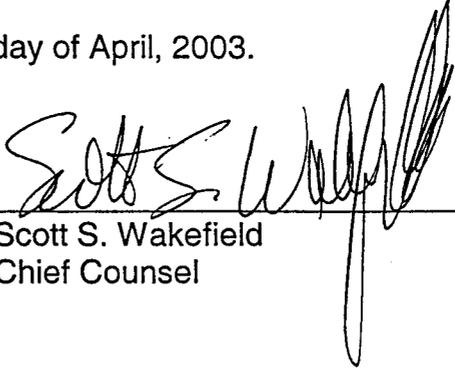
Docket No. E-01933A-02-0914
Docket No. E-01032C-02-0914
Docket No. G-01032A-02-0914

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Direct Testimony of Marylee Diaz Cortez in the above-referenced matters.

RESPECTFULLY SUBMITTED this 21st day of April, 2003.



Scott S. Wakefield
Chief Counsel

1 AN ORIGINAL AND
2 TWENTY-ONE COPIES
3 of the foregoing filed this 21st day of
4 April, 2003 with:

5 Docket Control
6 Arizona Corporation Commission
7 1200 West Washington
8 Phoenix, Arizona 85007

9 COPIES of the foregoing hand delivered/
10 mailed this 21st day of
11 April, 2003 to:

12 Dwight D. Nodes
13 Assistant Chief Administrative Law Judge
14 Hearing Division
15 Arizona Corporation Commission
16 1200 West Washington
17 Phoenix, AZ 85007

18 Christopher Kempley
19 Chief Counsel
20 Legal Division
21 Arizona Corporation Commission
22 1200 West Washington
23 Phoenix, AZ 85007

24 Ernest Johnson
Director
Utilities Division
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

L. Russell Mitten
Citizens Communications Company
3 High Ridge Park
Stamford, CT 06905

Steven W. Cheifetz
Robert J. Metli
Cheifetz & Iannitelli, P.C.
3238 North 16th Street
Phoenix, AZ 85016

John D. Draghi
Susan Mikes Doherty
Huber, Lawrence & Abell
605 3rd Avenue
New York, NY 10158

John White
Deputy County Attorney
Mohave County Attorney's Office
PO Box 7000
Kingman, AZ 86402

Walter W. Meek
AUIA
2100 North Central Avenue
Suite 210
Phoenix, AZ 85004

Holly J. Hawn
Martha S. Chase
Santa Cruz Deputy County Attorneys
2150 North Congress Drive, Suite 201
Nogales, AZ 85621

Marshall Magruder
Lucy Magruder
PO Box 1267
Tubac, AZ 85646-1267

1 Gary Smith
Citizens Communications Company
2 2901 West Shamrell Blvd.
Suite 110
3 Flagstaff, AZ 86001

4 Raymond Mason
Director, Corporate Regulatory Affairs
3 High Ridge Park
5 Stamford, CT 06905

6 Deborah R. Scott
Citizens Communications Company
7 2901 North Central Avenue
Suite 1660
8 Phoenix, AZ 85012

9 Thomas H. Campbell
Michael T. Hallam
Lewis & Roca, LLP
10 40 North Central Avenue
Suite 1900
11 Phoenix, AZ 85004

12 Andrew Bettwy
Assistant General Counsel
13 Southwest Gas Corporation
5241 Spring Mountain Road
14 Las Vegas, NV 89150

15 Jose Machado, City Attorney
Hugh Holub, Attorney
City of Nogales
16 777 North Grand Avenue
Nogales, AZ 85621

17 Robert A. Taylor, City Attorney
18 City of Kingman
310 North 4th Street
19 Kingman, AZ 86401

20 Nicholas J. Enoch
Lubin & Enoch, P.C.
21 349 North 4th Avenue
Phoenix, AZ 85003

22
23 By 
Jennifer Rumph
24

TESTIMONY
OF
MARYLEE DIAZ CORTEZ

ON BEHALF OF
THE
RESIDENTIAL UTILITY CONSUMER OFFICE

APRIL 21, 2003

| | | |
|---|--------------------------------------|----------|
| 1 | INTRODUCTION | 1 |
| 2 | The Electric Properties | 2 |
| 3 | The Gas Properties | 5 |
| 4 | The Overall Transaction | 6 |
| 5 | RUCO'S POSITION..... | 7 |
| 6 | RUCO'S RECOMMENDATION..... | 8 |
| 7 | | |

1 **INTRODUCTION**

2 Q. Please state your name, occupation and business address.

3 A. My name is Marylee Diaz Cortez. I am a Certified Public Accountant. I
4 am the Chief of Accounting and Rates for the Residential Utility Consumer
5 Office (RUCO) located at 1110 W. Washington, Suite 220, Phoenix,
6 Arizona 85004.

7
8 Q. Please state your educational background and qualifications in the field of
9 utility regulation.

10 A. Appendix I, which is attached to this testimony, describes my educational
11 background and includes a list of rate case and regulatory matters in
12 which I have participated.

13
14 Q. What is the purpose of your testimony?

15 A. The purpose of my testimony is to discuss and provide comment on an
16 agreement entered into between the Commission Staff, UniSource, and
17 Citizens (the "Parties"). The Parties' agreement pertains to all matters
18 currently pending in Docket Nos. G-01032A-02-0598 ("Gas Rate Case"),
19 E-01032C-00-0751 ("PPFAC Case"), and E-01933A-02-0914, E-01302C-
20 02-0914, G-01302C-02-0914 ("Sale and Transfer Case") (collectively the
21 "Consolidated Cases"). The terms of the Parties' agreement are
22 contained in a document that was filed on April 1, 2003 entitled
23 "Settlement Agreement UniSource Energy Corporation's Acquisition of

1 Citizens Communications Company's Gas and Electric Utility Assets".
2 (settlement agreement")
3

4 Q. Was RUCO a party to the discussions and negotiations that led to the
5 Parties' agreement?

6 A. No.
7

8 Q. Has RUCO had an opportunity to review the terms of the Parties'
9 settlement agreement?

10 A. Yes.
11

12 Q. Do you believe that the settlement resolves the issues of the Consolidated
13 Cases in a fair and unbiased manner?

14 A. For the most part, yes. There is much to be liked in the settlement
15 agreement. It goes a long way to resolve many issues that have arisen
16 as a result of the failure of energy markets to develop, and to mitigate the
17 adverse impacts of dysfunctional energy markets.
18

19 **The Electric Properties**

20 Q. Please discuss the some of the issues have arisen as a result of recent
21 events concerning Citizens' electric properties.

22 A. Due to dysfunctional electric markets during the 2000 to 2001 time frame
23 that drove the cost of power to unprecedented highs, Citizens electric

1 division has accrued a liability of approximately \$135 million in
2 unrecovered power costs. In the PPFAC case, Citizens had sought
3 recovery of these costs through its Purchased Power and Fuel Adjustor
4 Clause ("PPFAC"). Recovery of the unrecovered power costs would result
5 in an approximate 45% increase in customers' rates.
6

7 Q. How does the settlement agreement mitigate this situation?

8 A. As part of UniSource's purchase of the Citizens gas and electric properties
9 UniSource has agreed to forfeit any right to recover any of the \$135 million
10 electric power cost liability, and hold ratepayers completely harmless from
11 the impacts of the dysfunctional power markets of 2000 and 2001. This
12 term of the agreement also has the effect of reducing generation stranded
13 costs to zero.
14

15 Q. Does this mean that Citizens electric customers will experience no change
16 in rates?

17 A. No. Although Citizens' power is now supplied on a fixed rate contract,
18 which protects customers from market fluctuations, the fixed cost of the
19 power in the contract exceeds the cost of power that is embedded in
20 current electric rates. Pursuant to the terms of the PPFAC, the
21 incremental cost generally is recoverable through the PPFAC. This
22 incremental cost will increase electric commodity rates per kwh by
23 \$0.01824, or approximately 22%.

1 Q. If the electric properties did not transfer to UniSource, would Citizens
2 ratepayers still experience a rate increase?

3 A. Yes. The fixed cost of the power is the same whether Citizens retains
4 ownership of the electric operations or transfers them to UniSource.
5 Because Citizens, as yet, has not flowed through the fixed contract price
6 to ratepayers, a 22% increase for the going-forward cost of power would
7 still be necessary, absent the sale to UniSource. The advantage of the
8 settlement agreement is that the necessary increase is limited to the going
9 forward incremental cost of power and does not include recovery of the
10 \$135 million liability. Absent this agreement the rate increase would be
11 45% rather than 22%.

12
13 Q. What other terms of the settlement agreement benefit Citizens' electric
14 customers?

15 A. The electric customers will experience a permanent write down of
16 \$93,624,000 in electric rate base. As a result, in future rate cases the
17 level of investment for which UniSource is allowed to recover and earn a
18 return will be \$93.6 million less than it otherwise would be in Citizens'
19 hands. The reduction in annual electric revenue requirement as a result of
20 this write down is approximately \$17 million.

21
22 The agreement also provides for a three year rate moratorium for electric
23 customers. UniSource is precluded from seeking a rate increase during

1 this time period. The agreement is therefore beneficial to electric
2 customers by providing assurance of rate stability.

3
4 The agreement also requires UniSource to negotiate in good faith with
5 Pinnacle West for more favorable terms in the purchased power contract.
6 To provide an incentive for UniSource to seriously undertake this
7 endeavor, the agreement provides for a 60/40 sharing between ratepayers
8 and shareholders of any savings realized through the renegotiation. The
9 contract savings would serve to directly reduce the required 22% rate
10 increase through the PPFAC.

11
12 **The Gas Properties**

13 Q. Please discuss recent events that have impacted Citizens' gas properties.

14 A. During the same time frame that the electric industry was experiencing
15 large price spikes in the cost of power, natural gas prices jumped also. As
16 a result of these large increases in natural gas prices, Citizens was
17 required to significantly raise its PGA rate in the late fall of 2001. While
18 gas prices have subsequently declined from these highs, other pressures
19 have been brought to bear on the gas rates, which include the conclusion
20 of the gas "build-out" program, the expiration of the higher gas rates for
21 "build-out" customers, and as well as general inflationary pressures since
22 the last gas rate case in 1995. These events coupled with a request from

1 the Commission that Citizens file a rate case by June 2002, resulted in
2 Citizens application for an approximate increase in rates of 29%.

3
4 Q. How does the settlement agreement mitigate this situation?

5 A. UniSource has agreed to a lesser rate increase of 20.9%. Again, as with
6 the electric properties, UniSource has agreed to a rate base write down of
7 approximately \$32 million. The reduction in annual gas revenue
8 requirement as a result of this write down is approximately \$5.5 million.
9 This will serve to mitigate the need for future rate increases.

10
11 The agreement also provides for a rate case moratorium of three years,
12 which will facilitate near term rate stability. UniSource also commits to the
13 maintenance and continuation of current safety and quality of service
14 standards.

15
16 **The Overall Transaction**

17 Q. Beyond the mitigation of the gas and electric rate increases what other
18 benefits will be realized from the sale and transfer transaction?

19 A. Certain aspects of the sale and transfer itself, as well as specific
20 provisions in the settlement agreement provide benefits to ratepayers.

21 They are as follows:

- 1) A plan for operational consolidation, or in the alternative coordination of operations of the Santa Cruz electric division with the TEP electric system;
- 2) Guaranteed building of equity in acquired properties via a moratorium on the issuance of dividends in excess of 75% of earnings until such time as equity investment reaches 40%;
- 3) Required maintenance of quality of service and safety standards;
- 4) Ratepayers to be held harmless from any excess transaction costs resulting from any delays in the transfer process;
- 5) Potential for economies of scale resulting from a common ownership of the Citizens gas and electric properties with the TEP electric properties; and
- 6) Increased potential for renegotiation of the Pinnacle West power supply contract to more favorable terms.

RUCO'S POSITION

Q. Has RUCO joined Staff, Citizens, and UniSource as a signatory to the settlement agreement?

A. No. Despite all the benefits and mitigation of prior adverse events provided for in the settlement agreement, RUCO is unable to sign the agreement as it now reads.

1 Q. Why?

2 A. Staff did not allow RUCO to participate in the negotiation of this
3 settlement. As a result, the agreement reflects a resolution of the utilities'
4 and the Commission Staff's concerns. In large part the Parties concerns
5 parallel RUCO's concerns, and thus are resolved by the agreement.
6 However, RUCO has some concerns that are not addressed by the
7 agreement.

8

9 Q. What are those concerns?

10 A. While the settlement goes a long way in mitigating the adverse rate
11 impacts of prior events, it still has the unfortunate effect of resulting in rate
12 increases for both the Citizens electric and gas customers of just over
13 20%. Even though these increases are much lower than would be absent
14 the proposed transaction and settlement agreement, a 20% increase is
15 still substantial. While RUCO recognizes the historical circumstances
16 contributing to the need for the increases, at the same time RUCO
17 recognizes the need to keep customers rates relatively affordable.

18

19 **RUCO'S RECOMMENDATION**

20 Q. What modifications and/or additions could be made to the settlement
21 agreement to address RUCO's concerns?

22 A. The following modifications to the settlement agreement would address
23 RUCO's remaining concerns:

1 1) Increase electric Demand Side Management ("DSM")
2 expenditures in the newly acquired service territory from the
3 current level embedded in rates of \$175,000 per year to
4 \$1,000,000 a year¹;

5 2) Modify Part D, paragraph 28, of the settlement agreement to
6 set the sharing of any savings realized through the
7 renegotiation of the Pinnacle West contract to reflect 10% to
8 UniSource and 90% to electric ratepayers.

9
10 Q. Please explain why with these additions/modifications RUCO could
11 support the settlement agreement as consistent with the public interest.

12 A. The increased funding of electric DSM programs will provide ratepayers
13 with the tools to practice conservation of electric power and to control their
14 energy usage. RUCO recognizes, that while arguably unavoidable, a 20%
15 rate increase is significant and will create hardships for certain customers.
16 The good news, however, is that the 20% increase is embedded 100% in
17 UniSource's commodity rate. Thus, customers have the ability to mitigate
18 the magnitude of the rate increase through reduced consumption. In fact,
19 a 19% reduction in consumption would hold an average residential
20 customer harmless from the rate increase. Likewise, any reduction in
21 usage of less than 19% will still serve to proportionally diminish the
22 magnitude of the increase an individual customer will experience. The

¹ See Appendix II for the specific details of incremental DSM expenditures.

1 additional DSM expenditures will provide customers with the knowledge,
2 tools, and program vehicles to practice energy savings, and in turn control
3 the impact of the rate increase.
4

5 Q. Please continue.

6 A. The modification to reflect a 10/90 shareholder/ratepayer sharing of any
7 savings realized through the renegotiation of the Pinnacle West power
8 supply contract will allow customers to realize a greater portion of any
9 saving, while at the same time preserve UniSource's incentive to
10 renegotiate the contract to more favorable terms. Under the Parties'
11 agreement as it now reads UniSource shareholders would realize 40% of
12 any energy cost savings it could achieve. Presumably this is intended to
13 incent UniSource to negotiate aggressively. While an incentive may be
14 appropriate in this case, the magnitude of the incentive renders this
15 provision more akin to a windfall.
16

17 Q. Please explain.

18 A. Assuming a 40/60 sharing, as provided for in the agreement, and a
19 negotiated 10% reduction in the contract price, UniSource would realize
20 additional profits of over \$3 million a year. This truly represents a windfall
21 considering that absent the 40/60 agreement, ratepayers would be entitled
22 to 100% of any power cost savings. An incentive can be created without
23 the need to provide UniSource with windfall profits. RUCO recommends

1 that an effective, yet equitable, incentive can be created through a 10/90
2 sharing of the savings.

3

4 Q. With these additions and modifications would RUCO support the
5 settlement agreement?

6 A. Yes. With the above discussed modifications and additions RUCO
7 believes the settlement agreement is a reasonable solution for dealing
8 with the impacts of the 2000/2001 dysfunctional energy markets, and
9 accordingly is in the public interest.

10

11 Q. Does this conclude your direct testimony?

12 A. Yes.

13

14

15

16

17

18

APPENDIX

I

APPENDIX I

Qualifications of Marylee Diaz Cortez

- EDUCATION:** University of Michigan, Dearborn
B.S.A., Accounting 1989
- CERTIFICATION:** Certified Public Accountant - Michigan
Certified Public Accountant - Arizona
- EXPERIENCE:** Audit Manager
Residential Utility Consumer Office
Phoenix, Arizona 85007
July 1994 - Present

Responsibilities include the audit, review and analysis of public utility companies. Prepare written testimony, schedules, financial statements and spreadsheet models and analyses. Testify and stand cross-examination before Arizona Corporation Commission. Advise and work with outside consultants. Work with attorneys to achieve a coordination between technical issues and policy and legal concerns. Supervise, teach, provide guidance and review the work of subordinate accounting staff.

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona 85004
October 1992 - June 1994

Responsibilities included the audit, review and analysis of public utility companies. Prepare written testimony and exhibits. Testify and stand cross-examination before Arizona Corporation Commission. Extensive use of Lotus 123, spreadsheet modeling and financial statement analysis.

Auditor/Regulatory Analyst
Larkin & Associates - Certified Public Accountants
Livonia, Michigan
August 1989 - October 1992

Performed on-site audits and regulatory reviews of public utility companies including gas, electric, telephone, water and sewer throughout the continental United States. Prepared integrated proforma financial statements and rate models for some of the largest public utilities in the United States. Rate models consisted

of anywhere from twenty to one hundred fully integrated schedules. Analyzed financial statements, accounting detail, and identified and developed rate case issues based on this analysis. Prepared written testimony, reports, and briefs. Worked closely with outside legal counsel to achieve coordination of technical accounting issues with policy, procedural and legal concerns. Provided technical assistance to legal counsel at hearings and depositions. Served in a teaching and supervisory capacity to junior members of the firm.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

| <u>Utility Company</u> | <u>Docket No.</u> | <u>Client</u> |
|-------------------------------|-----------------------|---|
| Potomac Electric Power Co. | Formal Case No. 889 | Peoples Counsel of District of Columbia |
| Puget Sound Power & Light Co. | Cause No. U-89-2688-T | U.S. Department of Defense - Navy |
| Northwestern Bell-Minnesota | P-421/EI-89-860 | Minnesota Department of Public Service |
| Florida Power & Light Co. | 890319-EI | Florida Office of Public Counsel |
| Gulf Power Company | 890324-EI | Florida Office of Public Counsel |
| Consumers Power Company | Case No. U-9372 | Michigan Coalition Against Unfair Utility Practices |
| Equitable Gas Company | R-911966 | Pennsylvania Public Utilities Commission |
| Gulf Power Company | 891345-EI | Florida Office of Public Counsel |

| | | |
|------------------------------------|-------------------------------|---|
| Jersey Central Power & Light | ER881109RJ | New Jersey Department of Public Advocate Division of Rate Counsel |
| Green Mountain Power Corp. | 5428 | Vermont Department of Public Service |
| Systems Energy Resources | ER89-678-000 & EL90-16-000 | Mississippi Public Service Commission |
| El Paso Electric Company | 9165 | City of El Paso |
| Long Island Lighting Co. | 90-E-1185 | New York Consumer Protection Board |
| Pennsylvania Gas & Water Co. | R-911966 | Pennsylvania Office of Consumer Advocate |
| Southern States Utilities | 900329-WS | Florida Office of Public Counsel |
| Central Vermont Public Service Co. | 5491 | Vermont Department of Public Service |
| Detroit Edison Company | Case No. U-9499 | City of Novi |
| Systems Energy Resources | FA-89-28-000 | Mississippi Public Service Commission |
| Green Mountain Power Corp. | 5532 | Vermont Department of Public Service |
| United Cities Gas Company | 176-717-U | Kansas Corporation Commission |

| | | |
|--|--------------------------|---|
| General Development Utilities | 911030-WS & 911067-WS | Florida Office of Public Counsel |
| Hawaiian Electric Company | 6998 | U.S. Department of Defense - Navy |
| Indiana Gas Company | Cause No. 39353 | Indiana Office of Consumer Counselor |
| Pennsylvania American Water Co. | R-00922428 | Pennsylvania Office of Consumer Advocate |
| Wheeling Power Co. | Case No. 90-243-E-42T | West Virginia Public Service Commission Consumer Advocate Division |
| Jersey Central Power & Light Co. | EM89110888 | New Jersey Department of Public Advocate Division of Rate Counsel |
| Golden Shores Water Co. | U-1815-92-200 | Residential Utility Consumer Office |
| Consolidated Water Utilities | E-1009-92-135 | Residential Utility Consumer Office |
| Sulphur Springs Valley Electric Cooperative | U-1575-92-220 | Residential Utility Consumer Office |
| North Mohave Valley Corporation | U-2259-92-318 | Residential Utility Consumer Office |
| Graham County Electric Cooperative | U-1749-92-298 | Residential Utility Consumer Office |

| | | |
|-------------------------------|----------------------------------|--|
| Graham County Utilities | U-2527-92-303 | Residential Utility Consumer Office |
| Consolidated Water Utilities | E-1009-93-110 | Residential Utility Consumer Office |
| Litchfield Park Service Co. | U-1427-93-156 & U-1428-93-156 | Residential Utility Consumer Office |
| Pima Utility Company | U-2199-93-221 & U-2199-93-222 | Residential Utility Consumer Office |
| Arizona Public Service Co. | U-1345-94-306 | Residential Utility Consumer Office |
| Paradise Valley Water | U-1303-94-182 | Residential Utility Consumer Office |
| Paradise Valley Water | U-1303-94-310 & U-1303-94-401 | Residential Utility Consumer Office |
| Pima Utility Company | U-2199-94-439 | Residential Utility Consumer Office |
| SaddleBrooke Development Co. | U-2492-94-448 | Residential Utility Consumer Office |
| Boulders Carefree Sewer Corp. | U-2361-95-007 | Residential Utility Consumer Office |
| Rio Rico Utilities | U-2676-95-262 | Residential Utility Consumer Office |
| Rancho Vistoso Water | U-2342-95-334 | Residential Utility Consumer Office |
| Arizona Public Service Co. | U-1345-95-491 | Residential Utility Consumer Office |
| Citizens Utilities Co. | E-1032-95-473 | Residential Utility Consumer Office |
| Citizens Utilities Co. | E-1032-95-417 et al. | Residential Utility Consumer Office |

| | | |
|---|--|--|
| Paradise Valley Water | U-1303-96-283 & U-1303-95-493 | Residential Utility Consumer Office |
| Far West Water | U-2073-96-531 | Residential Utility Consumer Office |
| Southwest Gas Corporation | U-1551-96-596 | Residential Utility Consumer Office |
| Arizona Telephone Company | T-2063A-97-329 | Residential Utility Consumer Office |
| Far West Water Rehearing | W-0273A-96-0531 | Residential Utility Consumer Office |
| SaddleBrooke Utility Company | W-02849A-97-0383 | Residential Utility Consumer Office |
| Vail Water Company | W-01651A-97-0539 & W-01651B-97-0676 | Residential Utility Consumer Office |
| Black Mountain Gas Company Northern States Power Company | G-01970A-98-0017 G-03493A-98-0017 | Residential Utility Consumer Office |
| Paradise Valley Water Company Mummy Mountain Water Company | W-01303A-98-0678 W-01342A-98-0678 | Residential Utility Consumer Office |
| Bermuda Water Company | W-01812A-98-0390 | Residential Utility Consumer Office |
| Bella Vista Water Company Nicksville Water Company | W-02465A-98-0458 W-01602A-98-0458 | Residential Utility Consumer Office |
| Paradise Valley Water Company | W-01303A-98-0507 | Residential Utility Consumer Office |
| Pima Utility Company | SW-02199A-98-0578 | Residential Utility Consumer Office |
| Far West Water & Sewer Company | WS-03478A-99-0144 Interim Rates | Residential Utility Consumer Office |
| Vail Water Company | W-01651B-99-0355 Interim Rates | Residential Utility Consumer Office |

| | | |
|---|---|--|
| Far West Water & Sewer Company | WS-03478A-99-0144 | Residential Utility Consumer Office |
| Sun City Water and Sun City West | W-01656A-98-0577 & SW-02334A-98-0577 | Residential Utility Consumer Office |
| Southwest Gas Corporation ONEOK, Inc. | G-01551A-99-0112 G-03713A-99-0112 | Residential Utility Consumer Office |
| Table Top Telephone | T-02724A-99-0595 | Residential Utility Consumer Office |
| U S West Communications Citizens Utilities Company | T-01051B-99-0737 T-01954B-99-0737 | Residential Utility Consumer Office |
| Citizens Utilities Company | E-01032C-98-0474 | Residential Utility Consumer Office |
| Southwest Gas Corporation | G-01551A-00-0309 & G-01551A-00-0127 | Residential Utility Consumer Office |
| Southwestern Telephone Company | T-01072B-00-0379 | Residential Utility Consumer Office |
| Arizona Water Company | W-01445A-00-0962 | Residential Utility Consumer Office |
| Litchfield Park Service Company | W-01427A-01-0487 & SW-01428A-01-0487 | Residential Utility Consumer Office |
| Bella Vista Water Co., Inc. | W-02465A-01-0776 | Residential Utility Consumer Office |
| Generic Proceedings Concerning Electric Restructuring Issues | E-00000A-02-0051 | Residential Utility Consumer Office |
| Arizona Public Service Company | E-01345A-02-0707 | Residential Utility Consumer Office |
| Qwest Corporation | RT-00000F-02-0271 | Residential Utility Consumer Office |
| Arizona Public Service Company | E-01345A-02-0403 | Residential Utility Consumer Office |

APPENDIX

II

APPENDIX II

RECOMMENDED INCREMENTAL DSM PROGRAMS AND FUNDING

- * Unisource shall increase funding for DSM programs in the existing Citizens Utilities service territory by \$825,000 annually from the current level of \$175,000 annually to a total of \$1,000,000 annually. The incremental \$825,000 will be eligible for deferral and potential future recovery from ratepayers, subject to rapid deployment and successful implementation of programs. Deferrals will accrue interest at the Company's authorized cost of capital.
- * Of the total funding of \$1,000,000, \$400,000 will be contingent on the renegotiation and reduction in the APS contract power rate. \$600,000 of the DSM funding is assured, no matter what.
- * The DSM programs include additional funding for the following existing Citizens Utilities programs:
 - Residential/Commercial Education
 - Residential Incentives
 - Commercial HVAC
 - New Construction
 - Web-Based Energy Audit
- * The following new programs would be added with the additional funding:
 - Shade Trees Program
 - Weatherization
 - Commercial Lighting
 - Commercial Motors

- * All program designs will be subject to the preapproval process that was in place for Citizens electric DSM programs prior to Decision No. 59951.

ALL-STATE LEGAL®

EXHIBIT

S-1
admitted

STAFF REPORT

CITIZENS COMMUNICATIONS COMPANY
UNISOURCE ENERGY CORPORATION
SALE AND TRANSFER
GAS RATE CASE

DOCKET NOS. E-01032C-00-0751
 G-01032A-02-0598
 E-01933A-02-0914
 E-01032C-02-0914
 G-01032A-02-0914

APRIL 21, 2003

EXECUTIVE SUMMARY

The Utilities Division Staff respectfully urges adoption of the Settlement Agreement reached between itself and UniSource Energy Corporation and Citizens Communications Company. It is a multi-faceted agreement which resolves numerous rate and regulatory issues in a manner that is fair to ratepayers.

It should be emphasized at the outset that in the sale and transfer transaction, UniSource effectively bargained for a purchase price significantly below the book value of the various electric and gas assets being transferred. Further, UniSource has agreed within the Settlement Agreement to pass the purchase price savings on to customers in ongoing and future regulatory procedures. Certain of the referenced savings included within the Settlement Agreement were originally included within the Joint Application filed by UniSource and Citizens with this Commission on December 6, 2003. Other additional concessions were negotiated with Staff and were subsequently included within the Settlement Agreement. The discounts to book value being achieved, and the savings inuring to ratepayers as a result of such discounts, can be viewed as the equivalent of, or analogous to, this Commission ordering significant plant and Purchased Power and Fuel Adjustment Clause disallowances following litigation of highly complex and controversial issues that address decisions made and actions taken by Citizens over a number of years.

The Settlement Agreement provides for an increase in the PPFAC factor as well as base gas rates. While the electric and gas increases included within the Settlement Agreement are not insignificant, they dwarf the exposure the ratepayers face through continued litigation of a number of issues at the ACC and appeals court level. Specifically, Staff urges the adoption of the Settlement Agreement in its entirety, without significant or substantive modification, for the following major reasons:

- In August 2002, Citizens filed for an annual increase in base gas rates of \$21.0 million (28.9 percent). Significantly, the noted Citizen base rate request filed in August 2002

was not "typical" of many energy filings which Citizens made during the 1990s wherein it repeatedly filed for much higher rates than ultimately proved justified. To the contrary, the August 2002 requested increase was premised primarily upon the near-tripling of rate base which has occurred since the last Citizens gas rate case filed in 1995. Specifically, over the last eight years, Citizens has added \$133 million in gross plant in service – with most of those expenditures related to an ACC-endorsed Build Out Program. As noted within the ensuing section, Staff's analysis indicated that in all likelihood, Citizens acted imprudently in proceeding with certain elements of the Build Out Program without further study. Through a combination of 1) a discount-to-net-plant-book-value achieved in the purchase price of the gas plant (\$30.7 million) and 2) an additional \$10 million prudence disallowance ultimately acquiesced to by UniSource, the Settlement Agreement base rates being proposed for gas customers cumulatively reflect what would be equivalent to a \$40-plus million plant prudence disallowance – in this and all future rate cases. To emphasize the significance of such concession, it is noted that the removal of \$40-plus million of Citizens' requested plant in service is equivalent to approximately one-third of all gas plant added by Citizens since it filed its last gas rate case in 1995.

- Customers will avoid a potential increase in their bills of over \$135 million from Citizens' under-recovered PPFAC balance plus future carrying costs, because in the Settlement Agreement UniSource and Citizens will forfeit their rights to this under-recovered balance. The reduction to the electric rate base from the negative acquisition adjustment of approximately \$93.8 million should result in customers enjoying longer run avoidance of rate increases or, possibly, future rate reductions. Customers will experience stability in power costs included in the PPFAC for the next five years, and a guarantee of stability in total electric costs for the next three years related to the rate case moratorium. Further, if the Settlement Agreement is approved, electric customers should have the ability to choose alternative power suppliers in less than two years, and if customers find lower alternative power prices, they will be able to benefit from those prices without the burden of paying stranded costs. There will be an increase in the

PPFAC rate which will reflect only actual power costs after the date of the Decision, resulting in a new adjustor rate of \$0.01825 per kWh. However, UniSource is attempting to negotiate for lower power costs, and if successful, will pass on sixty (60) percent of any savings to customers pursuant to the Settlement Agreement.

- UniSource agreed to several limitations related to the financing of the sale and transfer of the gas and electric assets. First among these is if a loan from TEP to UniSource becomes part of the financing, the loan would be at a higher interest rate than UniSource originally requested, resulting in more interest income to TEP, ultimately benefiting TEP ratepayers. Second, the loan from TEP would be for four years rather than the ten years that UniSource originally requested, reducing the length of time that TEP's funds are at risk. Third, the Settlement Agreement places dividend restriction on the New Companies and tightens the current dividend restriction on TEP. This restriction was agreed upon to protect the earnings of the regulated Arizona utility from the possibility of failed ventures of the parent, UniSource. Finally, the Settlement Agreement contains a condition to hold TEP's ratepayers harmless from any increases in TEP's cost of capital as a result of the loan to UniSource. Taken together, these restrictions significantly reduce risk to the current TEP ratepayers and the ratepayers of the New Companies.

Staff respectfully urges the Commission to adopt the Settlement Agreement without significant modification. There may be elements that one would desire to change individually. Indeed, during negotiations, Staff at times bargained for different or additional concessions. However, the Settlement Agreement *taken as a whole* reasonably balances diverse interests, is fair to ratepayers and consistent with the public interest.

Ultimately, in Staff's opinion, the electric and gas rate increases being recommended for approval herein pursuant to the Settlement Agreement *are no higher than*, and in all likelihood, *lower than*, what would eventually have been allowed in the way of rate relief at the ACC or appellate court level. Staff would note that if the transaction is terminated because UniSource

simply cannot accept terms being suggested or imposed, and it withdraws from the transaction, that it is probable ratepayers will eventually be harmed. So, again, adoption of the Settlement Agreement as proposed, without significant modification, is recommended by the Utilities Division Staff.

TABLE OF CONTENTS

| | <u>Page</u> |
|---|-------------|
| OVERVIEW | 1 |
| Consolidation of the Three Cases | 1 |
| Settlement Negotiations | 1 |
| Summary of the Benefits of the Settlement Agreement | 2 |
| The Sale of Citizens Arizona Gas and Arizona Electric Division Assets to UniSource | 4 |
| GAS RATE CASE ANALYSIS | 6 |
| Major Agreements Reached with Regard to Citizens Arizona Gas Properties' Base and Purchased Gas | |
| Adjustor Rates | 6 |
| Gas Rate Case Background | 8 |
| Summary of Citizens' August 2002 Base Rate Application | 10 |
| Arizona Build Out Program | 13 |
| Other Cost of Service Adjustments | 22 |
| Citizens' Cost of Capital Proposal | 25 |
| UniSource's Settlement Cost of Capital | 25 |
| Rate Spread and Rate Design | 27 |
| Purchase Gas Adjustor ("PGA") | 28 |
| PGA Bank Balance | 29 |
| Revised Line Extension Tariff and Policy | 29 |
| ELECTRIC PURCHASED POWER AND FUEL ADJUSTOR CASE ANALYSIS | 31 |
| Major Agreements Reached with Regard to Citizens Arizona Electric Properties | 31 |
| Electric PPFAC Case Background | 32 |
| The Old Contract | 34 |
| Terms of New Contract | 35 |
| Staff Proposals in the PPFAC Case Prior to the Joint Application | 36 |
| What the Settlement Agreement Should Be Compared to for Electric Customers | 38 |
| Alternatives With and Without the Sale and Transfer | 39 |
| Potential Outcomes | 40 |
| Rate Impacts of Potential Outcomes | 41 |
| Other Long-term Rate Impacts on Electric Customers | 42 |
| Value of Retail Access | 43 |
| ANALYSIS OF FINANCING OF THE SALE AND TRANSFER OF UTILITY ASSETS | 44 |
| Background of Financing Issues | 44 |
| The Loan from TEP to UniSource | 44 |
| Hold Harmless Provision | 45 |
| Waiver of the 30 Percent Condition | 45 |
| Dividend Payout Restrictions on TEP and the New Companies | 46 |

Table of Contents - Continued

| | |
|----------------------------------|----|
| Guarantee of Affiliate Debt..... | 46 |
| CONCLUSION..... | 47 |

SERVICE LIST

Mr. L. Russell Mitten
Citizens Communications Company
Three High Ridge Park
Stamford, Connecticut 06905

Mr. Steven W. Cheifetz
Mr. Robert J. Metli
Cheifetz & Iannitelli, P.C.
3238 North 16th Street
Phoenix, Arizona 85016

Mr. John D. Draghi
Huber, Lawrence & Abell
605 3rd Avenue
New York, New York 10158

Mr. Daniel W. Pozefsky
RUCO
1110 West Washington, Suite 220
Phoenix, Arizona 85007

Mr. John White
Deputy County Attorney
Mohave County Attorney's Office
P. O. Box 7000
Kingman, Arizona 86402

Mr. Walter W. Meek
AUIA
2100 North Central Avenue, Suite 210
Phoenix, Arizona 85004

Ms. Holly J. Hawn
Ms. Martha S. Chase
Santa Cruz Deputy County Attorneys
2150 North Congress Drive, Suite 201
Nogales, Arizona 85621

Mr. Marshall Magruder
Ms. Lucy Magruder
P. O. Box 1267
Tubac, Arizona 85646-1267

Mr. Nicholas J. Enoch
Lubin & Enoch, P.C.
349 North Fourth Avenue
Phoenix, Arizona 85003

Mr. Gary Smith
Citizens Communications Company
2901 West Shamrell Boulevard, Suite 110
Flagstaff, Arizona 86001

Mr. Raymond Mason
Director, Corporate Regulatory Affairs
3 High Ridge Park
Stamford, Connecticut 06905

Ms. Deborah R. Scott
Citizens Communications Company
2901 North Central Avenue, Suite 1660
Phoenix, Arizona 85012

Mr. Scott Wakefield
RUCO
1100 West Washington Street, Suite 220
Phoenix, Arizona 85007

Ms. Susan Mikes Doherty
Huber, Lawrence & Abell
605 Third Avenue
New York, New York 10158

Mr. Thomas H. Campbell
Mr. Michael T. Hallam
Lewis & Roca, LLP
40 North Central Avenue
Phoenix, Arizona 85004

Mr. Andrew Bettwy
Assistant General Counsel
Southwest Gas Corporation
5241 Spring Mountain Road
Las Vegas, Nevada 89150

Mr. Jose Machado, City Attorney
Mr. Hugh Holub, Attorney
City of Nogales
777 North Grand Avenue
Nogales, Arizona 85621

Mr. Robert A. Taylor
City Attorney
City of Kingman
310 North Fourth Street
Kingman, Arizona 86401

Mr. Christopher C. Keniply
Chief, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Mr. Ernest G. Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ms. Lyn Farmer
Director, Hearing Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

1 discussed, it would have been unreasonably cumbersome for Staff to negotiate with the Joint
2 Applicants with all other parties present. Therefore, Staff indicated that it would continue
3 negotiations with Citizens and UniSource and that the other parties should attempt to come to an
4 agreement with the applicants on an individual basis. On March 31st, Staff held a final meeting
5 with the intervenors explaining the main points of the proposed Settlement Agreement and
6 responded to the questions and concerns of the individual intervenors.

7
8 **Summary of the Benefits of the Settlement Agreement**

9 In later portions of this Report, Staff will detail the many benefits of the Settlement
10 Agreement. However, at the outset, we will summarize those benefits that are especially notable.
11 In general, Staff believes that a number of benefits would be difficult or impossible to achieve and
12 pass on to the ratepayers within the context of a normal rate case and sale of asset proceedings.

13
14 By far, the single most significant benefit is the "forgiveness" or permanent writedown of
15 the "under-recovered" purchased power costs included within the AED's PPFAC bank balance at
16 the time of the closing of the asset purchase transaction. The current balance is \$124.0 million
17 and rising. It is estimated to reach at least \$135 million by July 28, 2003. The forgiveness of this
18 amount by UniSource saves the AED's residential customers approximately \$12 per month.

19
20 The Settlement Agreement also includes a provision whereby the ratepayers will benefit
21 immediately if UniSource is able to renegotiate its purchased power contract with Pinnacle West
22 Energy. Pursuant to the Agreement, 60 percent of the savings from the renegotiated contract will
23 flow through to the ratepayers. In contrast, because Tucson Electric Power Company and

1 Arizona Public Service Company do not currently have a purchased power or fuel adjustor
2 mechanism in place, they are able to keep any savings from renegotiated power and fuel
3 contracts. Their customers would only receive such a benefit after a full rate case.

4
5 The Settlement Agreement will also benefit customers by the reduction of the requested
6 increase in gas rates from \$21.0 million as originally requested by Citizens (or UniSource's
7 original proposal contained within the Joint Application of \$16.6 million) to approximately \$15.2
8 million per the Settlement Agreement. The reductions result primarily from UniSource's
9 willingness to recognize the *purchase price* of the assets in rate base rather than the *book value* of
10 the assets. Additional reductions were achieved when UniSource agreed to a further \$10.0
11 million permanent agreed-upon disallowance from rate base and related depreciation expense due
12 to Build-Out Program excesses. Although in the past, the Commission has removed plant that
13 was not used or useful from rate base or deferred its recovery, it has not reduced rate base due to
14 the market value of a utility's assets. Thus, this voluntary, permanent reduction in rate base
15 would be unlikely outside of these dockets.

16
17 It is also problematic for a utilities commission to limit a utility's right to file for rate
18 increases. However, a three-year moratorium on the AED and AGD rates was achieved through
19 the Settlement Agreement.

20
21 Electric competition remains at the forefront of Arizona regulatory issues. The Settlement
22 Agreement contains a provision whereby within four months of approval of the Agreement,
23 UniSource will file a plan to open the AED's service territory to retail electric competition by

1 December 31, 2004. The Agreement, then, requires actions on the part of UniSource that may
2 accelerate the timing of the implementation of retail competition in the AEC territory. Electric
3 competition could be especially of great benefit to the Cities of Nogales and Kingman in reducing
4 the cost of electricity for their citizens.

5
6 Also related to the acceleration of electric competition in the AED territory, the issue of
7 stranded generation costs was addressed by the Settlement Agreement. Approval of the
8 Agreement will eliminate the time and expense of a separate proceeding. Pursuant to the
9 Settlement Agreement, UniSource agreed to permanently forgo recovery of any potential stranded
10 generation costs. It is doubtful that a separate proceeding could result in a more favorable result
11 for the ratepayers.

12
13 **The Sale of Citizens Arizona Gas and Arizona Electric Division Assets to UniSource**

14 The current purchase agreement to sell the AED to UniSource is not the first purchase
15 agreement entered into by Citizens to sell those assets. In May 2000, Citizens applied for
16 approval to sell the AED assets to Cap Rock Energy Corporation, a Texas-based electric
17 cooperative. The sales price in that transaction was \$210.0 million while the book value of the
18 assets was \$163.0 million resulting in an acquisition premium of \$47 million. The current
19 purchase price offered by UniSource is \$92 million while book value is \$187 million resulting in
20 an acquisition discount of \$93.8 million including the effect of transaction costs. It is reasonable
21 to assume that if Cap Rock had consummated the purchase, there would have been efforts to
22 recover the acquisition premium.

23 ...

1 Cap Rock was proposing to finance the acquisition with \$191.0 million of long-term debt
2 at approximately 9.0 percent interest and the remainder with preferred stock with a 12.0 percent
3 dividend rate. The transaction was subsequently cancelled when Cap Rock could not obtain
4 financing.

5
6 The proposed UniSource/Citizens transaction contrasts favorably with the Citizens/Cap
7 Rock transaction. Had the Commission approved the Cap Rock transaction, a financial burden
8 may have eventually been placed on the AED's rate payers related to CAP Rock's high financing
9 costs and large acquisition premium. The UniSource/Citizens transaction diminishes such risks.
10 Furthermore, UniSource is an Arizona-based holding company focused primarily on providing
11 utility service in Arizona. Both Cap Rock and Citizens are based in other states.

12
13 Another factor supporting the sale of the assets to UniSource is that since 1999, Citizens
14 has been trying to exit the electric and gas business. Its primary focus continues to be
15 telecommunications service. In contrast, UniSource continues to focus on and expand its energy
16 service.

17
18 The rest of this report will further detail, explain and support the various sections of the
19 Settlement Agreement. Staff strongly believes that it is in the public interest for the Commission
20 to adopt the settlement agreement and approve the three applications at issue.

21 ...

22 ...

23 ...

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23

GAS RATE CASE ANALYSIS

Major Agreements Reached with Regard to Citizens Arizona Gas Properties' Base and Purchased Gas Adjustor Rates

The major elements of the Settlement Agreement affecting Citizens Arizona Gas Properties' regulated retail rates and books of account include the following:

- In August 2002, Citizens filed a Gas Base Rate Application with the ACC wherein it sought a \$21,005,521 annual increase, or an overall average increase of 28.9 percent. Pursuant to the Settlement Agreement, base gas rates will increase \$15,191,276, which equates to an average overall increase of 20.9 percent.

- UniSource negotiated a purchase price that was \$30.7 million below the net original depreciated cost of Citizens' Arizona gas properties included within the December 31, 2001 Test Year end rate base, resulting in a *negative acquisition adjustment*. The settlement rates pass on all savings from the negotiated sales prices to Arizona retail gas ratepayers, in the instant case, as well as all future rate cases until such time that the negative acquisition adjustment is fully amortized.

- The settlement rates incorporate a \$10 million write down to gas plant in service attributable to the Build Out Program. This noted \$10 million write down to gas plant in service is separate and distinct from, and above and beyond, the negative acquisition adjustment described in the previous topical point. Like the negative acquisition adjustment, the \$10 million write down to gas plant in service attributable to the Build

1 Out Program represents a *permanent* write down to plant in service that will result in
2 savings in future Arizona gas base rate proceedings as well as in the instant case.

- 3
- 4 • Base rates will not be changed for a three-year period barring a) an emergency condition,
5 or b) a material change in cost of service attributable to a select set of events that are
6 beyond the control of UniSource.

- 7
- 8 • The base rate increase is being proposed to be spread evenly among all retail rate classes.
9 Further, for residential customers, the customer charge is being established at \$7.00 per
10 month. While such change represents a fairly significant percentage increase from the
11 current monthly customer charge of \$5.00 a month for the Northern Arizona Gas Division
12 ("NAGD") and \$5.26 for the Santa Cruz Gas Division ("SCGD"), it is significantly below
13 the Citizens-proposed monthly charge of \$10.00 per month, as well as Citizens' cost-of-
14 service justified customer charge of \$15.99 per month. Further, rates for the NAGD and
15 the SCGD have been consolidated for this case and all future cases.

- 16
- 17 • A new base cost of gas of \$0.400 per therm is being rolled into base rates. This larger
18 base roll-in amount should produce lower future PGA factors and billing values while
19 better reflecting higher recent and ongoing gas cost levels.

20

21 In the ensuing sections, we provide a history of events, a discussion of analyses
22 undertaken, a listing of concerns and issues identified as a result of analyses undertaken, as well

1 as a discussion of why Staff believes the Settlement Agreement regarding gas rate and accounting
2 issues is "in the public interest."
3

4 Gas Rate Case Background

5 On August 6, 2002, Citizens Communications Company (formerly known as "Citizens
6 Utilities Company") filed a base rate application that sought to increase Arizona retail base gas
7 rates by \$21,005,521. The requested increase equated to an average overall increase of 28.9
8 percent for all retail customers. Further, with its filing Citizens sought to combine, or consolidate,
9 its Northern Arizona Gas and Santa Cruz Gas Divisions' operations for rate or tariff purposes.
10

11 The August 2002 filing was the first Citizens gas base rate filing made since October 18,
12 1995. Citizens' 1995 filing culminated in a relatively modest \$2.7 million (6.0 percent) increase
13 in the Northern Arizona Gas Division's rates. Significantly, during the nearly eight-year span
14 since Citizens' last Arizona gas rate case, the Company invested approximately \$133 million in
15 gas plant. This significant investment in gas plant is the primary contributor to the near-tripling
16 of rate base that Citizens was requesting within its August 2002 rate filing versus what had been
17 requested within its 1995 gas rate case. As discussed in a separate section below, the majority of
18 Citizens' plant additions during the noted eight-year period is attributable to the Company's
19 Arizona Build Out Program – a program designed to expand Citizens' gas service to relatively
20 remote, low density and high-cost-to-serve areas.
21

22 Because of the size and complexity of Citizens' 2002 base rate filing, in conjunction with
23 other regulatory projects which were straining the internal resources of the Utilities Division

1 Staff, a request for proposal to undertake most major elements of the review of Citizens' rate
2 filing was issued. Upon review and receipt of various bidders' proposals to undertake the
3 requested rate review, the Utilities Division Staff issued a contract to the consulting firm of
4 Utilitech, Inc. Utilitech had undertaken the rate review of numerous Citizens rate applications in
5 Arizona as well as Hawaii throughout the 1990s. The Utilitech contract was awarded in early
6 December 2002 with the initial review work and issuance of substantial discovery commencing
7 almost immediately upon contract award.

8
9 On December 19, 2002, UniSource and Citizens filed the Joint Application which is now
10 the subject of this Staff Report. With the filing of the noted Joint Application, Staff's review
11 (including the various analyses being undertaken by contractor Utilitech) was modified and
12 expanded to include consideration of how the Arizona properties' gas cost of service might
13 change as a result of the UniSource acquisition. Such tasks were undertaken in addition to the
14 original task of determining an appropriate revenue level assuming continued Citizens ownership
15 of such Arizona gas properties.

16
17 It should be noted that the acquisition of the Arizona gas properties is not envisioned by
18 UniSource to result in significant "overhead" or other "economies of scale" savings that
19 frequently occur when utility properties are sold or merged with larger entities. To the contrary,
20 as the "acquirer," UniSource is a smaller entity than Citizens which has historically owned energy
21 properties in a number of jurisdictions. There is expected to eventually be some savings from the
22 operation of the contiguous *electric* properties – but these savings are expected to be relatively
23 modest. Thus, the "savings" which UniSource projects, and which were incorporated within the

1 revised and downwardly-adjusted Arizona gas base rate request included within the noted Joint
2 Application, is premised almost entirely upon the reflection of the negative acquisition
3 adjustment. As noted previously, the negative acquisition adjustment has materialized as a result
4 of UniSource's acquisition of the Citizens gas properties significantly below the net depreciated
5 original cost book value.

6
7 Summary of Citizens' August 2002 Base Rate Application

8 During the 1990s, Citizens filed several rate applications with the ACC to increase retail
9 electric and gas rates. Citizens' rate requests could be broadly characterized as "aggressive,"
10 typically proposing a significantly larger increase than ultimately proved to be justified. In fact,
11 through much of the 1990s, Citizens obtained through negotiated settlements or ACC orders in
12 contested cases, increases that represented a relatively small fraction of various initial Citizens
13 requests. Utilizing such historical Citizens rate case results as a benchmark, the settlement rates
14 being recommended herein may, at first glance, appear "excessive."

15
16 However, Citizens' August 2002 gas rate application can be distinguished in many
17 respects from the "typical" rate request undertaken throughout the 1990s. Specifically, in the
18 August 2002 rate application Citizens has not reflected any of the following cost of service
19 positions that it frequently promoted, but failed to obtain ACC approval for, during the 1990s:

- 20
21 • Construction Work in Progress ("CWIP") in Rate Base: Throughout the 1990s Citizens
22 frequently sought to include CWIP within its rate base request. Such requests were made

1 notwithstanding universal rejection by the ACC. In the instant case, Citizens has not
2 proposed to include any CWIP in rate base.

3
4 • Weather Normalization: Citizens typically did not post a "weather normalization"
5 adjustment in cases filed during the 1990s. In the instant case, Citizens proposed an
6 adjustment to normalize for weather even though such adjustment had the impact of
7 *lowering* its requested rate increase.

8
9 • Year End Customer Annualization: Adjustments to recognize growth in revenues related
10 to growth in number of customers through test year end were seldom proposed by
11 Citizens in cases filed in the 1990s – even though such adjustments were routinely
12 accepted by the ACC in Citizens as well as other Arizona utility rate orders. Citizens did
13 post a year-end customer annualization in the instant case – consistent with prior ACC
14 precedent.

15
16 • Post-Test Year Expense Adjustment: Citizens was notorious for proposing adjustments
17 to recognize *post test year* expense *increases*, while ignoring offsets in other expense
18 areas or post-test year growth in revenues. In the instant case, Citizens undertook a better
19 job of "matching" test year revenues and expense levels.

20
21 • Administrative Offices Expense: Throughout the 1990s, the ACC was critical of
22 a) certain charges being allocated from Citizens' various administrative offices, as well as
23 b) the high level and seemingly duplicative nature of the various administrative office

1 expenses being assigned/allocated to Arizona utility properties. In this case, Citizens did
2 a very thorough job of removing administrative office expenses that the ACC had
3 previously disallowed, and furthermore, "capped" the total administrative office expense
4 level to the amount found acceptable *in the 1993 rate case (i.e., \$1.2 million)*. In other
5 words, Citizens has capped its administrative offices expense to a level found reasonable
6 by the ACC nearly a decade ago.

- 7
- 8 • Depreciation Expense: In the 1990s, Citizens occasionally sought to *increase* its
9 depreciation rates for energy properties owned in Arizona. In the instant case, Citizens
10 has proposed to *reduce* its Arizona gas depreciation rates. Further, Staff found the
11 depreciation study presented by Citizens in this case to be well documented employing
12 assumptions generally thought to be reasonable.

13

14 In short and in sum, the Citizens application made in August 2002 is not "typical" of the
15 rate filings it made throughout the 1990s inasmuch as a much more balanced test year approach is
16 being proposed. Further, Citizens incorporated many ACC-adopted adjustments that it had
17 routinely fought and lost throughout the 1990s. Thus, the very significant increase being
18 proposed by Citizens within its August 2002 rate filing was being justified primarily by the
19 significant dollars the Company had invested within the Arizona Build Out Program. Its
20 requested increase was not being significantly "exaggerated" by reflection of the many
21 adjustments it had previously proposed – and which the ACC routinely rejected – in rate
22 applications occurring throughout the 1990s.

23

1 **Arizona Build Out Program**

2 As noted previously, the investment which Citizens made in the Build Out Program over
3 the previous eight years was, by far, the largest element driving Citizens' significant gas rate
4 request. In order to understand the Staff's view of the Settlement Agreement, it important to
5 understand the history and experience of Citizens' Arizona Build Out Program.

6
7 Thus, by way of background, in 1991, Citizens acquired the Certificate of Convenience
8 and Necessity and natural gas transmission and distribution facilities in Northern Arizona from
9 Southern Union Company. In Decision No. 57647, the ACC approved the asset purchase subject
10 to certain restrictions and obligations that it placed upon Citizens. These included a requirement
11 that Citizens submit a long-term plan "of at least five years" to the Director of the Utilities
12 Division concerning extension of service in the certificated area, and an obligation to extend gas
13 service to areas where "it is economically feasible to do so."

14
15 In 1993, Citizens filed a general rate case application that included a "1993-1997 Build
16 Out Plan" wherein Citizens proposed to spend approximately \$53 million in capital improvements
17 over a five-year period in order to ultimately extend service to an additional 20,000 potential
18 customers. The plan included reinforcement of the existing infrastructure for the then-current
19 customers, as well as the necessary expenditures for pipeline mains and service lines to extend
20 natural gas service to homes and businesses in portions of the Northern Arizona Gas Division's
21 service area that did not have service. At that time, Citizens estimated that the required
22 expenditures would more than double the Company's investment in gas plant facilities in
23 Northern Arizona.

1 Within the 1993 rate application, Citizens requested unique rate treatment that would
2 allow it to surcharge customers taking service in previously unserved areas. Additionally,
3 Citizens sought unique accounting authority to defer or capitalize carrying costs on portions of the
4 Build Out Program investment even after elements were placed into service. With minor
5 exception, the ACC authorized Citizens' surcharge and accounting authority requests.

6
7 In 1995, Citizens filed its next general rate case application for the Northern Arizona Gas
8 Division. Within the 1995 rate filing, Citizens described the status of the Build Out Program,
9 including some of the problems being encountered. Citizens indicated within the 1995 filing that
10 it remained committed to the Build Out Program, but that completion of the program would be
11 delayed until at least 1998.

12
13 The 1995 general rate case was finalized with a settlement agreement between Citizens,
14 the Arizona Corporation Commission Staff, the Residential Utility Consumer Office, and the
15 Arizona Community Action Association. The Commission issued Decision No. 59875 approving
16 the settlement agreement. Neither the settlement agreement nor the Commission Order made any
17 reference to the reported status or announced extension of the Build Out Plan. The decision did
18 require that the surcharge established within the 1993 rate case (Decision No. 58664) should be
19 revisited within Citizens' next general rate case, but in any event, should not continue beyond the
20 completion of the Build Out Program. As the Build Out Plan proceeded, the delays and
21 difficulties experienced in extending service continued and the Program extended well beyond the
22 anticipated 1998 completion date projected within the 1995 rate filing.

1 Several important observations should be noted when considering the history of the Build
2 Out Program and the ACC's actions regarding such program:

- 3
- 4 • The concept of the Build Out Plan was initially supported by the ACC within its Order
5 approving the Citizens acquisition of the Southern Union Gas Company Arizona gas
6 properties. It was again endorsed by the ACC within the 1993 rate case Order (Docket
7 No. 58664) which approved unique rate and accounting treatment for the capital intensive
8 construction program.
- 9
- 10 • While the ACC was initially and subsequently supportive of a Build Out Plan, it was
11 always with the understanding and intent that construction program cost to serve new
12 customers/areas should not be heavily subsidized by "existing customers."
- 13
- 14 • The Build Out Program occurred at a much slower pace, and at a much higher cost, than
15 what was originally anticipated when presented to the ACC by Citizens in Docket
16 No. 58664.

17

18 Observing the tremendous investment that Citizens had made in the Arizona Build Out
19 program, and the significant impact that such investment was having upon the cost of service
20 which the Company was presenting within its August 2002 rate application, the Utilities Division
21 Staff undertook an investigation designed to answer a number of questions and concerns,
22 including – but not necessarily limited to – the following:

23

- 1 1. How does the final cost of the Build Out Program compare to the original estimates
2 presented to the ACC in the 1993/1994 time frame?
3
- 4 2. How much of the Build Out Program costs were incurred to be able to safely and reliably
5 serve *existing* Citizen service territories (for which there would be a continuing obligation
6 to serve) and how much were incurred to serve new territories not previously served (and
7 for which there would be no obligation to provide *uneconomic* service)?
8
- 9 3. What were the major causes of the Build Out Program cost overrun?
10
- 11 4. Of the major causes of the Build Out Program cost overrun, how many were within the
12 control of Citizens?
13
- 14 5. How much, if any, of the Build Out Program cost, was imprudently incurred?
15
- 16 6. Did it remain "economical" to serve new territories given the higher-than-originally
17 projected Build Out Program costs?
18
- 19 7. Will Citizens customers taking service prior to the Build Out Program end up *significantly*
20 subsidizing newly acquired customers taking service in previously unserved territories?
21

22 In an attempt to answer the above-listed as well as other corollary questions, numerous
23 written discovery questions were submitted, numerous Build Out Program studies and documents
were reviewed, and two separate interviews with Citizens' NAGD Vice President and General

1 Manager, Gary Smith, were undertaken. Several important observations were made as a result of
2 this review process.

3
4 First, by and large, the significant cost overruns incurred were as a result of a combination
5 of events including 1) underestimation of costs originally presented to the ACC, 2) new
6 environmental regulations and new governmental construction requirements, not in effect at the
7 outset of the Build Out Program, drove up construction costs significantly from that originally
8 projected, 3) unforeseen rock caused the installation costs to be multiples of that initially
9 anticipated for certain areas of the Build Out Program, 4) the Company became responsible for
10 installation and maintenance of services located on customers' property [at the time the Build Out
11 Program was first contemplated, customers were responsible for the installation and cost of
12 services located on customer property] and 5) changes in right-of-way requirements not in effect
13 at the outset of the Build Out.

14
15 In addition to costs not foreseen at the outset of the Build Out Program, the economics of
16 the program have also suffered as a result of fewer customers signing up for service in new
17 service territories, and fewer conversions to natural gas service from electric or propane service,
18 than was originally envisioned near the outset of the program.

19
20 In general, Staff's investigation has led to a conclusion that the cost overruns experienced
21 were largely out of the control of Citizens management. The one possible exception to this
22 conclusion is that Staff questions whether additional geological surveys should have been

1 undertaken prior to embarking upon construction in areas that ultimately contained significant
2 amounts of rock that had to be sawed through at extremely high costs.

3
4 While not highly critical of the cost overruns experienced, Staff's investigation has lead to
5 a significant concern regarding Citizens' failure to re-evaluate the economics of serving certain
6 new territories as it experienced changing high cost governmental and environmental
7 requirements, and as it experienced installation costs much higher than originally projected as a
8 result of hitting rock that had not been anticipated. Specifically, the Staff is critical of Citizens for
9 not re-evaluating the Build Out to the Pinetop-Lakeside, Camp Verde and the Village of Oak
10 Creek communities. If Citizens had not sold its Arizona gas properties to UniSource at a
11 significant discount to book value, *and* if UniSource had not agreed to pass such purchase price
12 savings on to retail gas customers, it is almost a certainty that significant issues would have been
13 presented to this Commission in the Citizens gas rate case regarding the Company's decision to
14 proceed with the Build Out Program in certain high-cost-to-serve areas in the face of much-
15 higher-than-originally-forecasted capital costs and lower-than-forecasted-customer growth.

16
17 As previously noted, UniSource negotiated a purchase price for plant in service being
18 acquired which is significantly below the net plant in service value included within Citizens'
19 proposed gas rate base. While one will not observe any connection between the \$30.7 million
20 negative acquisition adjustment and the cost overruns of the Build Out Program in the
21 UniSource/Citizens Asset Purchase Agreement, in the view of the Utilities Division Staff, the two
22 events are very much connected. Specifically, the Staff notes that throughout the 1990s utility
23 properties were typically sold at a *significant premium* above net depreciated original cost book

1 value. Further, in those cases, the acquiring utilities frequently sought direct or indirect rate
2 recovery of the *premium* they were paying.

3
4 UniSource's acquisition of the Arizona gas properties *at a discount to net depreciated*
5 *original cost book value* is very unusual. Further, UniSource's settlement proposal to *reflect the*
6 *negative acquisition adjustment in rate base in this and future Arizona rate proceedings. is also*
7 *highly unusual.* Whether or not the discount to book value achieved in the purchase price was, in
8 the collective minds of UniSource management, related to Build Out Program cost overruns is not
9 known. What the Utilities Division Staff unequivocally states herein is that it believes the
10 negative acquisition adjustment should be considered as being attributable to the Build Out
11 Program cost overruns. In other words, the negative acquisition adjustment for the gas properties
12 can be viewed as the equivalent to a "rate case disallowance" that may have occurred had Citizens
13 continued owning the Arizona gas properties and the issue of the "imprudence" of the decision to
14 continue the Build Out Program in the face of changing conditions had been presented within the
15 Citizens rate case filed with the ACC in August 2002.

16
17 While the Utilities Division Staff was cognizant of, and indeed appreciative of,
18 UniSource's voluntary reflection of a \$30.7 million *permanent* negative acquisition adjustment in
19 the current as well as future Arizona rate cases, it did not immediately accept such adjustment as
20 the appropriate and only equitable remedy for the Build Out Program cost overruns. To the
21 contrary, the Utilities Division Staff negotiated for *another \$10 million permanent gas plant*
22 *disallowance attributable to the Build Out Program.* This further permanent Build Out Program
23 disallowance is described within Paragraph No. 36 (b) of the Settlement Agreement.

1 Thus, between UniSource's voluntary reflection of a \$30.7 million *permanent* negative
2 acquisition adjustment, and the Company's further concession as discussed at Paragraph No. 36
3 (b) of the Settlement Agreement to another \$10 million write down of Build Out Program costs,
4 rates are being established under this Settlement Agreement based upon a plant in service value
5 that is more than \$40 million under that which was reflected within Citizens' rate base proposal
6 embodied within its August 2002 rate application.

7
8 Before leaving the topic of the Build Out Program-related write down and the negative
9 acquisition adjustment, a brief discussion of the accounting and future rate impact of these
10 transactions are in order. First, as discussed with Paragraph No. 35 of the Settlement Agreement,
11 the negative acquisition adjustment will be initially recorded within FERC Account No. 114-Gas
12 Plant Acquisition Adjustments. After the transaction is completed, the balance in FERC Account
13 No. 114 will be transferred to FERC account No. 108 – Accumulated Provision for Depreciation
14 of Gas/Electric Utility Plant. The Company will then establish separate sub-accounts to FERC
15 Account No. 108 to record an allocation of the total negative acquisition adjustment to each
16 FERC plant-related account. The amortization of the negative acquisition adjustment shall be
17 recorded as a debit to FERC Account No. 108 and a credit to FERC Account No. 406 –
18 Amortization of Gas/Electric Plant Acquisition Adjustment. The *credit* amortization to Account
19 No. 406 represents a *negative* expense. Inasmuch as the original cost of all electric and gas plant
20 in service will remain in FERC Account No. 101 Gas/Electric Plant in Service, and be depreciated
21 over the life of such plant, the *negative* amortization expense recognized in FERC Account No.
22 406 will exactly offset the related depreciation expense on original cost gas/electric plant found in
23 FERC Account No. 101 and being charged to FERC Account No. 408. *The net result of this*

1 *perhaps somewhat confusing accounting jargon is that the unamortized balance of the negative*
2 *acquisition adjustment will be reflected as a rate base reduction in all future rate cases until such*
3 *time that such balance is fully amortized. Further, the negative amortization expense charged to*
4 *FERC Account No. 406 will ensure that ratepayers will never pay depreciation expense on the*
5 *original cost of plant that has been reduced for ratemaking purposes by the negative acquisition*
6 *adjustment.*

7
8 With regard to the \$10 million prudence disallowance related to the Build Out Program
9 discussed at Paragraph No. 36 (b) of the Settlement Agreement, UniSource has agreed to a
10 permanent write down of the \$10 million disallowance directly against original cost plant in
11 service. The noted write down directly to plant in service will ensure that ratepayers will never
12 pay a return on, or a return of (i.e., depreciation), such permanently disallowed plant amounts.

13
14 Several important points regarding the Build Out Program should be summarized and
15 emphasized. As noted, Staff is critical of Citizens for proceeding with the build out without
16 further study to certain areas that turned out to be extremely high cost to serve. However, many
17 of the construction projects included within the Build Out Program were incurred to serve
18 territories *for which Citizens already had an obligation to serve.* Further, some of the pipe
19 installed served a dual purpose of reinforcing existing service territories as well as enabling
20 growth to previously unserved areas. If the Settlement Agreement is not approved, and if the
21 Citizens August 2002 rate filing is litigated under a continued-Citizens-ownership scenario, it
22 promises to be a complex and highly controversial case. Staff will have some legitimate
23 criticisms of the Build Out Program to present. Conversely, Citizens will argue that prior to, and

1 during the Build Out Program, it had ACC support – if not an ACC mandate – to go forward with
2 the program. Further, since as noted, some of the pipe installed served the dual purpose of
3 reinforcing the existing system as well as facilitating growth in new areas, quantification of a
4 definite “imprudence” disallowance will prove somewhat subjective and no doubt highly
5 controversial. In the final analysis, given the history and facts surrounding the program, it is
6 difficult to envision an “imprudence” disallowance under a continued-Citizens-ownership
7 scenario that will approach or exceed the cumulative value of the negative acquisition (i.e., \$30.7
8 million *and* the additional \$10 million prudence disallowance considered in the development of
9 the settlement rates. For this as well as other reasons set forth throughout this report, the Staff
10 strongly recommends that the Commission adopt the Settlement Agreement as presented.

11
12 **Other Cost of Service Adjustments**

13 Within the Joint Application filed by Citizens and UniSource on December 19, 2002,
14 among other things, UniSource proposed to increase annual Arizona base gas rates by
15 \$16,645,370, or some 22.92 percent. Thus, the UniSource proposed increase was significantly
16 less than the Citizens filed rate request of \$21,005,521. The largest adjustments posed by
17 UniSource within the cost of service it presented within the December 19, 2002, Joint Application
18 to arrive at its proposed \$16.7 million increase was the noted \$30.7 million negative acquisition
19 adjustment to rate base, as well as the attendant reduction in depreciation expense on the negative
20 acquisition adjustment (\$827,246). However, other smaller rate base and operating expense
21 adjustments proposed by UniSource within the December 19th Joint Application have also been
22 incorporated within the agreed upon gas cost of service used in establishing the stipulated rate
23 increase. Briefly, we identify and describe the need for such other minor adjustments.

1 First, the Accumulated Deferred Income Taxes recorded on Citizens' balance sheet as of
2 the end of the 2001 historic test year have been eliminated from rate base consideration in
3 developing the settlement rates. Upon consummation of the purchase, there will initially be no
4 difference between "book" and "tax" plant records. The Accumulated Deferred Income Taxes
5 which are on Citizens' books and records will be extinguished upon completion of the sale – and
6 will not be transferred to UniSource. Accordingly, it was necessary and equitable to eliminate
7 this item from rate base consideration in the instant case. As UniSource begins to depreciate its
8 acquired utility plant for tax purposes at an accelerated pace to that being recognized for book and
9 regulatory purposes, this rate base offset will again be established and proceed to grow. In future
10 rate cases, the Accumulated Deferred Income Tax balance accrued upon UniSource's books and
11 records will again be reflected as a rate base offset.

12
13 Second, in its August 2002 rate application, Citizens had proposed to utilize the Gains on
14 Sales of two of its Arizona office buildings as a rate base offset. Further, consistent with past
15 ACC precedent, Citizens proposed to amortize one-half of the gains from each sale over a five
16 year period. Inasmuch as these "gains" have not been transferred to UniSource through the
17 purchase transaction, such Gains on Sale have been removed from rate base and operating income
18 development employed in the design of the settlement rates being proposed.

19
20 Third, still with regard to rate base development, UniSource had proposed to eliminate the
21 "negative cash working capital" allowance that had been reflected within Citizens' rate base
22 proposal. UniSource argues that following the acquisition, it will – at least for a while – have an
23 investment in working capital that Citizens did not. This UniSource position is questionable and,

1 in any event, probably temporary. Staff challenged this adjustment in settlement discussions, but
2 ultimately did not oppose its recognition in light of the immateriality of the item and in
3 recognition of the "overall" benefits of the settlement proposal.

4
5 Fourth, UniSource voluntarily removed the amortization of gas rate case expense that had
6 been reflected within Citizens' proposed cost of service development. This \$165,000 reduction in
7 expense has also been reflected within the settlement rates being recommended herein.

8
9 Fifth, the net revenue reduction resulting from other adjustments discussed above also had
10 a corollary effect on bad debt expense. This reduction reflected within UniSource's December
11 19th Joint Application is also reflected within the settlement rates being recommended herein.

12
13 Finally, UniSource has proposed a different mix of capital, at different cost rates, than that
14 proposed by Citizens within its August 2002 rate application. While the "after-tax" rate which
15 UniSource has proposed (9.05 percent) is slightly higher than the "after-tax" rate included within
16 Citizens' August 2002 application (8.85 percent), on a "before-tax" or "revenue requirement"
17 impact basis, UniSource's cost of capital proposal results in a *lower* revenue requirement, as
18 illustrated in the calculations below:

19 ...

20 ...

21 ...

22 ...

23 ...

1 **Citizens' Cost of Capital Proposal**

2

| Description | Capital Ratio | Cost Rate | Weighted Cost | Tax Conversion Factor | Before-Tax COC |
|----------------|---------------|-----------|---------------|-----------------------|----------------|
| Equity | .5000 | 11.00% | 5.50% | 1.665640 | 9.161% |
| Long Term Debt | .5000 | 6.70% | 3.35% | | 3.350% |
| Total | 1.000 | | 8.85% | | 12.511% |

3
4 **UniSource's Settlement Cost of Capital**

5

| Description | Capital Ratio | Cost Rate | Weighted Cost | Tax Conversion Factor | Before-Tax COC |
|----------------|---------------|-----------|---------------|-----------------------|----------------|
| Equity | .4000 | 11.00% | 4.40% | 1.665640 | 7.329% |
| Long-Term Debt | .6000 | 7.75% | 4.65% | | 4.650% |
| Total | 1.000 | | 9.05% | | 11.979% |

6
7 As can be gleaned from the table above, Citizens' higher equity ratio assumption – with its
8 attendant tax ramifications – causes its proposed “true” or “before-tax” cost of capital to be higher
9 than that being utilized in the development of rates being proposed within the Settlement
10 Agreement. Further, we note that Citizens had lowered the common equity return that it thought
11 to be justified in light of the significant increase it was requesting within its August 2002 rate
12 filing. Specifically, Citizens presented testimony that purported to justify a 12.0 percent return on
13 equity, but reflected only an 11.0 percent return on equity within the development of its retail cost

1 of service study. As noted on the table above, the Settlement Agreement rates continue to reflect
2 the 11.0 percent return on equity first proposed by Citizens.

3
4 Earlier, it was noted that Citizens' August 2002 rate application was much *less aggressive*
5 than those which the Company had proposed throughout the 1990s. Specifically, Citizens
6 voluntarily abandoned many issues and posted many adjustments that it had previously lost in
7 prior Arizona rate proceedings. Thus, it is fully expected that, but for the Build Out Program
8 issues, relative to Citizens cases litigated during the 1990s, there would be far fewer issues, with
9 much smaller dollar values, if the Citizens gas case were to proceed under a continued Citizens
10 ownership assumption scenario.

11
12 The Utilities Division Staff considered the presentation of a number of smaller dollar
13 revenue requirement issues in its negotiations with Citizens. However, ultimately the Utilities
14 Division Staff determined, and is strongly urging herein, that adoption of the one significant
15 *permanent* \$10 million Build Out Program adjustment in lieu of a small number of one-time or
16 case-specific adjustments be accepted in the interest of reaching a total *overall* settlement on gas
17 rates, as well as other elements of this multi-faceted agreement. As noted within the prior section,
18 the gains for ratepayers vis-à-vis reflection of the negative acquisition adjustment and the \$10
19 million Build Out Program prudence disallowance represent significant *permanent* savings for
20 ratepayers that Staff does not believe is likely achievable in a rate case under a continued-
21 Citizens-ownership scenario.

22 ...

1 **Rate Spread and Rate Design**

2 The rates being proposed for each affected gas rate class are reflected on Appendix B –
3 Schedule 3 to the Settlement Agreement. The rate increase was spread to rate classes on the basis
4 of total retail gas revenues – inclusive of purchased gas cost. This rate spread is slightly more
5 beneficial to residential users than would be a rate spread based upon “non-gas” cost revenues.

6
7 We also note that the Settlement Agreement provides for a uniform set of base rates to be
8 applicable to what was formerly the Northern Arizona Gas and Santa Cruz Gas Divisions. The
9 proposal to consolidate the rates of the two noted divisions was included within recommendations
10 incorporated within Citizens’ August 2002 rate application. The consolidation of tariffs had the
11 impact of slightly lowering the increase that would have been generated in the Santa Cruz
12 Division on a separate cost of service basis. In other words, if rates would have continued to have
13 been based upon separate divisional cost of service studies, the Santa Cruz Division would have
14 received a slightly higher rate increase in the instant case. Under the settlement rates being
15 proposed, UniSource will absorb the slight revenue shortfall between the recommended
16 settlement rates and the rates that would have been designed for Santa Cruz on a divisional stand
17 alone cost of service basis.

18
19 Under the settlement rates being recommended for approval, the residential customer
20 charge will be raised from the current Northern AGD \$5.00 per month charge and current Santa
21 Cruz AGD \$5.26 per month charge to \$7.00 per month. Citizens had proposed a residential
22 customer charge of \$10.00 per month, and had presented unit cost of service study information
23 which purported to show a cost-justified residential customer charge of \$15.99 per month. We

1 further note that the residential customer charge being established pursuant to the Settlement
2 Agreement is somewhat below the current Southwest Gas Company customer charge of \$8.00 per
3 month.

4
5 We also note that the current SCGD residential and small commercial tariffs employ a
6 complex multi-stepped commodity rate. Under the proposed tariff, the multiple commodity steps
7 will be replaced with one flat commodity rate. The impact of collapsing the multiple stepped
8 commodity rates for the Santa Cruz Gas Division is that some extremely low volume gas users
9 will experience an increase that is higher than the overall average increase being experienced by
10 the entire residential rate class. However, the Settlement Agreement provides that the CARES
11 discount program will be made available in the Santa Cruz Gas Division for the first time. Thus,
12 to the extent the low volume users require financial assistance in paying their utility bills, the
13 CARES program will be available to them.

14
15 The Small Volume Commercial monthly customer charge is being raised from \$7.50 to
16 \$11.00. Citizens had proposed that the Small Volume Commercial customer charge be
17 established at \$13.00 per month, and presented cost of service studies that indicated that the Small
18 Volume Commercial monthly customer charge should be \$16.46 per month.

19
20 **Purchase Gas Adjustor ("PGA")**

21 As noted within Paragraph No. 26 of the Settlement Agreement, the cost of purchased gas
22 being rolled into base rates for all Arizona gas properties is \$0.400 per therm. Inasmuch as base
23 rates for the Northern Arizona and Santa Cruz Gas Divisions are being consolidated, it logically

1 and consistently follows that PGA base gas costs should be implemented on a consistent Arizona-
2 wide basis. Further, Citizens' projections reflect no significant difference in the expected
3 delivered cost of gas for the two systems. Finally, while purchased gas costs have been volatile
4 and difficult to predict, the \$0.400 per therm roll-in price appears to be appropriate, or perhaps a
5 bit conservative, when compared with recent actual gas price experience as well as predicted
6 future prices. Ultimately, the actual purchased gas roll-in amount will not affect customers' total
7 bills, it only affects how much will be recovered within "base rates" versus how much will be
8 surcharged or credited with implementation of a PGA factor.

9
10 **PGA Bank Balance**

11 The Settlement Agreement establishes within Paragraph No. 36 (a) that the Commission
12 will not challenge the Company's gas accounting and procurement practices affecting the PGA
13 bank balance existing on or before October 29, 2002. However, recent and ongoing gas
14 purchases, as well as the Company's procurement practices, remain subject to ACC review.

15
16 **Revised Line Extension Tariff and Policy**

17 Appendix D to the Settlement Agreement reflects the revised Line Extension Tariff being
18 proposed by the parties. Citizens' currently-effective Line Extension Tariff provides for a 100
19 foot allowance per potential new customer for main extensions to be installed at the Company's
20 cost. Specifically, under the current Citizens Line Extension Tariff, if more than 100 feet per
21 customer is to be installed to be able to serve a new area or subdivision, the customers are to be
22 assessed a prorata charge for the new main line based upon the number of feet needed in excess of
23 the 100 feet per average customer that is being installed at the Company's expense. Additionally,

1 the existing Line Extension Tariff provides that the Company will install the gas service line from
2 the distribution main to the customer's property, and up to 60 feet on the Company's property, at
3 its expense -- regardless of cost. Further, to the extent a customer requires more than 60 feet of
4 service line to be installed up his property, such service line installed in excess of 60 feet will be
5 reimbursed by the customer at a cost rate of \$8.00 per foot.

6
7 The proposed Line Extension Tariff shown on Appendix B limits the Company's main
8 extension cost to 30 feet per new customer agreeing to utilize a gas hot water heater or a furnace.
9 To the extent that more than 30 feet of main extension is required, the customer will be assessed a
10 charge for the cost of the main extension in order to make the investment "economic" from the
11 Company's and existing customers' point of view. The proposed Line Extension Tariff also
12 provides for new customers to pay the cost for the service line installed by the Company on the
13 customer's property. The provisions in the proposed Line Extension Tariff better ensure that
14 existing customers will not significantly subsidize the higher costs being incurred to serve new
15 customers. Further, the Line Extension Tariffs being proposed within the Settlement Agreement
16 is very similar to the Line Extension Tariffs approved by this Commission for Southwest Gas
17 Company.

18 ...

19 ...

20 ...

21 ...

22 ...

23 ...

1 **ELECTRIC PURCHASED POWER AND FUEL ADJUSTOR CASE ANALYSIS**

2
3 **Major Agreements Reached with Regard to Citizens Arizona Electric Properties**

4 The Settlement Agreement provisions which will substantially affect the AED customers
5 when they become customers of the UniSource electric subsidiary ("ElecCo") are:

- 6
- 7 • Customers will not see any increase in the PPFAC rate from the portion of the under-
8 recovered PPFAC balance related to the Old Contract (\$87 million plus requested carrying
9 costs) because UniSource and Citizens will forfeit their rights to this under-recovered
10 amount.

 - 11
 - 12 • Customers will also avoid any increase in the PPFAC rate costs resulting from the under-
13 recovered PPFAC balance related to the New Contract (\$48 million plus requested
14 carrying costs). These costs have accumulated since the time the New Contract went into
15 effect (June 2001) and will accumulate up to the date of closing of the asset sale.
16 UniSource and Citizens have agreed to forfeit their rights to this amount.¹

 - 17
 - 18 • Customers will enjoy long-term reductions in or avoidance of rate increases based upon
19 the permanent reduction to the electric rate base in future rate cases due to the negative
20 acquisition adjustment of approximately \$93.8 million.

 - 21

¹ If closing occurs after July 28, 2003, this amount will be larger than \$48 million.

- 1 • Customers will experience stability in power costs for the next five years (the remaining
2 life of the New Contract).
- 3
- 4 • Customers will have the ability to choose alternative power suppliers in less than two
5 years because the Settlement Agreement requires that the service territories for the present
6 AED/the future ElecCo be open to retail electric competition by December 31, 2004.
- 7
- 8 • If customers find lower alternative power prices, they will be able to benefit from those
9 prices without the burden of stranded costs.
- 10
- 11 • An incentive in the Settlement Agreement provides for electric customers to receive sixty
12 (60) percent of any savings as a result of any successful renegotiations with Pinnacle West
13 Capital Corporation ("PWCC") of the New Contract.
- 14
- 15 • The increase in electric rates will reflect only future actual power costs, resulting in a new
16 adjustor rate of \$0.01825 per kWh.
- 17

18 In Summary, customers will be better off under the Settlement Agreement than under any
19 of the expected outcomes of the PPFAC case.

20

21 Electric PPFAC Case Background

22 The Settlement Agreement and acquisition by UniSource of Citizens electric assets will
23 resolve all issues from Citizens' PPFAC case, Docket No. E-01032C-00-0751, in which Citizens

1 requested major changes to its PPFAC. Citizens had originally requested full recovery of the
2 under-recovered balance for purchase power costs that Citizens incurred. These costs were
3 mainly due to a contract signed between Citizens and APS in 1995 (hereinafter referred to as the
4 Old Contract). Citizens had requested a rate increase to collect the under-recovered balance
5 (approximately \$87 million as of June 2001) over a seven-year period. Citizens also requested
6 recovery of all purchased power costs related to a new agreement that was negotiated between
7 Citizens and PWCC effective June 1, 2001 (hereinafter referred to as the New Contract), plus a
8 six (6) percent carrying charge for the under-recovered balance from the Old and New Contract.
9 This total under-recovery is projected to be at least \$135 million by July 28, 2003. In addition,
10 Citizens requested an increase in the adjustor rate from \$0.000 per kWh to \$0.01825 per kWh to
11 accommodate the costs of purchased power under the New Contract, as well as to reflect
12 increased transmission costs.

13
14 The foregoing requests, taken together, would have resulted in an adjustment factor
15 sufficient to cover the costs of the New Contract plus the total amount projected to be under-
16 recovered as of July 2003 (plus future carrying costs) of approximately \$0.0320 per kWh.

17 ...

18 The major issues in the PPFAC case were whether Citizens should be allowed to collect
19 all of its under-recovered balance, and whether costs under the New Contract should be fully
20 recoverable. While there was no order in the PPFAC case, it is likely that the Commission's
21 decision would have been influenced by the positions supported by the Company, by Staff, and by
22 others. The Company requested recovery of its under-recovered PPFAC balance over seven years

1 with a carrying cost charge of 6 percent. Staff's proposals, which are discussed in section B
2 below, would have resulted in a larger increase than will result from the Settlement.

3
4 The largest portion of the PPFAC under-recovered balance resulted from Arizona Public
5 Service Company ("APS") bills under the Old Contract, from the summer of 2000 through May
6 of 2001. Citizens is primarily a distribution utility, and has purchased most of its power from
7 APS/PWCC under a FERC-approved wholesale contract. The increase in the PPFAC adjutor
8 was intended to address, in addition to power costs, increases in transmission costs resulting from
9 system growth, and the replacement of the wholesale contract with a new contract.

10 11 The Old Contract

12 The Old Contract with APS contained nominal "rates" for demand and energy, under three
13 different schedules, for baseload, intermediate, and peaking power. However, the contract also
14 included "floor price" provisions which became the basis for pricing. The floor price was defined
15 by APS' System Incremental Cost ("SIC"). As explained below, there was a dispute between
16 Citizens and APS as to the precise definition and role of the SIC in determining what and how
17 APS could charge Citizens for purchased power under the Old Contract.

18
19 APS did not own enough generating plant capacity itself or through its Pinnacle West
20 subsidiary to meet APS' full load requirements, including its retail plus wholesale load (Citizens
21 was included in the wholesale load). APS made up what would have been a shortfall by
22 purchasing "on the market", from others that had excess generation to sell. APS interpreted the
23 SIC provision in the contract as allowing APS to charge Citizens the highest cost of market power

1 that it purchased every hour, while Citizens believed the SIC referred to only certain lower cost
2 purchases. This difference in interpretation did not become evident when purchase power costs
3 were low. However, beginning in May of 2000, market price increases for purchased power
4 caused Citizens' bills under the Old Contract to increase dramatically, such that the PPFAC and
5 the amount of power costs recovered in base rates did not recover billed power costs.

6
7 Citizens, in its testimonies in support of its request for an increase in its PPFAC, indicated
8 that, based on Citizens' interpretation of the SIC provisions, it believed APS had misinterpreted
9 the SIC and other terms of the contract; and that Citizens' own interpretation of the contract
10 would have resulted in lower power costs and a much lower under-recovered balance. However,
11 in the PPFAC case before the Commission, Citizens indicated that it had no plans to appeal to the
12 FERC for an interpretation of the contract that might have reduced power costs and, therefore, its
13 under-recovered balance.

14
15 Terms of New Contract

16 The New Contract, which took effect June 2001, supplanted the old contract and contains
17 a very simple and stable pricing mechanism. The price of power was set at a fixed rate of
18 \$0.05879 per kWh for generation costs.² The New Contract has a seven-year term starting June 1,
19 2001 and is with Pinnacle West Corporation ("PWCC"), APS' parent. Furthermore, the New
20 Contract only requires Citizens to purchase power for those customers who purchase power from
21 Citizens (as evidenced in the definition of "Buyer's Full Load Requirements" in Exhibit A to the

² Line losses between delivery to Citizens and delivery to its customers mean that the cost to customers is about 10 percent higher than this value. Citizens indicated that its transmission costs had increased because it had signed a contract with additional transmission capacity necessary to serve load growth in Mohave County.

1 contract³), whereas the Old Contract required that Citizens purchased fixed amounts of power.
2 This means that Citizens and its successor will be able to allow customers choice of generation
3 supplier with no stranded costs.
4

5 **Staff Proposals in the PPFAC Case Prior to the Joint Application**

6 In the PPFAC proceeding, Staff faulted Citizens' management of its power costs on a
7 number of issues. Staff's recommendations would have resulted in a reduction of the allowed
8 recovery from that requested by the Company, and might have resulted in a reduction of the
9 under-recovered total amount.⁴ Staff's recommendations also would have resulted in an
10 elimination of carrying costs on the under-recovered balance. However, even if Staff's
11 recommendations were accepted by the Commission, the result would have been that customers
12 would have been asked to pay some significant amount toward the existing under-recovered
13 balance.
14

15 Staff recommended an immediate and complete disallowance of \$7 million of the under-
16 recovered power costs. Staff argued that Citizens should be required to defer collection of the
17 amount of dollars for which it had made claims that it had been over billed (as much as \$70
18 million) because of APS' misinterpretation of the Old Contract, until it had made every effort to
19 obtain relief from FERC or the courts. So, while the requested disallowance of \$7 million and of
20 carrying costs might have been ordered by the Commission, the final result of Staff's other
21 recommendations would not have been known, because the results would depend on findings by

³ There are certain exceptions that would allow Citizens to purchase some additional power, but these are extremely limited, including purchases from the Department of Energy for Aha Macav, and purchases necessary for reliability purposes.

1 the FERC. In short, the customers of the AED could still have been assessed this additional \$70
2 million depending on the outcome at FERC. The Settlement Agreement eliminates this
3 uncertainty via the forfeiture by UniSource of the entire under-collected amount discussed above.

4
5 With regard to the New Contract, Staff criticized the process by which the Company
6 analyzed and committed to this contract. Staff did not argue that the New Contract itself was
7 imprudent, but rather suggested that the Commission should consider the New Contract in a
8 further proceeding. However, Staff expected that there would be some significant increase in
9 power costs, since electric prices were higher than the amount of power costs in base rates.

10
11 Reducing power costs below those resulting from the New Contract would have been
12 difficult. First, modifying the contract would have been extremely difficult, given that it had been
13 approved by FERC. Any disallowance or imprudence finding would certainly have been
14 appealed, delaying resolution still further. Second, even if Citizens had defaulted on this contract,
15 it would have had to find a replacement contract or contracts: and given the chaotic state of the
16 western power market in the last two years, no assurance existed that a less expensive power
17 source could have been found. In short, the price of purchased power in the New Contract might
18 have appeared high but was not unreasonable given the volatile and expensive electricity
19 environment that existed at the time the New Contract was negotiated. The Settlement
20 Agreement will ensure that two years of under-recovered costs due to the New Contract would
21 not be collected from electric customers, leaving at a maximum five years of higher purchased
22 power costs under the New Contract.

⁴ If FERC agreed that APS had overcharged Citizens.

1 At the present time, there are only five years remaining on the New Contract. While the
2 price for purchased power under the New Contract, viewed in late 2001, might have seemed
3 somewhat high, the same price is a better price today and for the next four years. Although the
4 Western power market has settled down, gas costs, which are crucial in determining electric
5 market prices, are distinctly higher than they were in 2001, and electric prices have been rising
6 over the last year.

7
8 It is Staff's opinion that the lowest cost resolution from a Commission decision regarding
9 the New Contract, from a ratepayer standpoint, would not have resulted in more than a 25 percent
10 disallowance of the under-recovered amount resulting from the New Contract. It also seems
11 unlikely that the Commission would have ordered Citizens to default on the contract. Thus, we
12 expect that the PPFAC case would have resulted in an increase in the PPFAC adjustor to cover
13 the New Contract, in addition to some increase related to the under-recovered balance directly
14 resulting from the New Contract.

15
16 What the Settlement Agreement Should Be Compared to for Electric Customers

17 The result of the Settlement Agreement should be compared to the rates that customers
18 would have been paying without the sale and transfer, and particularly without the Company
19 having given up the claim to the estimated amount of at least \$135 million of the under-recovered
20 balance as of July 28, 2003, plus carrying costs of more than \$18 million, which would have
21 brought the total to almost \$154 million. Although we cannot know for certain what the exact
22 resolution of the PPFAC case would have been, it is clear that it would have resulted in an

1 increase in power costs and customer bills significantly above what is contemplated in the
2 Settlement Agreement.

3
4 Alternatives With and Without the Sale and Transfer

5 The Settlement Agreement includes approval of a new adjustor rate of \$0.01825 per kWh
6 due to purchase power costs resulting from the New Contract with PWCC. The rate provisions of
7 the New Contract are very simple, including only a single per kWh charge throughout the life of
8 the contract, currently at seven years from June 1, 2001. Approval of the Settlement Agreement
9 will result in approval of the Company's collecting the ongoing costs of this contract. The new
10 PPFAC adjustor increases electric rates for the customers of ElecCo by approximately twenty-two
11 (22) percent. However, as discussed above, the impacts to rates and electric customers would
12 likely be significantly higher if not for the Settlement Agreement. Furthermore, several
13 provisions exist in the Settlement Agreement to further mitigate and minimize the impact of the
14 new adjustor rate, as will be discussed with more specificity in the section on rate impacts, below.
15 While there is less certainty regarding what customers would have paid if the sale and transfer
16 and Settlement had not occurred, the following sections discussed the more likely outcomes, if the
17 PPFAC case proceeded to a hearing.

18
19 When considering the impact of the increase in rates that would result from the New
20 Contract, we should keep in mind that Citizens' customers have been paying the same rates since
21 the fall of 2001, and rates that were only slightly lower for a number of years. Thus, during a
22 period in which power prices in the West in general went haywire, and the customers of most
23 other utilities experienced some level of price increase, Citizens' customers have had stable rates.

1 **Potential Outcomes**

2 If the Settlement Agreement had not been proposed, customers would have been faced
3 with an increase in the PPFAC to cover some amount of under-recovered PPFAC balance, and
4 also to cover higher ongoing power costs.

5
6 To make a judgment about the Settlement Agreement, it is useful to compare the various
7 potential outcomes directly.

- 8
- 9 • Settlement Agreement – no recovery of under-recovered amounts from either the Old or
10 New Contracts with increase in ongoing power costs from the date of closing.

 - 11
12 • Worst case without Settlement – Company’s request for under-recovered amount from
13 Old and New Contract (estimated to be at least \$135 million as of July 28, 2003), plus
14 future carrying costs, and all costs associated with the New Contract, is approved.

 - 15
16 • Best case without Settlement– Citizens takes the contract dispute to FERC, and FERC
17 finds in its favor, reducing the under-recovery from the Old Contract by \$70 million;
18 Commission orders 25 percent denial of the under-recovery from the New Contract.

19

1 Rate Impacts of Potential Outcomes

Impact on Different Alternatives on Customers of Citizens AED

| Customer Rate Class | Current | Settlement | Worst | Best |
|--------------------------|---------------------|-------------|-------------|-------------|
| Residential MO | \$/kWh | | | |
| | \$ 0.082 | \$ 0.101 | \$ 0.114 | \$ 0.105 |
| | Average Annual Bill | | | |
| | \$878 | \$1,073 | \$1,219 | \$1,116 |
| | % Increase | | | |
| | 22% | 39% | 27% | |
| Residential SC | \$/kWh | | | |
| | \$ 0.088 | \$ 0.107 | \$ 0.120 | \$ 0.111 |
| | Average Annual Bill | | | |
| | \$687 | \$829 | \$936 | \$861 |
| | % Increase | | | |
| | 21% | 36% | 25% | |
| Small General Service MO | \$/kWh | | | |
| | \$ 0.084 | \$ 0.102 | \$ 0.116 | \$ 0.106 |
| | Average Annual Bill | | | |
| | \$1,122 | \$1,367 | \$1,551 | \$1,422 |
| | % Increase | | | |
| | 22% | 38% | 27% | |
| Small General Service SC | \$/kWh | | | |
| | \$ 0.128 | \$ 0.147 | \$ 0.160 | \$ 0.151 |
| | Average Annual Bill | | | |
| | \$1,080 | \$1,233 | \$1,349 | \$1,268 |
| | % Increase | | | |
| | 14% | 25% | 17% | |
| Large General Service | \$/kWh | | | |
| | \$ 0.080 | \$ 0.099 | \$ 0.112 | \$ 0.103 |
| | Average Annual Bill | | | |
| | \$20,162 | \$24,743 | \$28,195 | \$25,774 |
| | % Increase | | | |
| | 23% | 40% | 28% | |
| LPS (<69kv) | \$/kWh | | | |
| | \$ 0.074 | \$ 0.092 | \$ 0.106 | \$ 0.096 |
| | Average Annual Bill | | | |

| | | | | |
|-------------|---------------------|-------------|-------------|-------------|
| | \$1,321,433 | \$1,646,777 | \$1,891,872 | \$1,719,987 |
| | % Increase | | | |
| | | 25% | 43% | 30% |
| | \$/kWh | | | |
| | \$ 0.060 | \$ 0.078 | \$ 0.092 | \$ 0.082 |
| | Average Annual Bill | | | |
| | \$2,024,186 | \$2,642,155 | \$3,107,696 | \$2,781,212 |
| | % Increase | | | |
| | | 31% | 54% | 37% |
| LPS (>69kv) | | | | |

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17

Customers will be better off under the Settlement Agreement than under any of the expected outcomes of the PPFAC case. On average, customers' rates will be lower by about 12 percent for the next seven years under the Settlement Agreement than they would have been under the Company's PPFAC proposal. Also, there is a provision in the Settlement Agreement that encourages UniSource to renegotiate the price of purchased power under the New Contract with APS/PWCC. This provision of the Settlement Agreement further provides that customers will receive 60 percent of the savings associated with any reduced price of purchase power under the New Contract. UniSource is currently attempting to renegotiate with APS PWCC.

Other Long-term Rate Impacts on Electric Customers

In addition to minimizing the impact on electric customers by eliminating the under-recovered balance through the date of closing, and providing significant savings to electric customers if the New Contract purchase power price is renegotiated, the Settlement Agreement includes provisions designed to convey long-term benefits. Specifically, these include provisions regarding a reduction in the electric rate base, a commitment not to increase base rates for at least three years, and a possible consolidation of operations.

1 The negative acquisition premium of \$93 million has the effect of removing half of the
2 electric system's rate base. This will reduce the return and depreciation component of rates by
3 about \$15 million, reducing the electric revenue requirement by this amount. This will be to the
4 electric ratepayers' benefit in future ElecCo rate cases. This reduction in the return will offset
5 increases in other system costs, either delaying when a rate case can be filed or reducing the
6 amount requested.

7
8 The commitment to not file for an increase in base rates for three years means that even if
9 costs might justify an increase, even after the rate base reduction, the Company will not file a rate
10 case during this period. This may delay the next possible increase in rates.

11
12 In addition, the Settlement Agreement requires TEP to develop a feasibility study
13 regarding the consolidation or coordination of the operations of ElecCo in Santa Cruz County
14 with the operations of TEP. Consolidation or coordination has the potential of increasing
15 efficiencies of system control and engineering, possibly lowering costs, and increasing reliability
16 in the region.

17
18 Value of Retail Access

19 The Settlement Agreement includes a provision that TEP commits to establishing a
20 process for opening up the new ElecCo's territories to retail competition by December 31, 2004.
21 In the Settlement Agreement, UniSource agrees that stranded costs resulting from retail access
22 shall be zero. This is implicit in the New Contract but this Settlement Agreement term provides
23 additional customer protection. Since there will be no stranded costs, if there are lower cost

1 power providers available, there will be one less obstacle to customers changing their generation
2 provider from ElecCo to less expensive providers. This term is the ultimate reality check on the
3 New Contract: If the New Contract is priced above market prices, customers will be able to
4 escape its terms by choosing alternative suppliers.

6 ANALYSIS OF FINANCING OF THE SALE AND TRANSFER OF UTILITY ASSETS

8 Background of Financing Issues

9 Sections 16 through 20 of the Settlement Agreement address a range of financing issues
10 that arose in the application. These sections of the Settlement Agreement permit the New
11 Companies to fund themselves through issuances of debt and equity. The debt issuances are
12 limited to \$175,000,000. The equity issuances are limited to \$125,000,000. Overall, the target
13 capital required for the transaction is approximately \$250,000,000.

15 The Loan from TEP to UniSource

16 According to the Settlement Agreement, TEP can loan up to \$50,000,000 for no more than
17 four years to UniSource for the purpose of funding the acquisition. UniSource would then infuse
18 the entire sum and other equity that it raises into either HoldCo (the new subsidiary formed by
19 UniSource to hold the stock of the New Companies) or the New Companies as an equity
20 investment. The TEP loan to UniSource will be secured by 100 percent of HoldCo's or the New
21 Companies' equity. The loan will bear an interest rate of 383 basis points above the rate on an
22 equivalent US Treasury security. The Settlement Agreement also provides that 264 basis points
23 of the interest income will be deferred as a credit to customers. The deferral will reduce TEP's

1 rates in the future (as an offset to rate base and expense). The remaining interest income from the
2 loan is committed to build up TEP's equity capitalization. Increasing TEP's equity capitalization
3 from its currently low levels is in ratepayers' interest because the increase improves TEP's
4 financial health and ability to provide service.

5
6 The 383 basis-point spread is based on the spread between BB-rated four-year energy debt
7 and the yield on a four-year US Treasury security. A BB rating is appropriate for the loan
8 because the loan should be priced according to UniSource's risk, a company that is currently
9 unrated. Staff's assumed BB rating is appropriate because it reflects a below-investment-grade
10 rating.

11
12 **Hold Harmless Provision**

13 The Settlement Agreement contains a condition to hold TEP's ratepayers harmless from
14 any increases in TEP's cost of capital as a result of the \$50 million loan. The hold-harmless
15 provision on TEP's cost of capital provides some assurance that ratepayers will be held harmless
16 and that TEP bear the burden to prove mitigating factors if the \$50 million loan is shown to have
17 harmed TEP's cost of capital.

18
19 **Waiver of the 30 Percent Condition**

20 The Settlement Agreement waives a condition of Commission Decision Nos. 60480 and 62103.
21 That condition, as amended, requires UniSource to invest 30 percent of all new equity proceeds
22 directly in TEP. The Settlement Agreement waives the 30 percent condition for the purpose of
23 financing this particular acquisition. The waiver is needed so that UniSource can invest all new

1 equity proceeds in the New Companies (via HoldCo) without diverting proceeds to TEP. The
2 waiver is reasonable given the need to seek equity for utility-related businesses whose acquisition
3 is in the public interest.

4
5 **Dividend Payout Restrictions on TEP and the New Companies**

6 The Settlement Agreement imposes a condition on the New Companies such that they are
7 restricted from paying more than 75 percent of their earnings out in dividends as long as their
8 capital structures contain less than 40 percent equity. These restrictions are beneficial to
9 ratepayers of the New Companies because they restrict the percentage of earnings that can be paid
10 out as dividends to HoldCo when equity capitalization falls below 40 percent. Retaining a certain
11 amount of equity is important for a utility in order to provide service.

12
13 The Settlement Agreement also modifies a previous condition of Commission Decision
14 No. 60480. Currently, TEP is ordered to pay no more than 75 percent of its earnings out in
15 dividends as long as it has less than 37.5 percent equity capitalization. The Settlement Agreement
16 increases the 37.5 percent threshold to 40 percent. This modification enhances existing TEP
17 ratepayer protection because it raises the hurdle below which TEP is restricted in paying
18 dividends to its parent UniSource.

19
20 **Guarantee of Affiliate Debt**

21 The issue of TEP's guaranteeing UniSource or other affiliates' debt did not arise in this
22 case: no guarantee authority was requested. The circumstances in this case are different from
23 recent cases in which APS requested authority to lend funds to, or guarantee debt of, affiliates. In

1 those cases, APS requested authority to support an unregulated affiliate that operated in the
2 merchant energy market along with competitors. Two concerns, amongst others, arose in those
3 cases: regulated utility support of a competitive merchant operation and risk to the regulated
4 utility. This case presents entirely different circumstances because the loan is ultimately going to
5 support regulated operations serving captive customers. In this case, TEP would not be
6 supporting a competitive merchant operation and would not be exposed to the risk of the
7 merchant energy market. Therefore, the question whether the public interest would be better
8 served through a guarantee versus through a loan is effectively not issue in this case.

10 CONCLUSION

11 Staff believes that the Settlement Agreement is the result of a fair negotiation process and
12 that intervenors were given adequate opportunity for input and to sign the Settlement Agreement
13 or to arrive at their own agreement with UniSource and Citizens. Staff negotiated the Settlement
14 Agreement in good faith and with both the short and long-term interests of the rate payers at
15 heart.

16
17 In conclusion, Staff believes that the benefits of the forgiveness of the large under-
18 recovered PPFAC balance, the three-year rate moratorium for both electric and gas operations, the
19 significant permanent reductions to rate base related to the purchase of the Citizens assets at a
20 price below book value and Build Out Program disallowances far outweigh the rate and adjustor
21 factor increases that are included in the Settlement Agreement. The Settlement Agreement
22 relieves ratepayers from exposure to even higher rates now and in the future that may have
23 resulted from litigation at the Commission or appellate court level. Finally, Staff believes that the

- 1 Settlement Agreement reasonably balances diverse interests, is consistent with the public interest
- 2 and should be adopted by the Commission.



Staff's Late-Filed Exhibit

UniSource GasCo
 CAPM Cost of Equity Estimates
 Sample Gas Companies

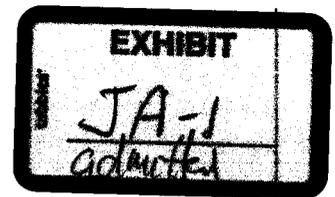
[A] [B] [C] [D] [E]

| Line | CAPM Method | Rf | + | β | x | (Rp) | = | k |
|------|--------------------------------|------|---|---------|---|-------|---|-------|
| 1 | Historical Market Risk Premium | 3.5% | + | 0.69 | x | 7.8% | = | 8.9% |
| 2 | Current Market Risk Premium | 3.5% | + | 0.69 | x | 12.2% | = | 11.9% |
| 3 | Average of CAPM Estimates | | | | | | | 10.4% |

Treasury Yields: 1/23/2003 1/24/03 WSJ

5-YR 3.04%
 7-YR 3.52%
 10-YR 3.95%
 AVG: 3.50%

Clarification to oral testimony: The capital structure of the sample local distribution companies is approximately 50% debt 50% equity. The capital structure proposed in the GasCo rate case is 60% debt 40% equity. One could increase the CAPM estimates above to account for the increased leverage of the proposed GasCo capital structure which has more financial risk than the sample of 10 local distribution companies. In other words, corrected for capital structure, the estimated return on equity for GasCo could be higher. Staff proposes that an 11% ROE (including the high risk premium estimates) is reasonable in the context of the overall settlement.



1
2
3
4
5

**DIRECT TESTIMONY OF JAMES S. PIGNATELLI
UNISOURCE ENERGY CORPORATION**

DECEMBER 18, 2002

6 Q. Please state your name and business address.

7 A. My name is James S. Pignatelli. My business address is One South Church
8 Avenue, Tucson, Arizona 85701.

9
10 Q. What is your position with UniSource Energy Company ("UniSource")?

11 A. I am Chairman of the Board, President and Chief Executive Officer. I also hold the
12 same positions with Tucson Electric Power Company ("TEP").

13
14 Q. Please provide us with a summary of your education and employment background.

15 A. I received an undergraduate degree in accounting with a minor in economics from
16 Claremont Men's College. I received a Juris Doctor Degree from the University of
17 San Diego School of Law and am a member of the California State Bar.

18 I have worked in the utility industry since my college days, with the exception of
19 two years when I was in the military during the Vietnam War. I served in various
20 positions at San Diego Gas & Electric Company and Southern California Edison
21 Company in accounting, economics, business planning and strategic planning.
22 Prior to joining UniSource, I served as the Chief Executive Officer of Mission
23 Energy, which was the largest independent power producer in the world at the time.
24
25
26

1 Q. Please generally describe UniSource's businesses?

2 A. UniSource Energy Corporation is the parent company of TEP, Millennium Energy
3 Holdings, Inc. ("Millennium"), and UniSource Energy Development Company
4 ("UED"). TEP, an Arizona public service corporation, is the principal subsidiary of
5 UniSource and serves approximately 360,000 customers in southern Arizona.
6 Millennium is the parent company of certain unregulated energy businesses,
7 including:

- 8 1. Global Solar Energy, Inc., which develops and manufactures flexible thin-
9 film photovoltaic material that converts sunlight to electricity. Its target
10 markets include military, aerospace and commercial applications.
- 11 2. Infinite Power Solutions, Inc., which is developing micro-miniature, thin-
12 film, solid state rechargeable batteries for use in medical implants, computer
13 components and radio frequency identification tags.
- 14 3. Southwest Energy Solutions, Inc. (SES), which is a regional electric
15 contractor and provider of energy support and construction services to
16 electric customers.

17 UED will be developing two new 400 MW generation units at the existing
18 Springerville Generation Site.

19
20 Q. Mr. Pignatelli, what is the purpose of your testimony?

21 A. My testimony will describe the benefits of this transaction and why it is in the
22 public interest. I urge the Arizona Corporation Commission to approve the
23 transaction for the following reasons:

- 24 • Significant gas and electric facilities, operations and customers in
25 both northern and southern Arizona will now be the responsibility of UniSource, an
26 Arizona-based company that is well known, accessible and held in high regard by

1 the community. UniSource is experienced in providing quality utility service to
2 Arizona citizens.

3 • UniSource will retain substantially all of the Arizona-based
4 employees of Citizens, which will minimize any negative economic impact of this
5 transaction.

6 • TEP's service and financial condition will not be impaired by this
7 transaction.

8 • This transaction will facilitate the resolution of the long-standing
9 purchased power and fuel adjustment clause case ("PPFAC Case").

10 • Although a gas rate increase is necessary due to substantial new
11 investment in facilities, this transaction will result in a reduction in the almost 29%
12 increase proposed by Citizens.

13 My testimony will discuss the transactions described in the Asset
14 Purchase Agreement between Citizens and UniSource dated October 29, 2002,
15 relating to the purchase of Citizens' electric utility business in Arizona ("Electric
16 Agreement") and the Asset Purchase Agreement dated October 29, 2002, relating to
17 Citizens' gas utility business in Arizona ("Gas Agreement"). My testimony will
18 describe UniSource's reasons for entering the Electric Agreement and the Gas
19 Agreement and the benefits that UniSource will provide in operating these electric
20 and gas businesses. Next, I will briefly describe the financing of the transaction.
21 Finally, I will describe UniSource's position with respect to Citizens' pending gas
22 rate case, Docket No. G-01032A-02-0598, ("Gas Rate Case") and the PPFAC Case,
23 Docket No. E-01032C-00-0751.

24
25 Q. Have you reviewed the Joint Application filed by UniSource, TEP and Citizens?

26 A. Yes.

1 Q. To the best of your knowledge and belief, is the information contained in the Joint
2 Application accurate?

3 A. Yes.
4

5 Q. Please generally describe the Electric Agreement.

6 A. Citizens and UniSource executed the Electric Agreement on October 29, 2002.
7 Under the terms of the Electric Agreement, and subject to the satisfaction of the
8 conditions contained in the Electric Agreement, which includes necessary approvals
9 from the Arizona Corporation Commission ("Commission"), Citizens will transfer
10 to UniSource its assets (subject to certain stated exceptions) used in connection
11 with or otherwise necessary for the conduct of its electric utility business in
12 Arizona. As described with more particularity in the Electric Agreement, these
13 assets (collectively, the "Electric Assets") include:

- 14 (a) certain parcels of real property owned by Citizens and related to
15 Citizens' electric utility business in Arizona, together with all
16 buildings, facilities, and other improvements on those parcels and
17 appurtenances to those parcels;
- 18 (b) all accounts receivable and earned but unbilled revenues attributable
19 to Citizens' electric utility business in Arizona and all inventories;
- 20 (c) all machinery (mobile or otherwise), equipment (including
21 communications equipment and computers), vehicles, tools, furniture
22 and furnishings and other personal property related to Citizens'
23 electric utility business in Arizona, owned by Citizens, together with
24 all the personal property of Citizens used principally in the operation
25 of Citizens' electric utility business in Arizona;
26

- 1 (d) certain assigned agreements and certain rights, claims and causes of
2 action;
- 3 (e) certain real property leases;
- 4 (f) all transferable permits, including, but not limited to, Citizens'
5 Certificates of Convenience and Necessity to serve electricity in
6 Arizona;
- 7 (g) all books, customer lists and customer information databases, meter
8 reading and service data, accounts payable and receivable data,
9 operating and maintenance records, warranty information, operating,
10 safety and maintenance manuals, engineering design plans, blueprints
11 and as-built plans, specifications, procedures and similar items of
12 Citizens relating specifically to Citizens' electric assets and necessary
13 for the operation of the electric assets and the electric utility business
14 in Arizona other than such items which are proprietary to third parties
15 and accounting records;
- 16 (h) all unexpired, transferable warranties and guarantees from third
17 parties with respect to any of the electric assets as of the closing date;
- 18 (i) Citizens' prepaid expenses; and
- 19 (j) petty cash held locally for the benefit of the electric utility business in
20 Arizona.

21 UniSource has agreed to pay Citizens \$92 million, plus or minus any adjustments
22 set forth in the Section 3.3 of the Electric Agreement, in exchange for the transfer
23 of the Electric Assets.
24
25
26

1 Q. Please generally describe the Gas Agreement.

2 A. UniSource and Citizens executed the Gas Agreement on October 29, 2002. Under
3 the terms of the Gas Agreement, and subject to the satisfaction of the conditions
4 contained in the Gas Agreement, which includes the Commission's approval,
5 Citizens will transfer to UniSource its assets (subject to certain stated exceptions)
6 used in connection with or otherwise necessary for the conduct of its gas utility
7 business in Arizona. As stated with more particularity in the Gas Agreement, these
8 assets (collectively, the "Gas Assets") include:

- 9 (a) certain parcels of real property owned by Citizens and related to
10 Citizens' gas utility business in Arizona, together with all buildings,
11 facilities, and other improvements on those parcels and appurtenances
12 to those parcels;
- 13 (b) all accounts receivable and earned but unbilled revenues attributable
14 to Citizens' gas utility business in Arizona and all inventories;
- 15 (c) all machinery (mobile or otherwise), equipment (including
16 communications equipment and computers), vehicles, tools, furniture
17 and furnishings and other personal property related to Citizens' gas
18 utility business in Arizona, owned by Citizens, together with all the
19 personal property of Citizens used principally in the operation of
20 Citizens' gas utility business in Arizona;
- 21 (d) certain assigned agreements;
- 22 (e) certain real property leases;
- 23 (f) all transferable permits, including, but not limited to, Citizens'
24 Certificates of Convenience and Necessity to provide gas service in
25 Arizona;
- 26

- 1 (g) all books, customer lists and customer information databases, meter
2 reading and service data, accounts payable and receivable data,
3 operating and maintenance records, warranty information, operating,
4 safety and maintenance manuals, engineering design plans, blueprints
5 and as-built plans, specifications, procedures and similar items of
6 Citizens relating specifically to Citizens' gas assets and necessary for
7 the operation of the gas assets and the gas utility business in Arizona
8 other than such items which are proprietary to third parties and
9 accounting records;
- 10 (h) all unexpired, transferable warranties and guarantees from third
11 parties with respect to any of the gas assets as of the closing date;
- 12 (i) Citizens' prepaid expenses; and
- 13 (j) petty cash held locally for the benefit of the gas utility business in
14 Arizona.

15 UniSource has agreed to pay Citizens \$138 million, plus or minus any adjustments
16 set forth in the Section 3.3 of the Gas Agreement, in exchange for the transfer of
17 these Gas Assets.

18
19 Q. Does UniSource intend to retain the Arizona-based employees currently employed
20 by Citizens in its gas and electric divisions?

21 A. Yes. The Electric Agreement and the Gas Agreement both provide that UniSource
22 will give qualifying offers of employment to substantially all of Citizens' current
23 Arizona employees. The expertise and know-how of these employees will greatly
24 benefit UniSource and will facilitate the provision of quality service to customers of
25 Citizens' gas and electric utilities in Arizona.

26

1 Q. Please describe UniSource's expertise and experience in the provision of energy
2 services.

3 A. UniSource is the holding company for TEP and has amassed expertise in the
4 provision of energy services to residential, commercial, and industrial customers in
5 Arizona. This expertise will allow UniSource to effectively and efficiently serve
6 Citizens' electric and gas utility customers in southern and northern Arizona. As an
7 Arizona-based corporation, UniSource will have local control over Citizens gas and
8 electric customers. This will lead to local decision-making and local
9 accountability. The combination of UniSource's expertise and the expertise and
10 know-how of Citizens' current Arizona employees in operating the electric and gas
11 utility businesses will facilitate quality service to the gas and electric customers in
12 Citizens' certificated areas.

13
14 Q. Please describe UniSource's overall financial condition.

15 A. UniSource has the financial strength and stability to acquire these assets, as
16 evidenced by its 2001 Annual Report and 10K, copies of which are attached as
17 Exhibit F to the Joint Application.

18
19 Q. What are the benefits of this transaction to UniSource?

20 A. The acquisition of Citizens' gas and electric utilities will not lead to substantial
21 economies of scale, as evidenced by the fact that UniSource will retain the majority
22 of Citizens' employees. But, the acquisition of the Gas Assets and Electric Assets
23 will allow UniSource to grow its core business within Arizona and should allow
24 UniSource shareholders to receive a reasonable rate of return on a larger base of
25 assets. However, as time passes, economies of scale could be realized in
26

1 administrative functions as well as certain generating assets. Such economies
2 would be reflected in future rate filings.

3
4 Q. Under what corporate structure will UniSource operate these utilities?

5 A. UniSource will operate the electric and gas utility business as a separate wholly-
6 owned subsidiary or subsidiaries ("New Utility Companies") with separate rate
7 structures. Because both of Citizens' systems are subject to two-county financing
8 restrictions, they must be accounted for and regulated separately. The New Utility
9 Companies will keep separate books and accounts and will not operate as TEP nor
10 impair TEP's operations.

11
12 Q. What benefit will existing Citizens consumers receive?

13 A. Citizens' gas and electric facilities and operations will be the responsibility of
14 UniSource, which is an Arizona-based company that is well known, accessible and
15 held in high regard by the community. UniSource is experienced in providing
16 quality utility services to Arizona citizens.

17
18 In addition, a significant economic benefit for Citizens' customers is the mitigation
19 of (1) approximately \$108 million of net plant, and (2) over \$120 million of PPFAC
20 balance. Citizens' customers will not be required to provide a recovery of and
21 return on these amounts. These amounts can be mitigated because UniSource is
22 acquiring \$187 million of net electric plant rate base for approximately \$110
23 million and \$166 million of net gas plant rate base for approximately \$135 million.
24 Furthermore, UniSource is willing to forego the recovery of the substantial PPFAC
25 balance currently on Citizens' balance sheet. These concessions by UniSource are
26

1 the primary reason that the rate increases requested by UniSource are substantially
2 less than the requests currently filed by Citizens.

3
4 Q. How will the transaction affect the rates charged to Citizens' current customers?

5 A. Subject to the outcome of Citizens' pending Gas Rate Case and PPFAC Case,
6 UniSource will provide gas and electric service to Citizens' current customers
7 under the rates and tariffs existing at the time of the closing of the transactions
8 contemplated in the Electric Agreement and the Gas Agreement.

9
10 Q. How does UniSource intend to finance the acquisition of the Electric Assets and the
11 Gas Assets?

12 A. UniSource intends to fund the acquisition using a combination of several sources,
13 including: (1) available cash at UniSource; (2) possibly the issuance of new equity
14 by UniSource; (3) a loan from TEP; and (4) debt issued by one or more new
15 corporate entities, the repayment of which will be secured either directly or
16 indirectly by the assets and cash flows of the purchased properties. The details of
17 the financing are discussed in the Direct Testimony of Kevin Larson, filed with the
18 Joint Application.

19
20 Q. What is UniSource's position with respect to the pending Gas Rate Case?

21 A. A gas rate increase is necessary in large part due to Citizens' substantial investment
22 in new facilities in recent years. Citizens has requested a rate increase of almost
23 29%. As part of the approval of the Joint Application, UniSource intends to seek a
24 gas rate increase of 23%. The basis for this request is set forth in the Direct
25 Testimony of Steven Glaser, filed with the Joint Application. The closing of the
26 purchase of the Gas Assets depends in large part on the granting of the gas rate

1 increase requested. Without this increase, the purchase of these assets will not be
2 economically viable for UniSource.

3
4 Q. What is UniSource's position with respect to Citizens' pending PPFAC Case?

5 A. As discussed in the Direct Testimony of Steven Glaser, UniSource has reviewed the
6 cost of power under Citizens' agreement with Pinnacle West Capital entered in the
7 summer of 2001. Based upon this review, UniSource requests that going forward
8 the PPFAC base rate be included in rates to account for the cost of power under the
9 new Pinnacle West Capital agreement, which is discussed in more detail in the
10 Direct Testimony of Steven Glaser. Subject to the approval of the going-forward
11 PPFAC base rate and the overall approval of the transactions contemplated in the
12 Joint Application, UniSource is willing to forego the PPFAC balance which exists
13 at the time of closing, which, as of September 2002, stood at \$117 million and will
14 be approximately \$138 million by July of 2003.

15
16 Q. Is the timing of the resolution of the Gas Rate Case and the PPFAC Case
17 important?

18 A. Yes. The transactions contemplated in the Electric Agreement and the Gas
19 Agreement will not close without the prior or concurrent successful resolution of
20 the Gas Rate Case and the PPFAC Case.

21
22 Q. What additional regulatory approvals will be required in order to complete the
23 transactions contemplated in the Electric Agreement and the Gas Agreement?

24 A. Approval of the transactions by the Federal Trade Commission (FTC) will be
25 required under the Hart-Scott-Rodino Act. In addition, Federal Energy Regulatory
26 Commission (FERC) approval will be required for the transfer of FERC

1 jurisdictional assets. The acquisition of public utility subsidiaries by UniSource
2 will also require approval by the SEC under the Public Utilities Holding Company
3 Act.

4 There are a number of additional governmental approvals relating to the transfer of
5 permits, franchises, and agreements currently held by Citizens. For example,
6 Department of Energy (DOE) approval will be required for transfer of the
7 Presidential Permit. The vast majority of these approvals are not considered
8 "Required Regulatory Approvals" under the Gas Agreement and the Electric
9 Agreement and, on an individual basis, are not conditions to the closing of the
10 transactions.

11
12 Q. Does this conclude your testimony?

13 A. Yes, it does.
14
15
16
17
18
19
20
21
22
23
24
25
26

EXHIBIT
JA-7
admitted

ASSET PURCHASE AGREEMENT

by and between
CITIZENS COMMUNICATION COMPANY, as SELLER
and
UNISOURCE ENERGY CORPORATION, as BUYER

Relating to the Purchase by Buyer of Seller's
Gas Utility Business in the State of Arizona

Signing Date: October 29, 2002

ASSET PURCHASE AGREEMENT

Table of Contents

| <u>Documents</u> | <u>Tab</u> |
|------------------------------------|------------|
| Asset Purchase Agreement..... | 1 |
| Exhibits | 2 |
| Schedules..... | 3 |
| Seller Deliveries at Signing | 4 |

1

ASSET PURCHASE AGREEMENT

by and between

CITIZENS COMMUNICATIONS COMPANY, as SELLER,

and

UNISOURCE ENERGY CORPORATION, as BUYER,

Dated October 29, 2002

*Relating to Purchase by Buyer of Seller's
Gas Utility Business in the State of Arizona*

TABLE OF CONTENTS

| | Page |
|---|-------------|
| ARTICLE I DEFINITIONS | 1 |
| 1.1 Definitions | 1 |
| 1.2 Certain Interpretive Matters | 14 |
| ARTICLE II PURCHASE AND SALE | 14 |
| 2.1 Transfer of Assets | 14 |
| 2.2 Excluded Assets | 15 |
| 2.3 Assumed Liabilities | 17 |
| 2.4 Excluded Liabilities | 18 |
| 2.5 Control of Litigation | 20 |
| ARTICLE III THE CLOSING | -21 |
| 3.1 Closing | 21 |
| 3.2 Closing Payment | 21 |
| 3.3 Adjustment to Base Purchase Price | 21 |
| 3.4 Prorations | 24 |
| 3.5 Deliveries by Seller | 24 |
| 3.6 Deliveries by Buyer | 26 |
| 3.7 Work in Progress | 26 |
| ARTICLE IV REPRESENTATIONS, WARRANTIES AND DISCLAIMERS OF SELLER | 27 |
| 4.1 Incorporation; Qualification | 27 |
| 4.2 Authority | 27 |
| 4.3 Consents and Approvals; No Violation | 27 |
| 4.4 Insurance | 28 |
| 4.5 Real Property Leases | 28 |
| 4.6 Environmental Matters | 28 |
| 4.7 Labor Matters | 29 |
| 4.8 Benefit Plans: ERISA | 29 |

TABLE OF CONTENTS

| | Page |
|---|-------------|
| 4.9 Real Property..... | 30 |
| 4.10 Condemnation | 30 |
| 4.11 Assigned Agreements..... | 30 |
| 4.12 Legal Proceedings | 31 |
| 4.13 Permits | 31 |
| 4.14 Taxes. | 31 |
| 4.15 Intellectual Property | 32 |
| 4.16 Capital Expenditures | 32 |
| 4.17 Compliance With Laws..... | 32 |
| 4.18 Title | 32 |
| 4.19 DISCLAIMERS | 32 |
| 4.20 Financial Statements | 33 |
| 4.21 SEC Filings; Financial Statements..... | 33 |
| 4.22 Sufficiency of Assets..... | 33 |
| ARTICLE V REPRESENTATIONS AND WARRANTIES OF BUYER | 34 |
| 5.1 Organization..... | 34 |
| 5.2 Authority | 34 |
| 5.3 Consents and Approvals; No Violation..... | 34 |
| 5.4 Availability of Funds..... | 35 |
| 5.5 SEC Filings; Financial Statements..... | 35 |
| 5.6 Legal Proceedings | 35 |
| 5.7 No Knowledge of Seller's Breach..... | 36 |
| 5.8 Qualified Buyer..... | 36 |
| 5.9 Inspections..... | 36 |
| 5.10 WARN Act..... | 36 |
| ARTICLE VI COVENANTS OF THE PARTIES | 37 |
| 6.1 Conduct of Business and Operation of Assets | 37 |
| 6.2 Access to Information. | 38 |

TABLE OF CONTENTS

| | Page |
|--|--------|
| 6.3 Environmental Inspections and Information..... | 40 |
| 6.4 Confidentiality..... | 41 |
| 6.5 Public Statements..... | 42 |
| 6.6 Expenses..... | 42 |
| 6.7 Further Assurances..... | 42 |
| 6.8 Consents and Approvals..... | 43 |
| 6.9 Fees and Commissions..... | 44 |
| 6.10 Tax Matters..... | 45 |
| 6.11 Advice of Changes..... | 47 |
| 6.12 Seller Employees..... | 47 |
| 6.13 Risk of Loss..... | 52 |
| 6.14 Tax Exempt Financing..... | 53 |
| 6.15 Seller Guarantees and Surety Instruments..... | 58 |
| 6.16 Citizens Marks..... | 58 |
| 6.17 Title Commitments..... | 58 |
| 6.18 Joint Use Agreement re: Easements..... | 58 |
| 6.19 [Intentionally Omitted]..... | 58 |
| 6.20 Post-Execution Delivery of Schedules..... | 59 |
| ARTICLE VII CONDITIONS..... | 59 |
| 7.1 Conditions to Obligations of Buyer..... | 59 |
| 7.2 Conditions to Obligations of Seller..... | 60 |
| ARTICLE VIII INDEMNIFICATION..... | 61 |
| 8.1 Indemnification of Seller by Buyer..... | 61 |
| 8.2 Indemnification of Buyer by Seller..... | 61 |
| 8.3 Certain Limitations on Indemnification..... | 62 |
| 8.4 Defense of Claims..... | 64 |
| ARTICLE IX TERMINATION..... | 66 |
| 9.1 Termination..... | 66 |

TABLE OF CONTENTS

| | Page |
|---|------|
| 9.2 Procedure and Effect of Termination..... | 67 |
| 9.3 Liquidated Damages; Termination Fees..... | 68 |
| ARTICLE X MISCELLANEOUS PROVISIONS | 69 |
| 10.1 Amendment and Modification | 69 |
| 10.2 Waiver of Compliance; Consents..... | 69 |
| 10.3 [Intentionally Omitted] | 69 |
| 10.4 Notices..... | 69 |
| 10.5 Assignment..... | 71 |
| 10.6 Governing Law..... | 71 |
| 10.7 Counterparts | 71 |
| 10.8 Interpretation | 71 |
| 10.9 Schedules and Exhibits | 71 |
| 10.10 Entire Agreement | 72 |
| 10.11 U.S. Dollars..... | 72 |
| 10.12 Bulk Sales Laws..... | 72 |
| 10.13 Construction of Agreement..... | 72 |
| 10.14 Severability | 72 |
| 10.15 Third Party Beneficiary..... | 73 |

ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT, dated October 29, 2002 (this "Agreement"), by and among Citizens Communications Company, a Delaware corporation ("Seller") and UniSource Energy Corporation, an Arizona corporation ("Buyer"). Seller and Buyer are referred to, individually, as a "Party" and, together, as the "Parties."

WITNESSETH

WHEREAS, Seller owns all of the Assets (as defined below); and

WHEREAS, Buyer desires to purchase and assume, and Seller desires to sell and assign, the Assets, and certain associated liabilities, upon the terms and conditions hereinafter set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements hereinafter set forth, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I DEFINITIONS

1.1 Definitions. As used in this Agreement, the following terms have the meanings specified in this Section 1.1.

"ACC" means the Arizona Corporation Commission and any successor agency thereto.

"ADEQ" means the Arizona Department of Environmental Quality and any successor agency thereto.

"Advances" has the meaning set forth in Section 3.3(e).

"Adverse Environmental Condition" has the meaning set forth in Section 6.3(c).

"Affiliate" of any Person means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified.

"Agreement" means this Asset Purchase Agreement together with the Schedules and Exhibits attached hereto, as the same may be from time to time amended.

"Allocation" has the meaning set forth in Section 6.10(f).

"ALTA" has the meaning set forth in Section 6.17.

"Ancillary Agreements" means the agreements, contracts, documents, instruments and certificates provided for in this Agreement to be entered into by one or more of the Parties or any of their Affiliates in connection with the transactions contemplated by this Agreement.

"APBO" has the meaning set forth in Section 6.12(d)(iii)(D).

"Approved Capital Expenditures" means the Capital Expenditures that have been expressly approved by Buyer in writing and that are identified in said writing as Approved Capital Expenditures for purposes of this Agreement.

"Arizona Electric Purchase Agreement" has the meaning set forth in Section 7.1(j).

"Assets" has the meaning set forth in Section 2.1.

"Asset Material Adverse Effect" means any occurrence or condition, arising after the date hereof, that has or would reasonably be expected to have a material adverse effect with an aggregate economic impact, taking into account all relevant considerations, in excess of \$10,000,000 (except as provided otherwise in Sections 6.3(c), 6.13(b)(i) or 6.13(c)(ii)) on the condition of the Assets, taken as a whole, or on the business, operations, financial condition or results of operations of the Business, taken as a whole, other than any such occurrence or condition (a) arising from business, economic or financial market conditions, considered generally, (b) arising from the conditions in the gas utility industry, considered generally and not specifically as to the Business, (c) which is remedied, cured or otherwise reversed (including by the payment of money or application of insurance proceeds) before the Termination Date, or (d) arising from entering into this Agreement or the announcement of the transactions contemplated by this Agreement; it being understood that the occurrences and/or conditions which could, depending on the nature and extent thereof, be deemed to result in an Asset Material Adverse Effect shall include, without limitation, (x) the terms or conditions of a Final Order with respect to any Required Regulatory Approval, considered individually or together with any other such Final Order(s) with respect to any other Required Regulatory Approval(s), other than Regulatory Exceptions, and (y) facts or circumstances relating to the Assets and/or the Business which come to the attention of Buyer between the date of this Agreement and the Closing Date, whether as a result of Buyer's Inspection of the Assets or its examination of information and data relating to the Assets and/or the Business, as contemplated by Section 6.2 or 6.3, or otherwise.

"Assigned Agreements" means any contracts, agreements, software licenses and related contracts, Easements, Real Property Leases and personal property leases entered into by Seller or any of its Affiliates with respect to the ownership, operation or maintenance of the Assets or the Business, including those disclosed on Schedules 4.5 and 4.11(a) and excluding those disclosed on Schedule 2.2, including without limitation, the IBEW CBA.

"Assignment and Assumption Agreement" means the Assignment and Assumption Agreement between Seller and Buyer substantially in the form of Exhibit A attached hereto.

"Assumed Liabilities" has the meaning set forth in Section 2.3.

"Arizona Electric Purchase Agreement" has the meaning set forth in Section 7.1(j).

"Balance Sheet" has the meaning set forth in Section 4.20.

"Base Purchase Price" has the meaning set forth in Section 3.2.

"Benefit Plans" means each of Seller's deferred compensation and each bonus or other incentive compensation, stock purchase, stock option and other equity compensation plan, program, agreement or arrangement; each severance or termination pay, medical, surgical, hospitalization, life insurance and other "welfare" plan, fund or program (within the meaning of Section 3(1) of ERISA); each profit-sharing, stock bonus or other "pension" plan, fund or program (within the meaning of Section 3(2) of ERISA); each employment, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by such Party or by any ERISA Affiliate, in any case maintained for employees of Seller connected with the Business, or in which such employees participate.

"Bill of Sale" means the Bill of Sale, substantially in the form of Exhibit B attached hereto, to be delivered at the Closing by Seller with respect to the Tangible Personal Property included in the Assets transferred to Buyer.

"Bond Counsel" has the meaning set forth in Section 6.14(c)(i).

"Business" means, collectively, (a) the regulated natural gas distribution business conducted by Seller within the State of Arizona through its Arizona Gas divisions, (b) the natural gas transportation business conducted by Seller within the State of Arizona through its Arizona Gas divisions and (c) the provision of related services and products and the engagement in related activities, including financing of conversions to gas and agreements as to appliances, by Seller within the State of Arizona through its Arizona Gas divisions.

"Business Day" means any day other than Saturday, Sunday and any day which is a day on which banking institutions in the States of Arizona and New York are authorized by law or other governmental action to remain closed.

"Buyer" has the meaning set forth in the Preamble.

"Buyer Indemnifiable Loss" has the meaning set forth in Section 8.2.

"Buyer Indemnitee" has the meaning set forth in Section 8.2.

“Buyer Material Adverse Effect” means a Material Adverse Effect with respect to Buyer.

“Buyer Required Regulatory Approvals” means the Required Regulatory Approvals set forth in Schedule 5.3(b).

“CERCLA” means the federal Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. Section 9601 *et seq.*, as amended.

“Capital Expenditures” means capital additions to or replacements of property, plants and equipment included in the Assets or otherwise relating to the Business and other expenditures or repairs on property, plants and equipment included in the Assets or otherwise relating to the Business that would be capitalized by Seller in accordance with its normal accounting policies.

“Capital Expenditures Schedule” has the meaning set forth in Section 4.16.

“Citizens Marks” has the meaning set forth in Section 2.2(c).

“Closing” has the meaning set forth in Section 3.1.

“Closing Date” means one minute after 11:59 p.m. on the date which is five (5) Business Days following the date on which the last of the conditions precedent to the Closing set forth in Article VII of this Agreement have been either satisfied or waived by the Party for whose benefit such conditions precedent exist, subject to such extensions (not to exceed six (6) months) as may be required by Seller to repair or replace lost or damaged Assets in accordance with Section 6.13(c), or such other date as the Parties may mutually agree.

“COBRA” means the Consolidated Omnibus Budget Reconciliation Act of 1984.

“COBRA Continuation Coverage” means the requirements of Section 4980B(f) of the Code.

“Code” means the Internal Revenue Code of 1986, as amended.

“Commercially Reasonable Efforts” means efforts by a Party which are reasonably within the contemplation of the Parties at the time of executing this Agreement and which do not require the performing Party to expend any funds other than expenditures which are customary and reasonable in transactions of the kind and nature contemplated by this Agreement in order for the performing Party to satisfy its obligations hereunder.

“Current Retirees” has the meaning set forth in Section 6.12(d)(iii)(D).

“Direct Claim” has the meaning set forth in Section 8.4(c).

"Easements" means all easements, rights of way, permits, licenses, prescriptive rights and other ways of necessity, and other similar real property grants, whether or not of record, relating to real property.

"Encumbrances" means any mortgages, pledges, liens, security interests, conditional and installment sale agreements, activity and use limitations, conservation easements, deed restrictions, encumbrances and charges of any kind.

"Environmental Claim" means any and all pending and/or threatened administrative or judicial actions, suits, orders, claims, liens, notices, notices of violations, investigations, complaints, requests for information, proceedings, or other written communication, whether criminal or civil, pursuant to or relating to any applicable Environmental Law or pursuant to a common law theory, by any Person (including, but not limited to, any Governmental Authority, private person and citizens' group) based upon, alleging, asserting, or claiming any actual or potential (a) violation of, or liability under any Environmental Law, (b) violation of any Environmental Permit, or (c) liability for investigatory costs, cleanup costs, removal costs, remedial costs, response costs, natural resource damages, property damage, personal injury, fines, or penalties arising out of, based on, resulting from, or related to any Environmental Condition or any Release or threatened Release into the environment of any Regulated Substances at any location related to the Assets, including, but not limited to, any Off-Site Location to which Regulated Substances, or materials containing Regulated Substances, were sent for handling, storage, treatment, or disposal.

"Environmental Condition" means the presence or Release of a Regulated Substance (other than a naturally-occurring substance) on or in environmental media, or structures on Real Property, at an Off-Site Location or other property (including the presence in surface water, groundwater, soils or subsurface strata, or air), including the subsequent migration of any such Regulated Substance, regardless of when such presence or Release occurred or is discovered.

"Environmental Data" has the meaning set forth in Section 6.3(e).

"Environmental Laws" means all federal, state, local, provincial, foreign and international civil and criminal laws, regulations, rules, ordinances, codes, decrees, judgments, directives, or judicial or administrative orders relating to pollution or protection of the environment, natural resources or human health and safety, including, without limitation, laws relating to Releases or threatened Releases of Regulated Substances (including, without limitation, Releases to ambient air, surface water, groundwater, land, surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, Release, transport, disposal or handling of Regulated Substances. "Environmental Laws" include: (a) with respect to federal law, CERCLA, the Hazardous Materials Transportation Act (49 U.S.C. §§ 1801 *et seq.*), the Resource Conservation and Recovery Act (42 U.S.C. §§ 6901 *et seq.*), the Federal Water Pollution Control Act (33 U.S.C. §§ 1251 *et seq.*), the Clean Air Act (42 U.S.C. §§ 7401 *et seq.*), the Toxic Substances Control Act (15 U.S.C. §§ 2601 *et seq.*), the Oil Pollution Act (33 U.S.C. §§ 2701 *et seq.*), the Emergency Planning and

Community Right-to-Know Act (42 U.S.C. §§ 11001 *et seq.*), the Occupational Safety and Health Act (29 U.S.C. §§ 651 *et seq.*), the Safe Drinking Water Act (42 U.S.C. § 300f *et seq.*), the Surface Mine Conservation and Reclamation Act (30 U.S.C. §§ 1251-1279), and regulations adopted pursuant thereto, and counterpart state and local laws, regulations adopted pursuant thereto; and (b) with respect to Arizona law, laws comparable to such federal statutes and regulations adopted pursuant thereto.

"Environmental Permits" means any permits, registrations, certificates, certifications, licenses and authorizations, consents and approvals of Governmental Authorities issued under Environmental Laws held by Seller with respect to the Assets.

"Environmental Price Adjustment" has the meaning set forth in Section 6.3(c).

"Environmental Reports" has the meaning set forth in Section 4.6.

"Environmental Threshold" has the meaning set forth in Section 6.3(c).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means a trade or business, whether or not incorporated, that together with a Party would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA.

"Estimated Adjustment" has the meaning set forth in Section 3.3(b).

"Estimated Closing Statement" has the meaning set forth in Section 3.3(b).

"Excluded Assets" has the meaning set forth in Section 2.2.

"Excluded Liabilities" has the meaning set forth in Section 2.4.

"Exempt Facilities" means those facilities listed in Exhibit A to each Loan Agreement included in the IDR Documents.

"FERC" means the Federal Energy Regulatory Commission or any successor agency thereto.

"Final Order" means an action by the relevant Governmental Authority that has not been reversed, stayed, enjoined, set aside, annulled or suspended and/or with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired and the time period permitted by statute or regulation for filing any request for a stay, petition for rehearing, reconsideration or application for review of the action or for filing a court appeal has passed.

"Financial Statements" has the meaning set forth in Section 4.20.

"FIRPTA Affidavit" means the Foreign Investment in Real Property Tax Act Certification and Affidavit to be executed by Seller.

"GAAP" means U.S. generally accepted accounting principles.

"Good Utility Practices" means any practices, methods, standards, guides, or acts, as applicable, that (a) are generally accepted in the region during the relevant time period for use in the gas, transmission and distribution industry, (b) are commonly used in prudent gas, transmission and distribution engineering, construction, project management and operations, and (c) would be expected if the Business is to be conducted at a reasonable cost in a manner consistent with laws, rules and regulations applicable to the Business and the objectives of reliability, safety, environmental protection, economy and expediency. Good Utility Practice is intended to be acceptable practices, methods, or acts generally accepted in the region, and is not intended to be limited to the optimum practices, methods, or acts to the exclusion of all others.

"Governmental Authority" means any foreign, federal, state, local or other governmental, regulatory or administrative agency, court, commission, department, board, or other governmental subdivision, legislature, rulemaking board, court, tribunal, arbitrating body or other governmental authority.

"Grandfathered Active Employees" has the meaning set forth in Section 6.12(d)(iii)(D).

"Grandfathered Individuals" has the meaning set forth in Section 6.12(d)(iii)(D).

"HSR Act" means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

"IBEW" means International Brotherhood of Electrical Workers.

"IBEW CBA" has the meaning set forth in Section 6.12(a).

"IDRB Documents" has the meaning set forth in Section 6.14(m).

"IDRB Indebtedness" means the indebtedness of Seller owing to the issuers of the Revenue Bonds and arising under the Loan Agreements included among the IDRB Documents.

"Income Tax" means any federal, state, local or foreign Tax (a) based upon, measured by or calculated with respect to gross or net income, profits or receipts (including, without limitation, capital gains Taxes and minimum Taxes) or (b) based upon, measured by or calculated with respect to multiple bases (including, without limitation, corporate franchise taxes) if one or more of the bases on which such Tax may be based, measured by or calculated with respect to, is described in clause (a), in each case together with any interest, penalties, or additions to such Tax.

"Indemnifiable Loss" means any claim, demand, suit, loss, liability, damage, obligation, payment, cost or expense (including, without limitation, the cost and expense of any action, suit, proceeding, assessment, judgment, settlement or compromise relating thereto and reasonable attorneys' fees and reasonable disbursements in connection therewith).

"Indemnifying Party" means a Party obligated to provide indemnification under this Agreement.

"Indemnitee" means a Person entitled to receive indemnification under this Agreement.

"Independent Accounting Firm" means such independent accounting firm of national reputation as is mutually appointed by the Buyer and Seller.

"Inspection" means all tests, reviews, examinations, inspections, investigations, interviews, verifications, samplings and similar activities conducted by Buyer or its Representatives prior to the Closing with respect to the Assets, including "Phase I" and/or "Phase II" environmental assessments.

"Intellectual Property" means patents and patent rights, trademarks and trademark rights, inventions, copyrights and copyright rights, and all pending applications for registrations of patents, trademarks, and copyrights.

"Inventories" means materials, spare parts, consumable supplies, fuel supplies and chemical inventories relating to the Assets or the operation of the Business.

"Knowledge" means the actual knowledge, as of the date hereof or, with respect to any certificate delivered pursuant to this Agreement, the date of delivery of such certificate, of the Persons identified on Schedule 1.1 and successors to each such Person's employment responsibilities.

"Material Adverse Effect" means any occurrence or condition, arising after the date hereof, that has or would reasonably be expected to have a material adverse effect with an aggregate adverse economic impact, taking into account all relevant considerations, in excess of \$10,000,000 on the business, operations, properties, financial condition or results of operations of any Party (including its Affiliates, taken as a whole) or on the ability of either Party to perform in all material respects its obligations under this Agreement and the Ancillary Agreements.

"Material Taking" has the meaning set forth in Section 6.13(b).

"Non-Union Employees" has the meaning set forth in Section 6.12(b).

"Off-Site Location" means any real property other than the Real Property.

"Order" means any award, decision, injunction, judgment, order, consent order, writ, decree, consent decree, ruling, subpoena, or verdict entered, issued, made or

rendered by any court, administrative agency, other Governmental Authority, or by an arbitrator, each of which possesses competent jurisdiction.

"Party" has the meaning set forth in the Recitals.

"Permitted Encumbrances" means any of the following:

(a) mechanics', carriers', workers' and other similar liens arising in the ordinary course of business for charges that are not delinquent or that are being contested in good faith and have not proceeded to judgment;

(b) liens for current Taxes and assessments not yet due and payable;

(c) with respect to the Real Property, usual and customary nonmonetary Encumbrances, covenants, Easements, restrictions and other title matters (whether or not recorded) that do not and are not expected to materially interfere with the operation of that portion of the Business conducted on such Real Property or the Business as a whole;

(d) Encumbrances securing the payment or performance of any of the Assumed Liabilities;

(e) all applicable zoning ordinances and land use restrictions in effect as of the date of this Agreement and all changes to or new adoptions of zoning ordinances and land use restrictions prior to the Closing Date that do not and are not expected to materially interfere with the operation of that portion of the Business conducted on such Real Property or the Business as a whole;

(f) with respect to any Asset which consists of a leasehold or other possessory interests in real property, all Encumbrances, covenants, Easements, restrictions and other title matters (whether or not recorded) to which the underlying fee estate in such real property is subject that do not or will not interfere materially with the operation of that portion of the Business currently conducted on such property or the Business as a whole; and

(g) any other Encumbrances, obligations, defects or irregularities of any kind whatsoever affecting title to the Assets that will be terminated, released or waived on or before the Closing Date or that are not, individually or in the aggregate, reasonably likely to materially interfere with the present use of the Assets or to materially increase the cost of conducting the Business.

"Permits" means any permits, licenses, registrations, franchises and other authorizations, consents and approvals of Governmental Authorities held by Seller with respect to the Assets or the Business.

"Person" means any individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated organization, or governmental entity or any department or agency thereof.

"Post-Closing Adjustment" has the meaning set forth in Section 3.3(d).

"Post-Retirement Welfare Benefits" has the meaning set forth in Section 6.12(d)(iii)(D).

"Proposed Post-Closing Adjustment" has the meaning set forth in Section 3.3(c).

"Proprietary Information" of a Party means all information about the Party or its Affiliates, including their respective properties or operations, furnished to the other Party or its Representatives by the Party or its Representatives, before or after the date hereof, regardless of the manner or medium in which it is furnished and all analyses, reports, tests or other information created or prepared by, or on behalf of, a Party during the performance of "Phase I" or "Phase II" environmental site assessments. Proprietary Information does not include information that: (a) is or becomes generally available to the public, other than as a result of a disclosure by the other Party or its Representatives; (b) was available to the other Party on a nonconfidential basis prior to its disclosure by the Party or its Representatives; (c) becomes available to the other Party on a nonconfidential basis from a person, other than the Party or its Representatives, who is not otherwise bound by a confidentiality agreement with the Party or its Representatives, or is not otherwise under any obligation to the Party or any of its Representatives not to transmit the information to the other Party or its Representatives; or (d) is independently developed by the other Party.

"Purchase Price" has the meaning set forth in Section 3.2.

"Qualifying Offer" means an offer to a Transferred Non-Union Employee of the same or similar job that is at least 100% of such employee's current total cash compensation at the time the offer was made (consisting of base salary and target incentive bonus), and does not require, as a condition of acceptance, a relocation of residence as described in Section 6.12(f).

"Real Property" has the meaning set forth in Section 2.1(a). Any reference to the Real Property includes, by definition, Seller's right, title and interest in and to the surface and subsurface elements, including the soils and groundwater present at the Real Property, and any reference to items "at the Real Property" includes all items "at, on, in, upon, over, across, under and within" the Real Property.

"Real Property Leases" has the meaning set forth in Section 4.5.

"Recovery Costs" has the meaning set forth in Section 8.4(d).

"Regulated Substances" means (a) any petrochemical or petroleum products, oil or coal ash, radioactive materials, radon gas, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and dielectric fluid containing polychlorinated biphenyls; (b) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "hazardous constituents," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants," "pollutants," "toxic pollutants" or

words of similar meaning and regulatory effect under any applicable Environmental Law; and (c) any other chemical, material or substance, exposure to which or whose discharge, emission, disposal or Release is prohibited, limited or regulated by any applicable Environmental Law.

"Regulations" has the meaning set forth in Section 6.14(a)(iii).

"Regulatory Exceptions" means any of the following:

(a) a refusal by the ACC or the FERC to authorize an increase in base rates for the Business, an imposition by the ACC or the FERC of a rate moratorium for the Business, or a requirement by the ACC or the FERC of the filing of a rate case for the Business;

(b) an imposition by the ACC requiring Buyer to provide service, or to improve service, to Persons located in any authorized service area of the Business, provided such requirement has a corresponding rate recovery opportunity;

(c) an imposition by the ACC of performance, safety or reliability standards for Buyer's operation of the Business that are substantially equivalent to those standards being met by Buyer or its Affiliates in their other utility operations in Arizona, provided (i) Buyer is given a reasonable period of time after Closing to meet such imposed standards and (ii) such imposed standards have a corresponding rate recovery opportunity; and

(d) terms and conditions imposed by any Governmental Authority that is required to issue a Required Regulatory Approval that are either (i) usual and customary; (ii) applicable to the Business or to Buyer or any Affiliate of Buyer as of the date of this Agreement; or (iii) contemplated by this Agreement, including the understandings of the Parties referenced in Section 6.8(c)(i).

"Regulatory Material Adverse Effect" means, with respect to any Party, a Material Adverse Effect resulting from the effect on such Party of the terms and conditions of a Final Order with respect to any Required Regulatory Approval other than Regulatory Exceptions.

"Release" means release, spill, leak, discharge, dispose of, pump, pour, emit, empty, inject, leach, dump or allow to escape into or through the environment.

"Remediation" means any action taken in the investigation, removal, confinement, cleanup, treatment, or monitoring of a Release or an Environmental Condition on Real Property or Off-Site Location, including, without limitation, (a) obtaining any Permits or Environmental Permits required for such remedial activities, and (b) implementation of any engineering controls and institutional controls. The term "Remediation" includes, without limitation, any action which constitutes "removal action" or "remedial action" as defined by Section 101 of CERCLA, Section 6901(23) and (24); or any action which constitutes "remediation" or "remedial action" as defined by Arizona Revised Statutes Sections 49-151(4), 49-171(8) and 49-282.02(C)(2).

"Representatives" of a Party means such Party's authorized representatives, including without limitation, its professional and financial advisors.

"Required Regulatory Approvals" means with respect to a Party, any consent or approval of, filing with, or notice to, any Governmental Authority that is necessary for the execution and delivery of this Agreement and the Ancillary Agreements by such Party or the consummation thereby of the transactions contemplated hereby, other than such consents, approvals, filings or notices (i) which are not required in the ordinary course to be obtained or made prior to the Closing and the transfer of the Assets, (ii) which, if not obtained or made, will not prevent such Party from performing its material obligations hereunder, or (iii) that relate to a Permit that is not material to the Business, taken as a whole.

"Revenue Bonds" has the meaning set forth in Section 6.14(a)(i).

"Savings Plan" has the meaning set forth in Section 6.12(d)(iii)(E).

"SEC" means the Securities and Exchange Commission and any successor agency thereto.

"Seller" has the meaning set forth in the Preamble.

"Seller Indemnifiable Loss" has the meaning set forth in Section 8.1.

"Seller Indemnitee" has the meaning set forth in Section 8.1.

"Seller Material Adverse Effect" means a Material Adverse Effect with respect to Seller.

"Seller Required Regulatory Approvals" means the Required Regulatory Approvals set forth in Schedule 4.3(b).

"Seller SEC Reports" has the meaning set forth in Section 4.21.

"Seller's Pension Plan" has the meaning set forth in Section 6.12(d)(iii)(C).

"Severance Cost" has the meaning set forth in Section 6.12(b).

"Special Warranty Deed" means a special warranty deed substantially in the form of Exhibit C attached hereto.

"Subsidiary" when used in reference to any Person means any entity of which outstanding securities having ordinary voting power to elect a majority of the Board of Directors or other Persons performing similar functions of such entity are owned directly or indirectly by such Person.

"Sufficient Notice" has the meaning set forth in Section 6.14(c)(ii).

"Taking" has the meaning set forth in Section 6.13(b).

"Tangible Personal Property" has the meaning set forth in Section 2.1(c).

"Taxes" means all taxes, charges, fees, levies, penalties or other assessments imposed by any federal, state, local or foreign taxing authority, including, but not limited to, income, excise, property, sales, transfer, franchise, payroll, withholding, social security, gross receipts, license, stamp, occupation, employment or other taxes, including any interest, penalties or additions attributable thereto.

"Tax Impact" has the meaning set forth in Section 6.14(a)(vi).

"Tax Return" means any return, report, information return, declaration, claim for refund or other document (including any schedule or related or supporting information) required to be supplied to any taxing authority with respect to Taxes including amendments thereto.

"Termination Date" has the meaning set forth in Section 9.1(b).

"Third Party Claim" means any claim, action, or proceeding made or brought by any Person who is not (a) a Party to this Agreement, or (b) an Affiliate of a Party to this Agreement.

"Title Commitment" has the meaning set forth in Section 6.17.

"Title Company" has the meaning set forth in Section 6.17.

"Title Policies" has the meaning set forth in Section 6.17.

"Transfer Taxes" means any real property transfer or gains tax, sales tax, conveyance fee, use tax, stamp tax, stock transfer tax or other similar tax, including any related penalties, interest and additions to tax.

"Transferable Permits" means those Permits and Environmental Permits with respect to the Assets or the Business which may be transferred to Buyer with or without a filing with, notice to, consent of or approval of any Governmental Authority, and excluding those Permits and Environmental Permits with respect to the Assets or the Business which are non-transferable to Buyer and with respect to which Buyer must apply for and obtain replacements.

"Transferred Employees" means Transferred Non-Union Employees and Transferred Union Employees.

"Transferred Employee Records" means records related to Seller's employees who become employees of Buyer but only to the extent such records pertain to (A) skill and development training and biographies, (B) seniority histories, (C) salary and benefit information, (D) Occupational, Safety and Health Administration reports, or (E) subject to the limitation of the Health Insurance Portability and Accountability Act of 1996 and any applicable state privacy legislation and regulations, active medical restriction forms.

"Transferred Non-Union Employees" has the meaning set forth in Section 6.12(b).

"Transferred Union Employees" has the meaning set forth in Section 6.12(a).

"Union Employees" has the meaning set forth in Section 6.12(a).

"UniSource" means UniSource Energy Corporation, an Arizona corporation and a direct or indirect parent corporation of Buyer.

"UniSource Designee" means a wholly-owned subsidiary, direct or indirect, of either UniSource or Tucson Electric Power Company, an Arizona corporation named in the approvals by the ACC and the FERC as an entity that may acquire the Assets.

"UniSource SEC Reports" has the meaning set forth in Section 5.5.

"WARN Act" means the Federal Worker Adjustment Retraining and Notification Act of 1988, as amended.

"1954 Code" has the meaning set forth in Section 6.14(a)(iii).

1.2 Certain Interpretive Matters. In this Agreement, unless the context otherwise requires, the singular shall include the plural, the masculine shall include the feminine and neuter, and vice versa. The term "includes" or "including" shall mean "including without limitation." The terms "hereof," "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole (including all of the Schedules and Exhibits hereto) and not to any particular provision of this Agreement. References to a Section, Article, Exhibit or Schedule shall mean a Section, Article, Exhibit or Schedule of this Agreement, and reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented or restated through the date as of which such reference is made.

ARTICLE II

PURCHASE AND SALE

2.1 Transfer of Assets. Upon the terms and subject to the satisfaction of the conditions contained in this Agreement, at the Closing, Seller will sell, assign, convey, transfer and deliver to Buyer or the UniSource Designee, and Buyer or such UniSource Designee will purchase, assume and acquire from Seller, free and clear of all Encumbrances (except for Permitted Encumbrances), all of Seller's right, title and interest in and to all the assets (except for Excluded Assets), real, personal or mixed, tangible, or intangible, used or held for use by Seller in or in connection with, or otherwise necessary for, the conduct of the Business, including, without limitation, those assets described below, each as in existence on the Closing Date (such assets, collectively, the "Assets"):

(a) those certain parcels of real property owned by Seller together with all buildings, facilities, and other improvements thereon and all appurtenances thereto as described in Schedule 4.9 (the "Real Property");

(b) all accounts receivable and earned but unbilled revenues attributable to the Business, and all Inventories;

(c) all machinery (mobile or otherwise), equipment (including communications equipment and computers), vehicles, tools, furniture and furnishings and other personal property related to the Business, owned by Seller and located on the Real Property on the Closing Date, together with all the personal property of Seller used principally in the operation of the Business that are in the possession of Seller and whether or not located on the Real Property (collectively, the "Tangible Personal Property");

(d) subject to the provisions of Section 6.7(c), all Assigned Agreements;

(e) subject to the provisions of Section 6.7(c), all Real Property Leases;

(f) all Transferable Permits;

(g) all books, customer lists and customer information databases, meter reading and service data, accounts payable and receivable data, operating and maintenance records, warranty information, operating, safety and maintenance manuals, engineering design plans, blueprints and as-built plans, specifications, procedures and similar items of Seller relating specifically to the Assets and necessary for the operation of the Assets and the Business (subject to the right of Seller to retain copies of same for its use) other than such items which are proprietary to third parties and accounting records;

(h) all unexpired, transferable warranties and guarantees from third parties with respect to any Asset as of the Closing Date;

(i) Seller prepaid expenses; and

(j) petty cash held locally for the benefit of the Business.

2.2 Excluded Assets. Notwithstanding anything to the contrary in this Agreement, nothing in this Agreement will constitute a transfer to Buyer or a UniSource Designee of, or be construed as conferring on Buyer or a UniSource Designee, and neither Buyer nor said UniSource Designee is acquiring, any right, title or interest in or to the following specific assets which are associated with the Assets or the Business, but which are hereby specifically excluded from the sale and the definition of Assets herein (the "Excluded Assets"):

(a) assets that Seller uses in both the Business and Seller's electric or communications businesses, the material items of which are identified in Schedule 2.2 hereto and any contracts or agreements regarding the procurement of goods or services by Seller for use in its electric or communications businesses;

- (b) cash and cash equivalents (including checks) in transit, in hand or in bank accounts, other than petty cash held locally for the benefit of the Business;
- (c) the rights of Seller and its Affiliates to the names "Citizens Communications Company", "Citizens Utilities", "CZN" or "Citizens" or any other trade names, trademarks, service marks, corporate names, corporate symbols or logos or any part, derivative or combination thereof (the "Citizens Marks");
- (d) the stock record and minute books of Seller, duplicate copies of all books and records transferred to Buyer, all records prepared in connection with the sale of the Business (including bids received from third parties and analyses relating to the Business and all original documents relating to the Revenue Bonds (provided that copies of such documents relating to the Revenue Bonds have been furnished to Buyer);
- (e) assets disposed of by Seller after the date of this Agreement to the extent such dispositions are not prohibited by this Agreement;
- (f) except in the case of causes of action against third parties (including indemnification and contribution) relating to an Environmental Condition or Regulated Substance or arising under Environmental Laws and not relating to a Retained Liability, the rights of Seller in and to any causes of action against third parties (including indemnification and contribution) relating to any Real Property or Tangible Personal Property, Permits, Environmental Permits, Taxes, Real Property Leases or the Assigned Agreements, if any, and not relating to the Assumed Liabilities, including any claims for refunds, prepayments, offsets, recoupment, insurance proceeds (subject to Section 6.13(c)), condemnation awards (subject to Section 6.13(b)), judgments and the like, whether received as payment or credit against future liabilities, relating specifically to the Real Property or any improvements thereon and relating to any period prior to the Closing Date;
- (g) all personnel records of Seller and its Affiliates relating to the Transferred Employees other than Transferred Employee Records or other records, the disclosure of which is required by law or legal or regulatory process or subpoena;
- (h) any and all of Seller's rights and interests in any contract that is not an Assigned Agreement or that is an intercompany transaction between Seller and an Affiliate of Seller and all accounts owing by and among Seller and any of its Affiliates, whether or not any such intercompany transaction or account relates to the provision of goods and services, payment arrangements, intercompany charges or balances, or the like;
- (i) except to the extent set forth in Section 3.4, rights to refunds of Taxes payable with respect to the Business, the Assets, or any other assets, properties or operations of Seller or any Affiliate thereof;
- (j) all deferred tax assets or collectibles;
- (k) any insurance policy, bond, letter of credit or similar item, and any cash surrender value in regard thereto;

(l) except as otherwise set forth in Section 6.12, assets attributable to or related to a Benefit Plan; and

(m) all other assets listed in Schedule 2.2 hereto.

2.3 Assumed Liabilities. On the Closing Date, Buyer or the UniSource Designee acquiring the Assets shall deliver to Seller the Assignment and Assumption Agreement pursuant to which Buyer or such UniSource Designee shall assume and agree to discharge when due, without recourse to Seller, in accordance with the respective terms and subject to the respective conditions thereof, all of the Assumed Liabilities. All of the following liabilities and obligations of Seller or Buyer which relate to, or arise by virtue of Seller's or Buyer's ownership of the Assets or operation of the Business (other than Excluded Liabilities) are referred to collectively as the "Assumed Liabilities":

(a) all liabilities and obligations of Seller or Buyer arising on or after the Closing Date under the Assigned Agreements, the Real Property Leases, and the Transferable Permits in accordance with the terms thereof, including, without limitation, the Assigned Agreements entered into by Seller (i) prior to the date hereof and (ii) after the date hereof consistent with the terms of this Agreement, except in each case to the extent such liabilities and obligations, but for a breach or default by Seller, would have been paid, performed or otherwise discharged on or prior to the Closing Date and are not otherwise included among the items causing an adjustment to the Base Purchase Price contemplated in Section 3.3 or to the extent the same arise out of any such breach or default or out of any event which after the giving of notice or passage of time or both would constitute a default by Seller;

(b) all liabilities and obligations of Seller for accounts payable to the extent included among the items causing an adjustment to the Base Purchase Price contemplated in Section 3.3;

(c) all liabilities and obligations associated with the Assets or the Business in respect of Taxes for which Buyer is liable pursuant to Section 3.4 or 6.10(a) hereof;

(d) all liabilities and obligations of Seller or Buyer with respect to the Transferred Employees incurred on or after the Closing Date for which Buyer is responsible pursuant to Section 6.12;

(e) all liabilities, responsibilities and obligations of Seller or Buyer arising under Environmental Laws or relating to Environmental Conditions or Regulated Substances (including common law liabilities relating to Environmental Conditions and Regulated Substances), whether such liability, responsibility or obligation is known or unknown, contingent or accrued as of the Closing Date, including but not limited to: (i) costs of compliance (including capital, operating and other costs) relating to any violation or alleged violation of Environmental Laws occurring prior to, on or after the Closing Date, with respect to the ownership of the Assets or operation of the Business; (ii) property damage or natural resource damage (whether such damages were manifested before or after the Closing Date) arising from Environmental Conditions or Releases of Regulated Substances at, on, in, under, adjacent to, or migrating from any Assets prior to, on or after the Closing Date; (iii) any Remediation (whether

or not such Remediation commenced before the Closing Date or commences after the Closing Date) of Environmental Conditions or Regulated Substances that are present or have been Released prior to, on or after the Closing Date, at, on, in, adjacent to or migrating from the Assets; (iv) any violations or alleged violations of Environmental Laws occurring on or after the Closing Date with respect to the ownership of any Assets or operation of the Business; (v) any bodily injury or loss of life arising from Environmental Conditions or Releases of Regulated Substances at, on, in, under, adjacent to or migrating from any Asset on or after the Closing Date; (vi) any bodily injury, loss of life, property damage, or natural resource damage arising from the storage, transportation, treatment, disposal, discharge, recycling or Release, at any Off-Site Location, or arising from the arrangement for such activities, on or after the Closing Date, of Regulated Substances generated in connection with the ownership of the Assets or the operation of the Business; and (vii) any Remediation of any Environmental Condition or Release of Regulated Substances arising from the storage, transportation, treatment, disposal, discharge, recycling or Release, at any Off-Site Location, or arising from the arrangement for such activities, on or after the Closing Date, of Regulated Substances generated in connection with the ownership or operation of the Assets; provided, that nothing set forth in this Section 2.3 shall require Buyer to assume any liabilities, responsibilities or obligations that are expressly excluded in Section 2.4;

(f) any Tax that may be imposed by any federal, state or local government on the ownership, sale (except as otherwise provided in Section 3.4 or 6.10(a)), operation of the Business or use of the Assets on or after the Closing Date, except for any Income Taxes attributable to the income of Seller;

(g) all liabilities and obligations of Seller or Buyer arising on and after the Closing Date under those Orders specifically relating to the Assets or the Business issued by or entered into with any Governmental Authority and listed in Schedule 2.3(g) or imposed on Buyer in any Required Regulatory Approval;

(h) customer advances, customer deposits and construction advances, unperformed service obligations, Easement relocation obligations, and engineering and construction required to complete scheduled construction, construction work in progress, and other capital expenditure projects, in each case directly related to the Business and outstanding on or arising after the Closing Date; and

(i) actions and proceedings based on conduct, actions, circumstances or conditions arising or occurring on or after the Closing Date, actions and proceedings described in Schedule 2.3(i), actions and proceedings arising from or directly related to any other Assumed Liability, and generic or industry-wide actions and proceedings outstanding on or arising on or after the Closing Date that are applicable to the Business.

2.4 Excluded Liabilities. Notwithstanding anything to the contrary in this Agreement, Buyer shall not assume or be obligated to pay, perform or otherwise discharge the following liabilities or obligations of Seller (collectively, the "Excluded Liabilities"):

(a) any liabilities or obligations of Seller in respect of any Excluded Assets or other assets of Seller that are not Assets;

(b) any liabilities or obligations with respect to Taxes attributable to Seller's ownership, or use of the Assets or operation of the Business for taxable periods, or portions thereof, ending before the Closing Date, except for Taxes for which Buyer is liable pursuant to Section 3.4 or 6.10(a) hereof;

(c) any liabilities or obligations of Seller accruing under any of the Assigned Agreements prior to the Closing Date or any liability, other than an Assumed Liability, underlying a Permitted Encumbrance, in each case to the extent not included among the items causing an adjustment to the Base Purchase Price contemplated in Section 3.3;

(d) any and all asserted or unasserted liabilities or obligations to third parties (including employees) for injuries or damages, whether arising from tortious conduct or otherwise, or similar causes of action relating to the Assets or the Business arising during or attributable to the period prior to the Closing Date, other than such that relate to liabilities or obligations assumed by Buyer;

(e) any fines, penalties and associated costs for defending related enforcement actions, resulting from any violation or alleged violation of Environmental Laws with respect to the ownership of the Assets or the operation of the Business occurring prior to the Closing Date;

(f) any payment obligations of Seller pursuant to the Assigned Agreements for goods delivered or services rendered prior to the Closing Date, including, but not limited to, rental payments pursuant to the Real Property Leases, in each case to the extent not included among the items causing an adjustment to the Base Purchase Price contemplated in Section 3.3;

(g) any liabilities, responsibilities and obligations of Seller arising under Environmental Laws or relating to Environmental Conditions or Regulated Substances (including common law liabilities relating to Environmental Conditions and Regulated Substances), whether such liability, responsibility or obligation was known or unknown, contingent or accrued, which relates to (i) any bodily injury, loss of life, property damage or natural resource damage arising from the storage, transportation, treatment, disposal, discharge, recycling or Release of Regulated Substances generated in connection with the ownership of the Assets or the operation of the Business at any Off-Site Location, or arising from the arrangement for such activities, prior to the Closing Date; or (ii) any Remediation of any Environmental Condition or Regulated Substance at any Off-Site Location, arising from the storage, transportation, treatment, disposal, discharge, recycling or Release of Regulated Substances generated in connection with the ownership of the Assets or the operation of the Business at such Off-Site Location, or arising from the arrangement for such activities, prior to the Closing Date; provided, that for purposes of this paragraph, "Off-Site Location" does not include any location to which Regulated Substances disposed of or Released at the site of any Asset may have migrated;

(h) any liability to third parties (including employees) for personal injury or loss of life, to the extent caused (or allegedly caused) by Environmental Conditions or the Release of Regulated Substances at, on, in, under, or adjacent to, or migrating from, the Assets prior to the Closing;

(i) subject to Section 6.12, any liabilities or obligations of Seller, any Seller Subsidiary or any ERISA Affiliate of Seller relating to any Benefit Plan including but not limited to any such liability (i) relating to benefits payable under any Benefit Plan; (ii) relating to the Pension Benefit Guaranty Corporation under Title IV of ERISA; (iii) relating to a multi-employer plan; (iv) with respect to non-compliance with the notice and benefit continuation requirements of COBRA; (v) with respect to any noncompliance with ERISA or any other applicable laws; or (vi) with respect to any suit, proceeding or claim which is brought against Seller, Buyer, any Benefit Plan, or any fiduciary or former fiduciary of any such Benefit Plan;

(j) subject to Section 6.12, any liabilities or obligations arising from facts or circumstances prior to the Closing Date relating to the employment or termination of employment, including discrimination, wrongful discharge, unfair labor practices, or constructive termination by Seller of any individual, attributable to any actions or inactions by Seller prior to the Closing Date other than actions or inactions taken at the written direction of Buyer (it being understood and agreed that Buyer shall have no liability for action taken by Seller pursuant to Section 6.12 except as expressly provided therein);

(k) subject to Section 6.12, any obligations of Seller for wages, overtime, employment taxes, severance pay, transition payments in respect of compensation or similar benefits accruing or arising prior to the Closing under any term or provision of any contract, plan, instrument or agreement relating to any of the employees of Seller;

(l) all obligations of Seller with respect to the Revenue Bonds and any other indebtedness for money borrowed by Seller (including items due to Seller's Affiliates) other than payment obligations arising on or after the Closing Date under any equipment lease of the kind listed in Schedule 4.11(a) or under any line extension contracts or similar construction arrangements, it being understood and agreed that such leases, contracts and similar arrangements do not create indebtedness for money borrowed; and

(m) all obligations and liabilities included in Seller's "other current and accrued liabilities" account; and

(n) any liability of Seller arising out of a breach by Seller or any of its Affiliates of any of their respective obligations under this Agreement or the Ancillary Agreements.

2.5 Control of Litigation.

(a) The Parties agree and acknowledge that, from and after the Closing Date, Seller shall be entitled exclusively to control, defend and settle any litigation, administrative or regulatory proceeding, and any investigation or Remediation activity (including without limitation any environmental mitigation or Remediation activities), arising out of or related to any Excluded Liabilities, and Buyer agrees to cooperate fully in connection therewith and in connection therewith, shall comply with the provisions of Section 6.2, provided that, in no event shall Seller's exercise of its rights under this Section 2.5 (i) unreasonably interfere with Buyer's conduct or operation of the Business, (ii) place any environmental liens or deed restrictions on

the Real Property, or (iii) cause Buyer to be responsible for maintaining any institutional or engineering controls that may be part of a Remediation activity.

(b) The Parties agree and acknowledge that, from and after the Closing Date, Buyer shall be entitled exclusively to control, defend and settle any litigation, administrative or regulatory proceeding, and any investigation or Remediation activity (including without limitation any environmental mitigation or Remediation activities), arising out of or related to any Assumed Liabilities, and Seller agrees to cooperate fully in connection therewith and in connection therewith, shall comply with the provisions of Section 6.2.

ARTICLE III

THE CLOSING

3.1 Closing. Upon the terms and subject to the satisfaction of the conditions in Article VII of this Agreement, each of (i) the sale, assignment, conveyance, transfer and delivery of the Assets to Buyer by Seller, (ii) the payment of the Purchase Price to Seller by Buyer, (iii) the assumption of the Assumed Liabilities by Buyer, and (iv) the consummation of the other respective obligations of the Parties contemplated by this Agreement to be consummated on the Closing Date shall take place at a closing (the "Closing"), to be held at the offices of Seller in Phoenix, Arizona, or another mutually acceptable location, at 9:00 a.m. local time on the Closing Date.

3.2 Closing Payment. Upon the terms and subject to the satisfaction of the conditions contained in this Agreement, in consideration of the aforesaid sale, assignment, assumption, conveyance, transfer and delivery of the Assets, Buyer will pay or cause to be paid to Seller at the Closing an aggregate amount in U.S. dollars of one hundred thirty-eight million dollars (\$138,000,000) (the "Base Purchase Price") plus or minus any adjustments pursuant to the provisions of this Agreement (the "Purchase Price"), by wire transfer of immediately available funds denominated in U.S. dollars or by such other means as are agreed upon by Seller and Buyer.

3.3 Adjustment to Base Purchase Price.

(a) Subject to Section 3.3(b), at the Closing, the Base Purchase Price shall be adjusted to account for the items set forth in this Section 3.3(a):

(i) the Base Purchase Price shall be decreased by six million dollars (\$6,000,000) if the Closing occurs on or before July 28, 2003;

(ii) [intentionally omitted]

(iii) the Base Purchase Price shall be increased by three million dollars (\$3,000,000) in the event the Closing occurs after the first anniversary of the date hereof;

(iv) the Base Purchase Price shall be increased by the aggregate amount of all accounts receivable and earned but unbilled revenues (other than any amounts that are due from any of Seller's Affiliates or that otherwise are Excluded

Assets) attributable to the Business as of day immediately preceding the Closing Date net of Seller's reserve for allowance for bad debt (as reflected in Seller's written policy for allowance for bad debt as of the date hereof);

(v) the Base Purchase Price shall be decreased by all accounts payable attributable to the Business as of the day immediately preceding the Closing Date (other than any liability included in Seller's "other current and accrued liabilities" account, which shall be an Excluded Liability or that otherwise is an Excluded Liability);

(vi) the Base Purchase price shall be decreased by (A) the aggregate amount of customer advances for construction times 25% and (B) the aggregate amount of customer deposits, in each case to the extent relating to the Business outstanding as of the day immediately preceding the Closing Date (other than any amounts due to any of Seller's Affiliates or that otherwise is an Excluded Liability);

(vii) the Base Purchase Price shall increased by the aggregate amount of Inventories recorded on Seller's books and records as of day immediately preceding the Closing Date;

(viii) the Base Purchase Price shall be adjusted to account for the net balance payable to or by Seller, if any, for items prorated pursuant to Section 3.4, other than the items addressed in Section 3.4(a);

(ix) the Base Purchase Price shall be increased or decreased if and to the extent required by Sections 6.3(c), 6.12(b), 6.12(d)(iii)(D) and 6.13;

(x) the Base Purchase Price will be increased by the aggregate amount of all (i) Approved Capital Expenditures that are accrued by Seller between the date of this Agreement and the Closing Date (including expenditures recorded in the Construction Work in Progress account of the Business as of the day immediately preceding the Closing Date and relating to the Approved Capital Expenditures), (ii) without duplication, expenditures to purchase materials, supplies and other capital items that are dedicated to, but as of Closing have not been used in, the construction or improvement of the property, plant or equipment and relating to the Approved Capital Expenditures) and (iii) without duplication, other expenditures recorded as an asset of the Business as of the day immediately preceding the Closing Date and relating to such Approved Capital Expenditures; and

(xi) The Base Purchase Price shall be increased or decreased by the amount of the Seller's Purchased Gas Adjustment account balance outstanding on the day immediately preceding the Closing Date.

(b) At least ten (10), but no more than thirty (30) days prior to the Closing Date, Seller shall prepare and deliver to Buyer an estimated closing statement (the "Estimated Closing Statement") that shall set forth Seller's best estimate of the estimated adjustments to the Base Purchase Price required by Section 3.3(a) (regardless of whether notice of such Base Purchase Price adjustments have been previously delivered to Buyer) (the "Estimated Adjustment"). Within five (5) days following the delivery of an Estimated Closing Statement to

Buyer, Buyer may object in good faith to such Estimated Closing Payment in writing. In the event of any such objection, the Parties shall attempt to resolve their differences by negotiation. If the Parties are unable to do so before three (3) days prior to the Closing Date, then (i) the full amount of the Estimated Adjustment shall be made at the Closing if the amount in dispute is less than \$1,000,000, or (ii) the undisputed portion of the Estimated Adjustment shall be made at the Closing if the amount in dispute is \$1,000,000 or more. The disputed portions shall be paid as a Post-Closing Adjustment if and to the extent required by Section 3.3(d).

(c) Within sixty (60) days following the Closing Date, Seller shall prepare and deliver to Buyer a final closing statement setting forth the final adjustments to the Base Purchase Price required by Section 3.3(a) (the "Proposed Post-Closing Adjustment"). All calculations of the Proposed Post-Closing Adjustments shall be prepared using the same accounting principles, policies and methods as Seller has historically used in connection with the calculation of the items reflected on such Proposed Post-Closing Adjustments.

(d) Within thirty (30) days following the delivery of a Proposed Post-Closing Adjustment to Buyer, Buyer may object to such Proposed Post-Closing Adjustment in writing. Seller agrees to cooperate with Buyer to provide Buyer and Buyer's Representatives information used to prepare the Proposed Post-Closing Adjustments and information relating thereto. If Buyer objects to a Proposed Post-Closing Adjustment, the Parties shall attempt to resolve such dispute by negotiation. If such Parties are unable to resolve such dispute within thirty (30) days of any such objection by Buyer, the Parties shall appoint an Independent Accounting Firm. The fees and expenses of such Independent Accounting Firm shall be allocated between Buyer and Seller so that Seller's share of such fees and expenses shall be in the same proportion that the aggregate amount of such remaining disputed amounts so submitted by Buyer to such auditor that is successfully disputed by Buyer (as finally determined by such auditor) bears to the total amount of such remaining disputed amounts so submitted by Buyer to such auditor. The Independent Accounting Firm shall review such Proposed Post-Closing Adjustment and determine the appropriate adjustment to the Base Purchase Price, if any, within thirty (30) days of such appointment. The Parties agree to cooperate with the Independent Accounting Firm and provide it with such information as it reasonably requests to enable it to make such determination. The finding of such Independent Accounting Firm shall be binding on the Parties hereto. Upon determination by agreement of the Parties or by binding determination of the Independent Accounting Firm of the appropriate adjustment to the Base Purchase Price (in either case, the "Post-Closing Adjustment"), if such Post-Closing Adjustment results in a change to the Base Purchase Price, the Party owing the difference shall deliver such difference to the Party owed such amount no later than two (2) Business Days after the determination of such Post Closing Adjustment, in immediately available funds or in any other manner as reasonably requested by the Party owed such amount, plus interest at 6.0% per annum on such determined amount from the Closing Date to (but not including) the date of payment.

(e) If at any time following the Closing Date Buyer actually returns to customers greater than thirty-five percent (35%) of the aggregate customer advances for construction directly relating to the Business and outstanding as of the Closing Date ("Advances"), Seller shall reimburse Buyer for all amounts returned to customers to the extent said returns exceed twenty-five percent (25%) of Advances. Buyer may, at any time within seven (7) years from the Closing Date, provide notice to Seller of a reimbursement claim under

this Section 3.3(e), which notice shall include reasonable documentary substantiation of returns to customers of Advances. In the event Seller agrees with said determination, it shall promptly pay such reimbursement to Buyer. In the event Seller disputes said determination, it shall initiate the dispute resolution procedures with regard to the Post-Closing Adjustment, as provided in Section 3.3(d), which shall be binding on the Parties.

3.4 Prorations. Buyer and Seller agree that all of the items normally prorated, including those listed below (but not including Income Taxes), relating to the Business and operation of the Assets shall be prorated as of the Closing Date, with Seller liable for such items to the extent such items relate to any time period prior to the Closing Date, and Buyer liable for such items to the extent such items relate to periods commencing with the Closing Date (measured in the same units used to compute the item in question, otherwise measured by calendar days). The Base Purchase Price shall be increased to the extent Buyer will benefit financially due to Seller's payment prior to the Closing Date of the portion of any such item allocable to Buyer, and (except with respect to the items addressed in clause (a) below) shall be decreased to the extent Seller will benefit financially due to Buyer's payment on or after the Closing Date of the portion of any such item allocable to Seller. The items subject to proration include the following:

(a) Subject to Section 6.10(b), personal property, real estate and occupancy Taxes, assessments and other charges, if any, on or with respect to the Business and operation of the Assets;

(b) rent, Taxes (other than Income Taxes) and all other items (including prepaid services or goods not included in Inventories) payable by or to Seller under any of the Assigned Agreements to the extent not included in the account payables of the Business outstanding as of the day immediately preceding the Closing Date;

(c) any permit, license, registration, compliance assurance fees or other fees with respect to any Transferable Permit or other Asset;

(d) sewer rents and charges for water, telephone, electricity and other utilities with respect to the Assets;

(e) rent and Taxes payable by or to Seller under the Real Property Leases assigned to Buyer to the extent not included in the account payables of the Business outstanding as of the day immediately preceding the Closing Date;

(f) deposits made by Seller to the extent transferred to Buyer;

(g) prepaid expenses paid by Seller to the extent transferred to Buyer; and

(h) petty cash held locally for the benefit of the Business to the extent transferred to Buyer.

3.5 Deliveries by Seller. At the Closing, Seller will deliver, or cause to be delivered, the following to Buyer:

- (a) The Bill of Sale, duly executed by Seller;
- (b) Copies of any and all consents, waivers or approvals obtained or required to be obtained by Seller from Government Authorities or non-governmental Persons with respect to the transfer of the Assets, or the consummation of the transactions contemplated by this Agreement;
- (c) One or more Special Warranty Deeds conveying title to the Real Property to Buyer, duly executed and acknowledged by Seller and in recordable form;
- (d) An opinion from Seller's general counsel, dated the Closing Date, substantially in the form of Exhibit D attached hereto, and opinions from Seller's Bond Counsel, dated the Closing Date, substantially in the form of Exhibit E attached hereto;
- (e) The Assignment and Assumption Agreement, duly executed by Seller;
- (f) A FIRPTA Affidavit, duly executed by Seller;
- (g) Copies, certified by the Secretary or Assistant Secretary of Seller, of corporate resolutions authorizing the execution and delivery of this Agreement and all of the agreements and instruments to be executed and delivered by Seller in connection herewith, and the consummation of the transactions contemplated hereby;
- (h) A certificate of the Secretary or Assistant Secretary of Seller identifying the name and title and bearing the signatures of the officers of Seller authorized to execute and deliver this Agreement and the other agreements and instruments contemplated hereby;
- (i) Certificate of Good Standing with respect to Seller, issued by the Secretary of State of the State of Delaware;
- (j) To the extent available, originals of all Assigned Agreements, Real Property Leases and Transferable Permits and, if not available, true and correct copies thereof (delivery of the foregoing documents will be deemed made in the case of any such documents then located at any of the offices included in the Assets, but only to the extent that Seller delivers to Buyer a schedule generally identifying each such office and the general categories of documents located in each such office);
- (k) All such other instruments of assignment, transfer or conveyance as shall, in the reasonable opinion of Buyer and its counsel, be necessary to transfer the Assets to Buyer, in accordance with this Agreement and where necessary or desirable in recordable form;
- (l) Such other agreements, documents, instruments and writings as are required to be delivered by Seller at or prior to the Closing Date pursuant to this Agreement or otherwise reasonably requested by Buyer in connection herewith; and
- (m) A certificate dated the Closing Date executed by Seller's President, Public Services Sector, to the effect that, to such officer's Knowledge, the conditions set forth in Sections 7.1(e) and (f) have been satisfied by Seller.

3.6 Deliveries by Buyer. At the Closing, Buyer will deliver, or cause to be delivered, the following:

(a) The Purchase Price, as adjusted pursuant to Section 3.3, by wire transfer of immediately available funds denominated in U.S. dollars in accordance with Seller's instructions or by such other means as are agreed upon by Seller and Buyer;

(b) The Assignment and Assumption Agreement, duly executed by Buyer;

(c) All such other instruments of transfer or assumption as shall, in the reasonable opinion of Seller and its counsel, be necessary for the sale, conveyance, assignment and transfer of the Assets to, or the assumption of the Assumed Liabilities by, Buyer in accordance with this Agreement;

(d) Copies, certified by the Secretary or Assistant Secretary of Buyer, of resolutions authorizing the execution and delivery of this Agreement and all of the agreements and instruments to be executed and delivered by the Buyer in connection herewith, and the consummation of the transactions contemplated hereby;

(e) A certificate of the Secretary or Assistant Secretary of Buyer, identifying the name and title and bearing the signatures of the officers of Buyer authorized to execute and deliver this Agreement and the other agreements and instruments contemplated hereby;

(f) An opinion from Buyer's general counsel, dated the Closing Date, substantially in the form of Exhibit F attached hereto;

(g) Certified copies of any and all consents, waivers or approvals obtained or required to be obtained by Buyer from Government Authorities or non-governmental Persons with respect to the transfer of the Assets or the consummation of the transactions contemplated by this Agreement;

(h) Such other agreements, documents, instruments and writings as are required to be delivered by Buyer at or prior to the Closing Date pursuant to this Agreement or otherwise reasonably requested by Seller in connection herewith;

(i) Certificate of Good Standing with respect to Buyer, issued by the Secretary of State of Arizona; and

(j) A certificate dated the Closing Date executed by Buyer's Chief Financial Officer to the effect that, to such officer's knowledge, the conditions set forth in Sections 7.2(e), (f) and (g) have been satisfied by Buyer.

3.7 Work in Progress. The Parties agree to work together before the Closing Date to effect on the Closing Date an orderly transition with respect to work in progress.

ARTICLE IV

REPRESENTATIONS, WARRANTIES AND DISCLAIMERS OF SELLER

Seller hereby represents and warrants to Buyer as follows:

4.1 Incorporation; Qualification. Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, lease, and operate its material assets and properties and to carry on its business as is now being conducted. Seller is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction in which its business, as now being conducted, shall require it to be so qualified, except where the failure to be so qualified would not have a Seller Material Adverse Effect.

4.2 Authority. Seller has full corporate power and authority to execute and deliver this Agreement and each of the Ancillary Agreements to which Seller is a signatory and to consummate the transactions contemplated hereby or thereby. The execution and delivery by Seller of this Agreement and each of the Ancillary Agreements to which Seller is a signatory and the consummation by Seller of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action required on the part of Seller and this Agreement has been duly and validly executed and delivered by Seller. Each of this Agreement and the Ancillary Agreements to which Seller is a signatory constitutes the legal, valid and binding agreement of Seller, enforceable against Seller in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally and general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity).

4.3 Consents and Approvals; No Violation.

(a) Except as set forth in Schedule 4.3(a), neither the execution, delivery and performance of this Agreement nor the execution, delivery and performance of the Ancillary Agreements by Seller will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation or Bylaws of Seller, (ii) result in a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which Seller is a party or by which it, or any of the Assets may be bound, except for such defaults (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or that would not, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect; or (iii) subject to obtaining the Seller Required Regulatory Approvals, constitute violations of any law, regulation, order, judgment or decree applicable to Seller, which violations, individually or in the aggregate, would result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

(b) Except as set forth in Schedule 4.3(b) (the filings and approvals referred to in Schedule 4.3(b) are collectively referred to as the "Seller Required Regulatory Approvals"), no consent or approval of, filing with, or notice to, any Governmental Authority is necessary for

the execution and delivery of this Agreement and the Ancillary Agreements by Seller or the consummation by Seller of the transactions contemplated hereby and thereby, other than those the failure to obtain which would not result in a Seller Material Adverse Effect or an Asset Material Adverse Effect and would not otherwise result in a material violation of law by Buyer.

4.4 Insurance. Schedule 4.4 lists, as of the date of this Agreement, all material policies of fire, liability, workers' compensation and other forms of insurance (if any) owned or held by, or on behalf of, Seller with respect to the Assets and the Business. Except as set forth in such Schedule, all such policies are in full force and effect, all premiums with respect thereto covering all periods up to and including the date hereof have been paid (other than retroactive premiums which may be payable with respect to auto, general liability and workers' compensation insurance policies), and no notice of cancellation or termination has been received with respect to any such policy which was not replaced on substantially similar terms prior to the date of such cancellation. Except as described in Schedule 4.4, within the thirty-six (36) months preceding the date of this Agreement, Seller has not been refused any insurance with respect to the Assets or the Business nor has its coverage been limited by any insurance carrier to which it has applied for any such insurance or with which it has carried insurance during the last twelve (12) months.

4.5 Real Property Leases. Schedule 4.5 lists, as of the date of this Agreement, all material real property leases under which Seller is a lessee or lessor and which relate to the Assets, including a separate listing of all leases of office space used by Seller in the conduct of the Business (the "Real Property Leases"). Seller will deliver to Buyer true, correct and complete copies of each of the Real Property Leases in accordance with Section 6.20.

4.6 Environmental Matters. Seller has heretofore delivered to Buyer all environmental reports and all environmental site assessments relating to the Assets that have been identified by Seller after diligent inquiry, which reports have been identified in schedules delivered to Buyer on or prior to the date hereof ("Environmental Reports"). Except as disclosed in Schedule 4.6 or in the Environmental Reports:

(a) Seller holds, and is in substantial compliance with, all Environmental Permits that are required for Seller to conduct the Business and operate the Assets, and Seller is otherwise in compliance with applicable Environmental Laws with respect to the Business and operation of the Assets, except for such failures to hold or comply with required Environmental Permits, or such failures to be in compliance with applicable Environmental Laws, as would not, individually or in the aggregate, result in an Asset Material Adverse Effect;

(b) Seller has not received (i) any written request for information, or been notified that it is a potentially responsible party, under CERCLA or any similar state law with respect to any of the Real Property, or (ii) any written notification from a Governmental Authority with respect to pending or ongoing investigations or enforcement actions related to alleged or potential violations of any applicable Environmental Law with respect to any of the Real Property;

(c) Seller has not entered into or agreed to any consent decree or order relating to the Assets, and is not subject to any outstanding judgment, decree, or judicial order

relating to compliance with any Environmental Law or to Remediation of Regulated Substances under any Environmental Law relating to the Assets; and

(d) To Seller's Knowledge, no Release of Regulated Substances has occurred at, from, in, on, or under the Real Property, and, except as legally permitted, no Regulated Substances are present in, on, about or migrating from the Real Property, in each case that would give rise to an Environmental Claim related to the Assets for which Remediation would reasonably be required, except in any such case to the extent that any such Release or Environmental Claim would not, individually or in the aggregate, result in an Environmental Claim in excess of \$500,000.

4.7 Labor Matters. Schedule 4.7 sets forth the collective bargaining agreements, and amendments thereto, to which Seller is a party in connection with the Business. Seller has previously delivered to Buyer true and correct copies of all such collective bargaining agreements and amendments thereto. With respect to the Assets and the Business, except to the extent set forth in Schedule 4.7 and except for such matters as would not, individually or in the aggregate, result in an Asset Material Adverse Effect, (a) Seller is in compliance with all applicable laws respecting employment and employment practices, occupational safety and health, plant closing, mass layoffs, terms and conditions of employment and wages and hours; (b) Seller has not received any written notice of any unfair labor practice complaint against Seller pending before the National Labor Relations Board; (c) no arbitration proceeding arising out of or under any collective bargaining agreement is pending against Seller; and (d) Seller has not experienced any work stoppage within the three-year period prior to the date hereof and to Seller's Knowledge none is currently threatened.

4.8 Benefit Plans: ERISA.

(a) Schedule 4.8 lists all material Benefit Plans. True and complete copies of all such Benefit Plans have been made available to the Buyer.

(b) No liability under Title IV or Section 302 of ERISA has been incurred by Seller or any ERISA Affiliate of Seller that has not been satisfied in full, and no condition exists that presents a material risk to Seller or any ERISA Affiliate of Seller of incurring any such liability, other than liability for premiums due to the Pension Benefit Guaranty Corporation (which premiums have been paid when due). Insofar as the representation made in this Section 4.8 applies to Sections 4064, 4069 or 4204 of Title IV of ERISA, it is made with respect to any employee benefit plan, program, agreement or arrangement subject to Title IV of ERISA to which Seller or any ERISA Affiliate of Seller made, or was required to make, contributions during the five (5)-year period ending on the last day of the most recent plan year ended prior to the Closing Date.

(c) Except as expressly provided in this Agreement, the consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event, (i) entitle any current or former employee or officer of Seller or any ERISA Affiliate of Seller to severance pay, unemployment compensation or any other payment, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee or officer.

(d) There has been no material failure of any of the Benefit Plans that is a group health plan (as defined in Section 5000(b)(1) of the Code) to meet the requirements of Section 4980B(f) of the Code with respect to a qualified beneficiary (as defined in Section 4980B(g) of the Code). Neither the Seller nor any ERISA Affiliate of Seller has contributed to a nonconforming group health plan (as defined in Section 5000(c) of the Code) and no ERISA Affiliate of Seller has incurred a tax under Section 5000(e) of the Code that is or could become a liability of Buyer.

(e) There are no pending, or to Seller's Knowledge, threatened claims by or on behalf of any Benefit Plans, by any employee or beneficiary covered under any such Benefit Plans, or otherwise involving any such Benefit Plans (other than routine claims for benefits).

4.9 Real Property. Schedule 4.9 contains a description of the Real Property included in the Assets. True and correct copies of any current surveys, abstracts, title commitments and title opinions identified by Seller after diligent inquiry to be in Seller's possession and all policies of title insurance currently in force and identified by Seller after diligent inquiry to be in the possession of Seller with respect to the Real Property have heretofore been made available to Buyer.

4.10 Condemnation. Except as set forth in Schedule 4.10, Seller has not received any written notices of and otherwise has no Knowledge of any pending or threatened proceedings or actions by any Governmental Authority to condemn or take by power of eminent domain all or any part of the Assets.

4.11 Assigned Agreements.

(a) Schedule 4.11(a) lists each Assigned Agreement (other than Real Property Leases, line extension agreements and similar construction arrangements, railroad crossing agreements and similar arrangements, and Easements held by Seller) which is material to the Business, other than those (i) that are listed or described on another Schedule, (ii) that provide for annual payments by Seller after the date hereof of less than \$100,000 or (iii) that, when aggregated with all other Assigned Agreements not listed on Schedule 4.5 or 4.11(a), provide for payments by Seller after the date hereof of less than \$500,000 in the aggregate. Schedule 4.11(a) also lists each agreement that is material to the Assets or the Business that may expire or that Seller expects to terminate prior to the Closing Date other than any agreement that is an Excluded Asset.

(b) Except as disclosed in Schedule 4.11(b), each Assigned Agreement listed on Schedule 4.5 or 4.11(a) constitutes a legal, valid and binding obligation of Seller and, to Seller's Knowledge, constitutes a valid and binding obligation of the other parties thereto, and may be transferred to the Buyer as contemplated by this Agreement without the consent of the other parties thereto and will continue in full force and effect thereafter, unless in such case the impact of such lack of legality, validity or binding nature, or inability to transfer, would not, individually or in the aggregate, result in an Asset Material Adverse Effect.

(c) Except as set forth in Schedule 4.11(c), there is not, under the Assigned Agreements listed on Schedule 4.5 or 4.11(a), any default or event which, with notice or lapse of

time or both, would constitute a default on the part of the Seller or to Seller's Knowledge, any of the other parties thereto, except such events of default and other events which would not, individually or in the aggregate, result in an Asset Material Adverse Effect.

4.12 Legal Proceedings. Except as set forth in Schedule 4.12, there is no action or proceeding pending or, to Seller's Knowledge, threatened against Seller before any court, arbitrator or Governmental Authority, which would, individually or in the aggregate, reasonably be expected to result in a Seller Material Adverse Effect or an Asset Material Adverse Effect. Except as set forth in Schedule 4.12 Seller is not subject to any outstanding Order that would, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

4.13 Permits. Seller has all Permits (other than Environmental Permits, which are addressed in Section 4.6 hereof) necessary to own and operate the Assets except where the failure to have such Permits would not, individually or in the aggregate, create a Seller Material Adverse Effect or an Asset Material Adverse Effect. Except as disclosed on Schedule 4.13, Seller has not received any written notification that it is in violation of any such Permits, except notifications of violations which would not, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect. Seller is in compliance with all Permits except where such non-compliance would not, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

4.14 Taxes.

(a) Seller has filed or caused to be filed all Tax Returns that are required to be filed by it with respect to any Tax relating to the Assets, and has paid or caused to be paid all Taxes that have become due as indicated thereon, except where such Tax is being contested in good faith by appropriate proceedings, or where the failure to so file or pay would not result in a Seller Material Adverse Effect or an Asset Material Adverse Effect. Seller has complied in all material respects with all applicable laws, rules and regulations relating to withholding Taxes relating to Transferred Employees. All Tax Returns relating to the Assets are true, correct and complete in all material respects. There are no liens for Taxes upon the Assets except for liens for Taxes not yet due and Permitted Encumbrances.

(b) Except as set forth in Schedule 4.14, no notice of deficiency or assessment has been received from any taxing authority with respect to liabilities for Taxes of Seller in respect of the Assets, which have not been fully paid or finally settled, and any such deficiency shown in Schedule 4.14 is being contested in good faith through appropriate proceedings.

(c) Except as set forth in Schedule 4.14, there are no outstanding agreements or waivers extending the applicable statutory periods of limitation for Taxes associated with the Assets that will be binding upon Buyer after the Closing.

(d) Except as set forth on Schedule 4.14, none of the Assets is property that is required to be treated as being owned by any other person pursuant to the so-called safe harbor lease provisions of former Section 168(f) of the Code, and none of the Assets is "tax-exempt use" property within the meaning of Section 168(h) of the Code.

(e) Schedule 4.14 sets forth the taxing jurisdictions in which Seller owns assets or conducts business that require a notification to a taxing authority of the transactions contemplated by this Agreement, if the failure to make such notification, or obtain Tax clearance certificates in connection therewith, would either require Buyer to withhold any portion of the consideration or subject Buyer to any liability for any Taxes of Seller.

4.15 Intellectual Property. The Citizens Marks and the software licenses and related contracts described in Schedules 2.2 and 4.11(a) constitute all of the material Intellectual Property necessary for the operation and maintenance of the Assets or the conduct of the Business, each of which Seller either has all right, title and interest in or valid and binding rights under contract to use in connection with the operation of the Assets and the Business. Except as disclosed in Schedule 4.15, (a) Seller is not, nor has it received any notice that it is, in default (or with the giving of notice or lapse of time or both, would be in default), under any contract to use such Intellectual Property, and (b) to Seller's Knowledge, such Intellectual Property is not being infringed by any other Person. Except as disclosed in Schedule 4.15, Seller has not received notice that it is infringing any Intellectual Property of any other Person in connection with the Assets or the Business, and Seller, to its Knowledge, is not infringing any Intellectual Property of any other Person which, individually or in the aggregate, would have an Asset Material Adverse Effect.

4.16 Capital Expenditures. Seller has heretofore delivered to Buyer a schedule of all Capital Expenditures that, as of the date of this Agreement, are planned by Seller from the date hereof through December 31, 2003 (the "Capital Expenditures Schedule").

4.17 Compliance With Laws. Seller is in compliance with all applicable laws, rules and regulations with respect to its ownership of the Assets and operation of the Business except where the failure to be in compliance would not, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

4.18 Title. Seller has, and will have as of the Closing Date, good, valid and indefeasible title to the Real Property and the other Assets purported to be owned by Seller, free and clear of all Encumbrances except Permitted Encumbrances.

4.19 DISCLAIMERS. EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS ARTICLE IV, THE ASSETS ARE TRANSFERRED "AS IS, WHERE IS", AND SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, EXPRESS OR IMPLIED, AS TO LIABILITIES, OPERATIONS OF THE ASSETS, CONDITION, VALUE OR QUALITY OF THE ASSETS OR THE PROSPECTS (FINANCIAL AND OTHERWISE), RISKS AND OTHER INCIDENTS OF THE ASSETS AND SELLER SPECIFICALLY DISCLAIMS ANY REPRESENTATION OR WARRANTY OF MERCHANTABILITY, USAGE, SUITABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE ASSETS, OR ANY PART THEREOF, OR AS TO THE WORKMANSHIP THEREOF, OR THE ABSENCE OF ANY DEFECTS THEREIN, WHETHER LATENT OR PATENT, OR COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS, OR THE APPLICABILITY OF ANY GOVERNMENTAL REQUIREMENTS, INCLUDING BUT NOT LIMITED TO ANY ENVIRONMENTAL LAWS, OR WHETHER SELLER POSSESSES SUFFICIENT REAL

PROPERTY OR PERSONAL PROPERTY TO OPERATE THE ASSETS. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, SELLER FURTHER SPECIFICALLY DISCLAIMS ANY REPRESENTATION OR WARRANTY REGARDING THE ABSENCE OF HAZARDOUS SUBSTANCES OR LIABILITY OR POTENTIAL LIABILITY ARISING UNDER ENVIRONMENTAL LAWS WITH RESPECT TO THE ASSETS.

4.20 Financial Statements. Schedule 4.20 sets forth the unaudited balance sheet for the Business as of December 31, 2001 (the "Balance Sheet") and the unaudited statement of income of the Business for the twelve-month period ended December 31, 2001 (collectively, the "Financial Statements"). Except as set forth in Schedule 4.20, the Financial Statements have been prepared on a pre-tax basis in accordance, in all material respects, with GAAP applied on a basis consistent with prior periods except for the omission of full footnotes to such Financial Statements. Except as set forth in Schedule 4.20, the Balance Sheet presents fairly in all material respects the financial condition of the Business as of its date and the income statement included in the Financial Statements presents fairly in all material respects the results of operations of the Business for the periods covered thereby. The books and records of Seller from which the Financial Statements were derived were complete and accurate in all material respects at the time of such preparation.

4.21 SEC Filings; Financial Statements.

(a) Seller has filed, or caused to be filed, all forms, reports and documents required to be filed by Seller with the SEC since January 1, 2001, and has heretofore delivered or made available to Buyer in the form filed with the SEC, together with any amendments thereto, its (i) Annual Reports on Form 10-K for the fiscal year ended December 31, 2000 and 2001, (ii) Quarterly Reports on Form 10-Q for the fiscal quarter ended March 31 and June 30, 2002, and (iii) all other reports or registration statements filed by Seller with the SEC since January 1, 2001 (collectively, the "Seller SEC Reports"). The Seller SEC Reports were prepared substantially in accordance with the requirements of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, as the case may be, and the rules and regulations promulgated under each of such respective acts, and did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) The financial statements, including all related notes and schedules, contained in the Seller SEC Reports (or incorporated by reference therein) fairly present the consolidated financial position of Seller as at the respective dates thereof and the consolidated results of operations and cash flows of Seller for the periods indicated in accordance with GAAP applied on a consistent basis throughout the periods involved (except for changes in accounting principles disclosed in the notes thereto) and subject in the case of interim financial statements to normal year-end adjustments.

4.22 Sufficiency of Assets. The Assets and the Excluded Assets are the only assets owned, used, or held for use by Seller in, or in connection with, or otherwise necessary for, the conduct of the Business as presently conducted, except for such assets the failure to own, use, or

hold for use, as would not have an Asset Material Adverse Effect or a Material Adverse Effect for Buyer.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

5.1 Organization. Buyer is an Arizona corporation, duly organized, validly existing and in good standing under the laws of the state of its organization and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as is now being conducted.

5.2 Authority. Buyer has full corporate power and authority to execute and deliver this Agreement and each of the Ancillary Agreements to which Buyer is a signatory and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Buyer of this Agreement and the Ancillary Agreements to which Buyer is a signatory and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action required on the part of Buyer and this Agreement and the Ancillary Agreements have been duly and validly executed and delivered by Buyer. Each of this Agreement and the Ancillary Agreements to which Buyer is a signatory, constitute the legal, valid and binding agreement of Buyer, enforceable against Buyer in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally and general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity).

5.3 Consents and Approvals; No Violation.

(a) Except as set forth in Schedule 5.3(a), neither the execution, delivery and performance of this Agreement by Buyer nor the execution, delivery and performance of the Ancillary Agreements by Buyer or any of its Affiliates nor the consummation by Buyer of the transactions contemplated hereby and thereby will (i) conflict with or result in any breach of any provision of the Articles of Incorporation or Bylaws (or other similar governing documents) of Buyer, or any of its Affiliates, or (ii) result in a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which Buyer or any of its Affiliates is a party or by which any of their respective assets may be bound, except for such defaults (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, have a Buyer Material Adverse Effect or (iii) subject to obtaining the Buyer Required Regulatory Approvals, constitute violations of any law, regulation, order, judgment or decree applicable to Buyer, which violations, individually or in the aggregate, would result in a Buyer Material Adverse Effect.

(b) Except as set forth in Schedule 5.3(b) (the filings and approvals referred to in such Schedule are collectively referred to as the "Buyer Required Regulatory Approvals"), no consent or approval of, filing with, or notice to, any Governmental Authority is necessary for Buyer's execution and delivery of this Agreement and the Ancillary Agreements or the consummation by Buyer of the transactions contemplated hereby and thereby, other than such consents, approvals, filings or notices, which, if not obtained or made, will not (i) prevent Buyer from performing its obligations under this Agreement and the Ancillary Agreements or (ii) result in a Buyer Material Adverse Effect.

5.4 Availability of Funds. Buyer acknowledges and agrees that on the Closing Date, it will have sufficient funds to pay the Purchase Price under this Agreement and the Arizona Electric Purchase Agreement (including sufficient cash to fund the equity portions thereof) and to timely perform all of its obligations under this Agreement, the Ancillary Agreements, and Arizona Electric Purchase Agreement. Tucson Electric Power Company has the ability to contribute cash as equity to a wholly-owned subsidiary which constitutes a "Utility" or "Public Utility" subject to the receipt of required approvals under Title 14, Chapter 2, Article 8 (Public Utility Holding Companies and Affiliated Interests) of the Arizona Administrative Code. As of September 30, 2002, Tucson Electric Power Company held cash in the amount of approximately \$65,000,000.

5.5 SEC Filings; Financial Statements.

(a) UniSource has filed, or caused to be filed, all forms, reports and documents required to be filed by UniSource with the SEC since January 1, 2001, and has heretofore delivered or made available to Seller in the form filed with the SEC, together with any amendments thereto, its (i) Annual Reports on Form 10-K for the fiscal year ended December 31, 2000 and 2001, (ii) Quarterly Reports on Form 10-Q for the fiscal quarter ended March 31 and June 30, 2002, and (iii) all other reports or registration statements filed by UniSource with the SEC since January 1, 2001 (collectively, the "UniSource SEC Reports"). The UniSource SEC Reports were prepared substantially in accordance with the requirements of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, as the case may be, and the rules and regulations promulgated under each of such respective acts, and did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) The financial statements, including all related notes and schedules, contained in the UniSource SEC Reports (or incorporated by reference therein) fairly present the consolidated financial position of UniSource as at the respective dates thereof and the consolidated results of operations and cash flows of UniSource for the periods indicated in accordance with GAAP applied on a consistent basis throughout the periods involved (except for changes in accounting principles disclosed in the notes thereto) and subject in the case of interim financial statements to normal year-end adjustments.

5.6 Legal Proceedings. Except as set forth in Schedule 5.6, (a) there are no actions or proceedings pending or, to Buyer's knowledge threatened against Buyer or any of its Affiliates before any court or arbitrator or Governmental Authority, which, individually or in the

aggregate, would result in a Buyer Material Adverse Effect, and (b) neither Buyer nor any of its Affiliates is subject to any outstanding Orders, which would, individually or in the aggregate, result in a Buyer Material Adverse Effect.

5.7 No Knowledge of Seller's Breach. Buyer has no knowledge of any breach by Seller of any representation or warranty of Seller or of any other condition or circumstance that would excuse Buyer from its timely performance of its obligations hereunder. Buyer shall notify promptly Seller if any such information comes to Buyer's attention prior to the Closing.

5.8 Qualified Buyer. Buyer is qualified to obtain any Permits and Environmental Permits necessary for Buyer to own and operate the Assets as of the Closing.

5.9 Inspections. Buyer is knowledgeable about the Business as engaged in by Seller and of the usual and customary practices of companies engaged in businesses similar to the Business and has had access to the Assets, the officers and employees of Seller, and the books, records and files of Seller relating to the Business and the Assets. Buyer acknowledges and agrees that it has, prior to its execution of this Agreement, (i) reviewed the Environmental Reports and (ii) had an opportunity to conduct Inspections of the Assets, including the Real Property. Subject to Sections 6.2, 6.3 and 7.1(g), and without waiving Seller's representations and warranties in Section 4.6, Buyer acknowledges that it is satisfied with such review and Inspections to date and (ii) Buyer acknowledges and agrees that past, present, and future physical characteristics and Environmental Conditions may not have been revealed by its Inspections and the investigations of the Assets contained in the Environmental Reports. In making its decision to execute this Agreement, and to purchase the Assets, Buyer has relied on and will continue to rely upon the results of its Inspections, the Environmental Reports and Seller's representations and warranties in Section 4.6. Buyer acknowledges and agrees that the representations and warranties set forth in Article IV of this Agreement constitute the sole and exclusive representations and warranties of Seller to Buyer in connection with the transactions contemplated hereby and by the Ancillary Agreements, and there are no representations, warranties, covenants, understandings or agreements, oral or written, in relation thereto between the Parties other than those incorporated herein, including Section 6.3, and therein. Except for the representations and warranties expressly set forth in Article IV of this Agreement, Buyer disclaims reliance on any representations or warranties, either express or implied, by or on behalf of Seller or its Affiliates or Representatives. Without limiting the generality of the foregoing, Buyer acknowledges and agrees that, except as provided in Section 4.6, there are no representations or warranties of Seller with respect to the Environmental Condition of the Assets, compliance with Environmental Laws and Environmental Permits of the presence or Releases of hazardous material in the fixtures, soils, groundwater, surface water or air on, under or about or emanating from any of the Assets.

5.10 WARN Act. Buyer does not intend to engage in a "Plant Closing" or "Mass Layoff" as such terms are defined in the WARN Act within sixty days of the Closing Date.

ARTICLE VI
COVENANTS OF THE PARTIES

6.1 Conduct of Business and Operation of Assets.

(a) Except as described in Schedule 6.1(a), as required by an applicable law or by any Governmental Authority, as expressly contemplated by this Agreement or to the extent Buyer otherwise consents in writing (such consent not to be unreasonably withheld), during the period from the date of this Agreement to the Closing Date, Seller shall (i) operate the Assets in the ordinary course of business consistent with its past practices and Good Utility Practices, (ii) use all Commercially Reasonable Efforts to preserve intact the Assets in all material respects, and endeavor to preserve the goodwill and relationships with customers, suppliers and others having business dealings with it, (iii) maintain insurance described in Section 4.4 (or replacements thereto providing for substantially the same coverage), and (iv) comply with all applicable laws relating to the Assets, including without limitation, all Environmental Laws, except where the failure to so comply would not result in an Asset Material Adverse Effect. Seller agrees to incur Capital Expenditures in the ordinary course in respect of (A) growth of the customer base (see, e.g., items under the heading "Growth" in the Capital Expenditures Schedule) and (B) maintenance of the Assets and replacement activities (see, e.g., items under the heading "Replacement" in the Capital Expenditures Schedule). Buyer agrees that Seller's deferral of Capital Expenditures in respect of network growth (see, e.g., items under the heading "Infrastructure" in the Capital Expenditures Schedule) shall not be deemed to be inconsistent with or to violate Good Utility Practices.

(b) Without limiting the generality of Section 6.1(a) and, except as contemplated in this Agreement or as described in Schedule 6.1(a), or as required under applicable law or by any Governmental Authority, prior to the Closing Date, without the prior written consent of Buyer (such consent not to be unreasonably withheld), Seller shall not:

(i) Make any material change in the levels of Inventories customarily maintained by Seller with respect to the Business, other than changes which are consistent with Good Utility Practices;

(ii) Sell, lease (as lessor), encumber, pledge, transfer or otherwise dispose of, any Asset (except for Inventories used, consumed or replaced in the ordinary course of business consistent with past practices of Seller or with Good Utility Practices) other than to encumber any such Asset with Permitted Encumbrances;

(iii) Modify, amend or voluntarily terminate, prior to the respective expiration date of any of the Assigned Agreements or Real Property Leases or any of the Permits or Environmental Permits with respect to such Assets in any material respect, other than (A) in the ordinary course of business, to the extent consistent with the past practices of Seller or Good Utility Practices, (B) with cause, to the extent consistent with past practices of Seller or Good Utility Practices, or (C) as may be required in connection with transferring Seller's rights or obligations thereunder to Buyer pursuant to this Agreement;

(iv) Except as otherwise provided herein, enter into any commitment for the purchase, sale, or transportation of fuel for the Business having a term greater than six months and not terminable on or before the Closing Date either (A) automatically, or (B) by option of Seller (or, after the Closing, by Buyer) in its sole discretion, if the aggregate payment under such commitment for fuel and all other outstanding commitments for fuel for the Business not previously approved by Buyer would exceed \$1,000,000;

(v) Except as otherwise provided herein, enter into any contract, agreement, commitment or arrangement for the Business that individually exceeds \$250,000 or in the aggregate exceeds \$1,000,000 unless it is terminable by Seller (or, after the Closing Date, by Buyer) without penalty or premium upon no more than sixty (60) days notice;

(vi) Except as otherwise required by the terms of the applicable IBEW CBA or as otherwise provided in Section 6.12, (A) hire, or transfer any employees of or for the Business prior to the Closing, other than to fill vacancies in existing positions in the reasonable discretion of Seller, (B) materially increase salaries or wages of employees employed in connection with such Asset prior to the Closing, (C) take any action prior to the Closing to affect a material change in the IBEW CBA or (D) take any action prior to the Closing to materially increase the aggregate benefits payable to the employees (considered as a group) employed in connection with the Business; and

(vii) Except as otherwise provided herein, enter into any written or oral contract, agreement, commitment or arrangement with respect to any of the proscribed transactions set forth in the foregoing paragraphs (i) through (vi).

6.2 Access to Information.

(a) Between the date of this Agreement and the Closing Date, Seller will, at reasonable times and upon reasonable notice, provide Buyer and its Representatives:

(i) reasonable access to their respective managerial personnel, to all books, records, plans, equipment, offices and other facilities and properties constituting part of the Assets;

(ii) such historical financial and operating data and other information with respect to the Assets as Buyer may from time to time reasonably request, to the extent reasonably available;

(iii) upon request, a copy of each material report, schedule or other document, if any, filed by Seller with respect to the Assets with the SEC, FERC, ACC, ADEQ or any other Governmental Authority;

(iv) access to all Assets for Inspection by Buyer and its Representatives at reasonable times during regular business hours scheduled for such Inspections, and shall provide qualified management, engineering, operations and maintenance and other personnel to make presentations as required, to escort such Persons and to assist in all

aspects of conducting the Inspections, provided that each of Buyer and Seller shall bear their own costs of participating in the Inspections; and

(v) access to all such other information in the possession or control of Seller as shall be reasonably necessary to enable Buyer or its Representatives to verify the accuracy of the representations and warranties of Seller contained in this Agreement; provided, however, that any such Inspections shall be conducted in such a manner as not to interfere unreasonably with the operation of the Assets. In the event that Seller's provision of information under this Section 6.2 would (A) constitute a waiver of any legal privilege, including the attorney-client privilege or work product privilege, or (B) violate any legal or contractual obligation of Seller to a third party, then Seller shall first notify Buyer with respect to the existence and general nature of the restricted information. If the restricted information relates to the Assets, the Parties shall thereupon mutually agree upon a reasonable procedure in order to provide Buyer with access to the information while protecting the legitimate interests of Seller thereto. The mutually agreed procedure may include, without limitation, a limited waiver by Seller of the relevant privilege, Buyer's agreement to maintain the information in strict confidence, limited review or inspection of the information by specified individuals, or any combination of the foregoing.

Notwithstanding anything in this Section 6.2(a) to the contrary, with respect to employee records Seller will only furnish or provide such access to Transferred Employee Records and will not furnish or provide access to other employee personnel records or medical information unless required by law or specifically authorized by the affected employee.

(b) The Parties shall cooperate to schedule Buyer's Inspections of the Assets so that, to the extent reasonably feasible, any interference with the operation of the Business is minimized, and Buyer may complete its Inspections of the Assets within ninety (90) working days of commencement of Inspections and within six (6) months after the execution of this Agreement.

(c) Until the conclusion of Buyer's next rate case for the Business (or such longer period as may be required by applicable law), each Party and its Representatives shall have reasonable access to all of the books and records relating to the Assets and the Business (for the Seller, only to the extent relating to periods prior to the Closing Date), including all Transferred Employee Records in the possession of Buyer or Seller to the extent that such access may reasonably be required in connection with the Assumed Liabilities or the Excluded Liabilities, or other matters relating to or affected by the operation of the Assets. Such access shall be afforded by the Party in possession of any such books and records upon receipt of reasonable advance notice and during normal business hours. The Party exercising this right of access shall be solely responsible for any costs or expenses incurred by it or the holder of the information with respect to such access pursuant to this Section 6.2(c). If the Party in possession of such books and records shall desire to dispose of any books and records upon or prior to the expiration of such above-stated period (or any such longer period), such Party shall, prior to such disposition, give the other Party a reasonable opportunity, at the latter's expense, to segregate and remove such books and records as it may select.

(d) Buyer agrees that, prior to the Closing Date, neither it nor its Representatives will contact any vendors, suppliers, employees, or other contracting parties of Seller or its Affiliates with respect to any aspect of the Assets or the transactions contemplated hereby, without the prior written consent of Seller, which consent shall not be unreasonably withheld.

6.3 Environmental Inspections and Information.

(a) [Intentionally omitted.]

(b) Buyer has conducted various environmental assessment activities with respect to the Assets, including reviewing existing environmental reports, correspondence, permits and related materials regarding the Assets and certain other "Phase I" and "Phase II" activities as set forth in the ASTM protocol regarding "Phase I" and "Phase II" environmental assessments. Seller acknowledges that, between the date of this Agreement and the Closing Date, Buyer will continue to conduct Inspections with respect to environmental matters, including "Phase I" and "Phase II" environmental assessments to the extent Buyer reasonably concludes that such assessments are warranted by the Environmental Reports or the findings of Buyer's assessments prior to the date of this Agreement. Any such Inspections shall be conducted as provided in Section 6.2.

(c) If any environmental inspection conducted by Buyer or Seller before or after the date of this Agreement and before the Closing Date results in the discovery of one or more Environmental Conditions that are reasonably likely to give rise to one or more Environmental Claims related to the Assets, for which Remediation would reasonably be required (an "Adverse Environmental Condition"), and if the Adverse Environmental Condition, aggregated with all other Adverse Environmental Conditions identified by Buyer or Seller prior to the Closing Date, is reasonably likely to give rise to Remediation expenses of Buyer after Closing in excess of \$1,500,000 in the aggregate (the "Environmental Threshold"), then either (i) the Base Purchase Price shall be reduced, to the extent such Adverse Environmental Condition is not Remediated prior to the Closing Date, by a mutually agreed amount, which amount shall be equal to the excess of (A) the estimated out-of-pocket costs and expenses which Buyer reasonably can be expected to incur to Remediate, in accordance with Good Utility Practices, such Adverse Environmental Condition after the Closing over (B) the Environmental Threshold (the "Environmental Price Adjustment") or (ii) if the Parties are not able to mutually agree on an Environmental Price Adjustment, Seller shall reimburse Buyer for all actual out-of-pocket costs and expenses that Buyer reasonably incurs after Closing to Remediate such Adverse Environmental Condition in excess of the Environmental Threshold. Any Adverse Environmental Condition which has or is reasonably expected to have an aggregate economic impact on Buyer, taking into consideration all relevant circumstances, in excess of \$25,000,000, shall be conclusively deemed to be an Asset Material Asset Effect. Notwithstanding the foregoing, any single Adverse Environmental Condition which is reasonably expected to give rise to Remediation expenses of less than \$25,000 shall not be counted toward the Environmental Threshold and shall not result in an Environmental Price Adjustment.

(d) Buyer either has provided or shall provide to Seller, promptly following Buyer's receipt thereof, copies of all audits, reports, studies, assessments and other information

composed or compiled, or to be composed or compiled, by Buyer or Buyer's Representatives in connection with environmental assessment activities. Buyer shall treat all such information delivered to, or composed or compiled by, Buyer or Buyer's Representative as Environmental Data in accordance with the procedures of Section 6.3(e).

(e) All audits, reports, studies and assessments delivered to or prepared by Buyer and all other information collected and generated as a result of Buyer's environmental due diligence ("Environmental Data") will be subject to the terms and conditions of the Confidentiality Agreement, dated June 3, 2002, between Seller and Buyer, except as otherwise expressly provided in this Section 6.3(e). Neither Buyer nor its Representatives shall disclose or release any Environmental Data without the prior written consent of Seller and all such information shall be kept strictly confidential. To the extent reasonably practicable, the Environmental Data shall be prepared at the request of counsel to Buyer and, to the fullest extent permitted by law, shall be the work product of such counsel and constitute confidential attorney/client communications. The Environmental Data shall be transferred among Buyer and its Representatives in a manner that will preserve, to the extent reasonably practicable, such privileges. Buyer expressly agrees that until the Closing, it will not distribute the Environmental Data to any third party without Seller's prior written consent (such consent not to be unreasonably withheld). After the Closing, Buyer agrees that it will not distribute the Environmental Data to any third party without Seller's prior written consent, except as required by law or by express provisions of Buyer's corporate compliance program if Seller is provided written notice at least ten (10) days prior to such distribution; provided, however, that Buyer may distribute the Environmental Data to any potential purchaser of any of the Assets or an ownership interest therein (either directly or through the purchase of an ownership interest in an entity holding any of the Assets) only after first notifying the Seller.

6.4 Confidentiality.

(a) Each Party shall, and shall use its reasonable best efforts to cause its Representatives to, (i) keep all Proprietary Information of any other Party confidential and not to disclose or reveal any such Proprietary Information to any person other than such Party's Representatives and (ii) not use such Proprietary Information other than in connection with the consummation of the transactions contemplated hereby. After the Closing Date and except as provided in Section 6.3(e), any Proprietary Information, to the extent related to the Assets acquired by Buyer, shall no longer be subject to the restrictions set forth herein. The obligations of the Parties under this Section 6.4(a) shall be in full force and effect for three (3) years from the date hereof and will survive the termination of this Agreement, the discharge of all other obligations owed by the Parties to each other and the Closing Date.

(b) Notwithstanding the terms of Section 6.4(a) above, the Parties agree that prior to the Closing, Buyer may reveal or disclose Proprietary Information to any other Persons in connection with (i) the financing of Buyer's purchase of the Assets or any equity participation in Buyer's purchase of the Assets and (ii) obtaining insurance for the Assets; provided that such Persons agree in writing to maintain the confidentiality of the Proprietary Information in accordance with this Agreement.

(c) Upon the other Party's prior written approval (which shall not be unreasonably withheld), any of the Parties may provide Proprietary Information of the other Parties to the SEC, FERC, ACC, ADEQ or any other Governmental Authority with jurisdiction or any securities exchange, as may be necessary to obtain Required Regulatory Approvals or to comply generally with any relevant law or regulation. The disclosing Party will seek confidential treatment for the Proprietary Information provided to any Governmental Authority and the disclosing Party will notify the other Party as far in advance as is practicable of its intention to release to any Governmental Authority any Proprietary Information.

6.5 Public Statements. Subject to the requirements imposed by law, any Governmental Authority or securities exchange, prior to the Closing Date, no press release or other public announcement or public statement or comment in response to any inquiry relating to the transactions contemplated by this Agreement shall be issued or made by any Party without the prior approval of the other Party (which approval shall not be unreasonably withheld). The Parties agree to cooperate in preparing any such announcements.

6.6 Expenses. Except to the extent specifically provided herein, whether or not the transactions contemplated hereby are consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be borne by the Party incurring such costs and expenses. Notwithstanding anything to the contrary herein, Buyer will be responsible for all filing fees under the HSR Act relating to the Assets it would acquire hereunder.

6.7 Further Assurances.

(a) Subject to the terms and conditions of this Agreement, each Party shall use its Commercially Reasonable Efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the purchase, sale, transfer and delivery of the Assets and the assumption of the Assumed Liabilities pursuant to this Agreement. Such actions shall include, without limitation, each Party using its Commercially Reasonable Efforts to ensure satisfaction of the conditions precedent to its obligations hereunder, including obtaining all necessary consents, approvals, and authorizations of third parties and Governmental Authorities required to be obtained in order to consummate the transactions hereunder, and to effectuate a transfer of the Transferable Permits to Buyer. Seller shall cooperate with Buyer in its efforts to obtain all other Permits and Environmental Permits necessary for Buyer to operate the Assets. None of the Parties hereto shall, without prior written consent of the other Party, take or fail to take any action, which might reasonably be expected to prevent or materially impede, interfere with or delay the transactions contemplated by this Agreement.

(b) In the event that any Asset shall not have been assigned, conveyed, transferred and delivered hereunder to Buyer at the Closing, Seller shall, subject to Section 6.7(c), use Commercially Reasonable Efforts to assign, convey, transfer and deliver such Assets to Buyer as promptly as is practicable after the Closing.

(c) (i) To the extent that Seller's rights under any Assigned Agreement or Real Property Lease may not be assigned without the consent of another Person which consent

has not been obtained by the Closing Date, this Agreement shall not constitute an agreement to assign the same, if an attempted assignment would constitute a breach thereof or be unlawful.

(ii) Seller agrees that if any consent to an assignment of any Assigned Agreement or Real Property Lease shall not be obtained or if any attempted assignment would be ineffective or would impair the Buyer's rights and obligations under the Assigned Agreement or Real Property Lease in question, so that Buyer would not in effect acquire the benefit of all such rights and obligations, Seller, at the Buyer's option and to the maximum extent permitted by law and such Assigned Agreement or Real Property Lease, shall, after the Closing Date, appoint Buyer to be Seller's agent with respect to such Assigned Agreement or Real Property Lease, or, to the maximum extent permitted by law and such Assigned Agreement or Real Property Lease, enter into such reasonable arrangements with Buyer or take such other actions as are necessary to provide Buyer with the same or substantially similar rights and obligations of such Assigned Agreement or Real Property Lease as Buyer may reasonably request. Seller shall cooperate and shall use Commercially Reasonable Efforts prior to and after the Closing Date to obtain an assignment to Buyer of each Assigned Agreement or Real Property Lease.

(iii) To the extent that any fuel supply contract or power purchase agreement is not assignable or the contracting party withholds consent to assignment, then Seller agrees to continue to purchase fuel and/or power pursuant to such contract(s) and to resell it to Buyer at the purchase price for the remainder of the term of such contract(s), provided that the term of such contract(s) shall not be extended. Buyer shall make payment to Seller in this circumstance on an as-incurred basis.

(d) To the extent that Seller's rights under any warranty or guaranty described in Section 2.1(h) may not be assigned without the consent of another Person, which consent has not been obtained by the Closing Date, this Agreement shall not constitute an agreement to assign the same, if an attempted assignment would constitute a breach thereof, or be unlawful. Seller agrees that if any consent to an assignment of any such warranty or guaranty shall not be obtained, or if any attempted assignment would be ineffective or would impair Buyer's rights and obligations under the warranty or guaranty in question, so that Buyer would not in effect acquire the benefit of all such rights and obligations, Seller, at Buyer's option and expense, shall use Commercially Reasonable Efforts, to the extent permitted by law and by such warranty or guaranty, to enforce such warranty or guaranty for the benefit of Buyer so as to provide Buyer to the maximum extent possible with the benefits and obligations of such warranty or guaranty.

6.8 Consents and Approvals.

(a) As promptly as advisable after the execution of this Agreement, Buyer and Seller shall each file or cause to be filed with the Federal Trade Commission and the United States Department of Justice any notifications required to be filed under the HSR Act and the rules and regulations promulgated thereunder with respect to the transactions contemplated hereby. Each Party shall file any HSR Act notifications with respect to this Agreement and with respect to the Arizona Electric Purchase Agreement simultaneously and in the same filing. Buyer and Seller shall use their respective reasonable best efforts to respond promptly to any requests for additional information made by either of such agencies, and to cause the waiting periods under the HSR Act to terminate or expire at the earliest possible date after the date of

filing of such notification. Buyer will pay all filing fees under the HSR Act relating to the Assets, but each of Seller and Buyer will bear its own costs of the preparation of any such filing.

(b) The Parties shall cooperate and use all Commercially Reasonable Efforts to promptly prepare and file all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to obtain all necessary permits, consents, approvals and authorizations of all Governmental Authorities necessary or advisable to consummate the transactions contemplated by this Agreement, including, without limitation, the Required Regulatory Approvals. Buyer shall have the right to review and approve in advance all the information relating to Buyer, on the one hand, and Seller shall have the right to review and approve in advance all the information relating to Seller, on the other hand, in either case, which appear in any filing made in connection with the transactions contemplated by this Agreement. Buyer and Seller agree that they will consult and cooperate with each other with respect to the obtaining of all such necessary permits, consents, approvals and authorizations of Governmental Authorities.

(c) In connection with applications and other filings for the Required Regulatory Approvals, and the prosecution of any pending regulatory proceedings material to the Business Buyer and Seller shall jointly, and on an equal basis, coordinate the overall development of the positions to be taken and the regulatory actions to be requested in such applications and filings for approval of the sale by the Seller and the purchase by the Buyer of the Assets and the Business, of all other matters contemplated by this Agreement which require regulatory approval and of all other regulatory matters incidental thereto which are to be addressed in such applications and filings. Efforts to obtain any necessary approvals (including from the ACC and the FERC) shall be prosecuted by counsel mutually agreed upon by the Parties, and acting as joint counsel to the Parties, it being understood, however, that (i) all positions taken in the filings with such Governmental Authorities shall be consistent with the mutual understandings of the Parties and (ii) any SEC approvals required by Buyer shall be prosecuted by Buyer's counsel.

(d) Seller and Buyer shall cooperate with each other and promptly prepare and file notifications with, and request Tax clearances from, state and local taxing authorities in any jurisdictions in which a portion of the Purchase Price may be required to be withheld or in which Buyer would otherwise be liable for any Tax liabilities of Seller pursuant to such state and local Tax law.

(e) Seller shall have primary responsibility for securing the transfer of the Transferable Permits, effective as of the Closing Date. Buyer shall have the primary responsibility for securing the transfer, reissuance or procurement of the Permits and Environmental Permits (other than Transferable Permits) effective as of the Closing Date. Seller shall cooperate with Buyer's efforts in this regard and assist in any transfer or reissuance of a Permit or Environmental Permit held by Seller, or the procurement of any other Permit or Environmental Permit when so requested by Buyer.

6.9 Fees and Commissions. Each of Seller and Buyer represent and warrant to the other that, except for Morgan Stanley & Co. Incorporated, which is acting for and at the expense of Seller, and Credit Suisse First Boston Corporation, which is acting for and at the expense of

Buyer, no broker, finder or other Person is entitled to any brokerage fees, commissions or finder's fees in connection with the transactions contemplated hereby by reason of any action taken by the Party making such representation. Each of Seller and Buyer will pay to the others or otherwise discharge, and will indemnify and hold the others harmless from and against, any and all claims or liabilities for all brokerage fees, commissions and finder's fees (other than the fees, commissions and finder's fees payable to the party listed above) incurred by reason of any action taken by the indemnifying party. Buyer has a preexisting business relationship with New Harbor, Incorporated and agrees to be responsible for any brokerage fees, commissions or finder's fees of New Harbor, Incorporated, if any, arising from the transactions contemplated by this Agreement.

6.10 Tax Matters.

(a) All Transfer Taxes incurred in connection with this Agreement and the transactions contemplated hereby, including, without limitation, (A) Arizona sales tax; (B) the Arizona transfer tax, conveyance fees or conveyances of interests in real and/or personal property; and (C) Arizona sales tax and transfer tax on deeds shall be borne as follows: fifty percent (50%) by the Buyer and fifty percent (50%) by the Seller. Seller shall file, to the extent required by, or permissible under, applicable law, all necessary Tax Returns and other documentation with respect to all such Transfer Taxes, and, if required by applicable law, Buyer shall join in the execution of any such Tax Returns and other documentation. Prior to the Closing Date, to the extent applicable, Buyer shall provide to Seller appropriate certificates of Tax exemption from each applicable taxing authority.

(b) With respect to Taxes to be prorated in accordance with Section 3.4 of this Agreement, Buyer shall prepare and timely file all Tax Returns required to be filed after the Closing Date with respect to the Assets, if any, and shall duly and timely pay all such Taxes shown to be due on such Tax Returns. Buyer's preparation of any such Tax Returns shall be subject to Seller's approval, which approval shall not be unreasonably withheld. Buyer shall make such Tax Returns available for Seller's review and approval no later than fifteen (15) Business Days prior to the due date for filing each such Tax Return. Upon receipt by Buyer of the tax bill, invoice or other statement regarding such real and personal property Taxes, Buyer shall calculate the *pro rata* share of such tax bill, invoice or other statement attributable to Buyer and Seller. Buyer shall then forward, as soon as possible, to Seller a copy of such tax bill, invoice or statement along with the supporting documentation relating to the calculation of the *pro rata* share to Seller and Seller will promptly pay to Buyer Seller's *pro rata* share of such tax bill, invoice or statement. In the event Seller first receives a tax bill, invoice or statement relating to the Assets from a taxing authority, Seller shall promptly forward such tax bill, invoice or statement to Buyer.

(c) Buyer and Seller shall provide the other with such assistance as may reasonably be requested by the other Party in connection with the preparation of any Tax Return, any audit or other examination by any taxing authority, or any judicial or administrative proceedings relating to liability for Taxes, and each shall retain and provide the requesting Party with any records or information which may be relevant to such return, audit, examination or proceedings. Any information obtained pursuant to this Section 6.10(c) or pursuant to any other

Section hereof providing for the sharing of information or review of any Tax Return or other instrument relating to Taxes shall be kept confidential by the Parties hereto.

(d) In the event that a dispute arises between Buyer and Seller, with respect to Taxes in Sections 6.10(a) and 6.10(b), or concerning any amount due under this Section 6.10, the Parties shall attempt in good faith to resolve such dispute and any agreed upon amount shall be paid to the appropriate Party. If such dispute is not resolved within thirty (30) days, the Parties to such dispute shall submit the dispute to the Independent Accounting Firm for resolution, which resolution shall be final, conclusive and binding on such Parties. Notwithstanding anything in this Agreement to the contrary, the fees and expenses of such Independent Accounting Firm shall be allocated between the Parties so that the non-disputing Party's share of such fees and expenses shall be in the same proportion that the aggregate amount of such remaining disputed amounts so submitted by the disputing Party to such auditor that is successfully disputed by the disputing Party (as finally determined by such auditor) bears to the total amount of such remaining disputed amount so submitted by the disputing Party to such auditor. Any payment required to be made as a result of the resolution of the dispute by the Independent Accounting Firm shall be made within ten days after such resolution, together with any interest determined by the Independent Accounting Firm to be appropriate.

(e) Buyer agrees that Seller may, at Seller's election prior to the Closing Date, direct that all or a portion of the Purchase Price be delivered to a "qualified intermediary" (as defined in Treasury Regulation Section 1.1031(k) - (g)(4)) as to enable Seller's relinquishment of the Assets to qualify as part of a like-kind exchange of property covered by Section 1031 of the Code. If Seller so elects, Buyer shall cooperate with Seller (but without being required to incur any out-of-pocket costs in the course thereof) in connection with Seller's efforts to effect such like-kind exchange, which cooperation shall include, without limitation, taking such actions as Seller requests in order to enable Seller to qualify such transfer as part of a like-kind exchange of property covered by Section 1031 of the Code (including any actions required to facilitate the use of a "qualified intermediary"), and Buyer agrees that Seller may assign all or part of its rights and delegate all or part of its obligations under this Agreement to a person or entity acting as a qualified intermediary to qualify the transfer of the Assets as part of like-kind exchange of property covered by Section 1031 of the Code. Buyer and Seller agree in good faith to use reasonable efforts to coordinate the transactions contemplated by this Agreement with any other transactions engaged in by either Buyer or Seller; provided that such efforts are not required to include an unreasonable delay in the consummation of the transactions contemplated by this Agreement.

(f) Prior to the Closing Date, Buyer and Seller shall use their good faith efforts to agree upon the allocation (the "Allocation") of the Purchase Price, the Assumed Liabilities and other relevant items (including, for example, adjustments to the Base Purchase Price) to the individual assets or classes of assets within the meaning of Section 1060 of the Code. If Buyer and Seller agree to such Allocation prior to Closing, Buyer and Seller covenant and agree that (i) the values assigned to the assets by the Parties' mutual agreement shall be conclusive and final for all purposes, and (ii) neither Buyer nor Seller will take any position before any Governmental Authority or in any Proceeding that is in any way inconsistent with such Allocation. Notwithstanding the foregoing, if Buyer and Seller cannot agree to an Allocation, Buyer and Seller covenant and agree to file, and to cause their respective Affiliates to

file, all Tax Returns and schedules thereto (including, for example, amended returns, claims for refund, and those returns and forms required under Section 1060 of the Code and any Treasury regulations promulgated thereunder) consistent with each of such Party's good faith Allocations, unless otherwise required because of a change in any applicable law.

6.11 Advice of Changes. Prior to the Closing, each Party will timely advise the other in writing with respect to any matter arising after execution of this Agreement which becomes known to that Party and which, if existing or occurring at the date of this Agreement, would have been required to be set forth in this Agreement, including any of the Schedules or Exhibits hereto. Any such written notice will not be deemed to have amended this Agreement, including the appropriate Schedule or Exhibit, or to have qualified any representation or warranty contained in this Agreement, or to have cured any misrepresentation or breach of warranty that otherwise might have existed hereunder by reason of the development.

6.12 Seller Employees.

(a) Buyer shall give Qualifying Offers of employment to all employees of Seller who are covered by the IBEW Local Union No. 387 collective bargaining agreement with Seller (the "IBEW CBA") and are employed in positions relating to the Business (collectively, "Union Employees"). Each such person who becomes employed by Buyer pursuant to this section shall be referred to herein as a "Transferred Union Employee".

(b) Buyer shall give Qualifying Offers of employment to substantially all of the salaried employees of Seller who are employed in positions relating to the Business (collectively, "Non-Union Employees"). Each such person who becomes employed by Buyer pursuant to this section shall be referred to herein as a "Transferred Non-Union Employee." Buyer shall reimburse Seller for 50 percent of the aggregate Severance Cost (as defined below) relating to those Non-Union Employees whose employment is terminated by Seller prior to or as of the Closing Date. "Severance Cost" means the sum of the following costs incurred by Seller resulting from a Non-Union Employee's termination of employment with Seller: (i) all cash severance benefits payable pursuant to Seller's severance policy, (ii) the cost of outplacement services provided pursuant to Seller's severance policy, (iii) Seller's subsidized portion of COBRA Continuation Coverage provided by Seller's health plan in accordance with Seller's severance policy, (iv) the additional severance benefits payable pursuant to arrangements with the specific individuals identified in a schedule delivered to Buyer prior to the date hereof; and (v) any retention bonuses paid by Seller to Non-Union Employees who do not receive Qualifying Offers of employment and who are deemed in Seller's discretion to be critical to the ongoing operation of the Business. With respect to the Severance Cost components described in clauses (i), (ii), (iv) and (v) of the preceding sentence, Buyer shall pay such reimbursement to Seller at the later of Closing or five days after receipt of a list of such terminated Non-Union Employees and the amount of such Severance Cost components with respect to such employees. With respect to the Severance Cost component described in clause (iii), Seller shall provide Buyer during the COBRA Continuation Coverage period with a monthly schedule setting forth the cumulative amount of such cost component for the preceding month, and Buyer shall pay such reimbursement to Seller within five days after receipt of each such schedule.

(c) All offers of employment made by Buyer pursuant to Sections 6.12(a) and (b) shall be made in accordance with all applicable laws and regulations, and for Union Employees, in accordance with the IBEW CBA and shall remain open for a period of ten (10) working days. Any such offer which is accepted within such ten (10) working day period shall thereafter be irrevocable, except for good cause, until the earlier of the Closing Date or the termination of this Agreement pursuant to its terms. Additionally, such offers shall be contingent upon the Non-Union Employee's or Union Employee's successful completion of drug testing pursuant to Buyer's policies and in compliance with the IBEW CBA. Following acceptance of such offers, Buyer shall provide written notice thereof to Seller and Seller shall provide Buyer with access to the files and records of employees accepting such offers, to the extent permitted by contract, the IBEW CBA and/or applicable law.

(d) The following shall be applicable with respect to Transferred Employees:

(i) From and after the Closing Date, Transferred Employees shall accrue no additional benefits under any employee benefit plan, policy, program or arrangement of Seller or its Affiliates.

(ii) For such Transferred Union Employees, Buyer shall recognize the IBEW as the exclusive collective bargaining representative and shall assume the terms and conditions of the IBEW CBA, to the extent applicable to such Transferred Union Employees, until the expiration of said agreement, and will further comply with all applicable legal obligations with respect to collective bargaining under federal labor law thereafter.

(iii) As of the Closing Date, Buyer shall cause Transferred Non-Union Employees to be covered by the Buyer benefit plans listed on Schedule 6.12(d)(iii), and shall cause Transferred Union Employees to be provided with benefits that are consistent with the terms of the IBEW CBA or are otherwise acceptable to the applicable union. The commitments under this paragraph shall require the following:

(A) With respect to health care plans, Buyer agrees to waive or to cause the waiver of all limitations as to pre-existing conditions and actively-at-work exclusions and waiting periods for such employees, except that Buyer may require the employee or his/her dependents who, on the Closing Date, is then in the process of satisfying any similar exclusion or waiting period under the Seller health care plans to satisfy fully the balance of the applicable time period for such exclusion or waiting period under the applicable Buyer plan. With respect to the calendar year in which the Closing Date occurs, all health care expenses incurred by any such employees and/or any eligible dependent thereof, including without limitation any alternate recipient pursuant to qualified medical child support orders, in the portion of the calendar year preceding the Closing Date that were qualified to be taken into account for purposes of satisfying any deductible or out-of-pocket limit under any Seller health care plans shall be taken into account for purposes of satisfying any deductible or out-of-pocket limit under the health care plan of Buyer for such calendar year.

(B) With respect to service and seniority, Buyer shall recognize each such employee's service and seniority with Seller and any affiliate of Seller for all non-pension purposes, including the determination of eligibility and extent of service or seniority-related welfare benefits such as vacation and sick pay benefits. Seller agrees to pay each such employee for all vacation benefits banked, accrued, and unused, as of the Closing Date, or otherwise according to Seller's policies and applicable law. For purposes of this Section 6.12(d)(iii)(B), Transferred Employees who have prior service with Southern Union Company, and who are identified on a schedule delivered to Buyer prior to the date hereof, shall be treated as service with Seller.

(C) The Citizens Pension Plan ("Seller's Pension Plan") shall retain all liabilities and assets for pension benefits accrued by Transferred Employees through the day immediately preceding the Closing Date, and Seller shall cause all such accrued benefits to become fully vested as of the Closing Date. Seller shall, within 90 days following the Closing Date, notify Transferred Employees who are entitled to deferred vested benefits under Seller's Pension Plan of the amount of such benefits. Buyer shall take all actions necessary to cause the Buyer's qualified pension plan listed on Schedule 6.12(d)(iii) in which Transferred Employees are eligible to participate pursuant to Section 6.12(d)(iii) to provide benefits no less valuable than those provided in Seller's Pension Plan and to recognize the service that the Transferred Employees had under Seller's Pension Plan for purposes of such Transferred Employees' eligibility to participate, vesting, attainment of retirement dates, subsidized benefits, entitlement to optional forms of payment, and benefit accrual; provided, however that a Transferred Employee's benefit under Buyer's Pension Plan shall be offset by his or her accrued benefit under Seller's Pension Plan. The offset referred to in the preceding sentence shall be based on the benefit that would have been available with respect to such Transferred Employee under the terms of Seller's Pension Plan had such Seller's Pension Plan benefit commenced on the Transferred Employee's annuity starting date under Buyer's Pension Plan and been paid in the same form as the benefit paid under Buyer's Pension Plan. Notwithstanding the preceding sentence, in the event that a Transferred Employee is ineligible to commence receipt of his or her accrued benefit under Seller's Pension Plan on his or her annuity starting date under Buyer's Pension Plan or in the form elected under the Buyer's Pension Plan, the offset shall be based on the hypothetical benefit that is the actuarial equivalent (as determined using the then current actuarial assumptions of Seller's Pension Plan) of the Transferred Employee's accrued benefit under Seller's Pension Plan, such hypothetical benefit being assumed to be payable in the same form and with the same annuity starting date as the Transferred Employee's benefit under Buyer's Pension Plan. At Buyer's request, Seller shall provide Buyer with the benefit calculations applicable to a Transferred Employee under Seller's Pension Plan.

(D) Buyer shall assume all liabilities, obligations and responsibilities with respect to providing post-retirement health and life insurance benefits ("Post-Retirement Welfare Benefits") to (i) retirees of the Business as of

the Closing Date (the "Current Retirees") and (ii) Transferred Employees who have satisfied the age and service eligibility requirements for Post-Retirement Welfare Benefits under the applicable Seller plans (the "Grandfathered Active Employees" and, together with the Current Retirees, the "Grandfathered Individuals"). The Grandfathered Individuals are listed in Schedule 6.12(d)(iii)(D). Buyer shall continue to provide to the Current Retirees Post-Retirement Welfare Benefits that are comparable to those Post-Retirement Welfare Benefits provided to such Current Retirees immediately prior to the Closing Date, under cost-sharing structures that are at least as favorable as the cost-sharing structures in effect for and available to the Current Retirees immediately prior to the Closing Date. Buyer shall provide to the Grandfathered Active Employees Post-Retirement Welfare Benefits that are comparable to those Post-Retirement Welfare Benefits provided to such Grandfathered Active Employees immediately prior to the Closing Date, commencing at the time such Grandfathered Active Employees retire. The Base Purchase Price shall be decreased by the amount by which the APBO (as hereinafter defined) exceeds two million dollars (\$2,000,000). The "APBO" means the accumulated post-retirement benefit obligation (within the meaning of the Statement on Financial Accounting Standards No. 106) of the Grandfathered Individuals receiving or eligible for the Post-Retirement Welfare Benefits to the extent Buyer has committed to provide such Post-Retirement Welfare Benefits pursuant to this Section 6.12(d)(iii)(D), determined using a discount rate of 6.75% and the remaining assumptions disclosed in the January 1, 2001 Actuarial Valuation Report dated September 17, 2002, as set forth on Schedule 6.12(d)(iii)(D).

(E) With respect to the Seller's 401(k) Savings Plan (the "Savings Plan"), Seller shall vest Transferred Employees in their Savings Plan account balances as of the Closing Date. Seller hereby represents to Buyer that the Savings Plan is intended to be qualified within the meaning of Section 401 of the Code. Buyer shall take all actions necessary to cause the Buyer's qualified 401(k) plan listed on Schedule 6.12(d)(iii) in which Transferred Employees are eligible to participate pursuant to Section 6.12(d)(iii) (x) to recognize the service that the Transferred Employees had in the Savings Plan for purposes of determining such Transferred Employees' eligibility to participate, vesting, attainment of retirement dates, contribution levels, and, if applicable, eligibility for optional forms of benefit payments, and (y) to accept direct-rollover transfers of Transferred Employees' account balances in the Savings Plan, including transfers of loan balances and related promissory notes, provided that such loans would not be treated as taxable distributions at any time prior to such transfer.

(F) Within sixty (60) days after the Closing Date, Seller shall transfer to Buyer's flexible benefits plan any balances standing to the credit of Transferred Employees under Seller's flexible benefits plan as of the day immediately preceding the Closing Date. As soon as practicable after the Closing Date, Seller shall provide to Buyer a list of those Transferred Employees that have participated in the health or dependent care reimbursement accounts of Seller, together with their elections made prior to the Closing Date with respect to such

account, and balances standing to their credit as of the day immediately preceding the Closing Date.

(e) With respect to severance benefits, Buyer shall provide to any Transferred Non-Union Employee who is terminated by Buyer (other than for cause) prior to the date which is one year following the Closing Date, severance benefits at the level set forth in a schedule provided to Seller prior to the date hereof. Any employee provided severance benefits under this section may be required to execute a release of claims against Seller and Buyer, in such form as Buyer shall prescribe, as a condition for the receipt of such benefits.

(f) Each Transferred Non-Union Employee who is initially assigned, or assigned within twelve (12) months of the Closing Date, by Buyer to a principal place of work that requires such employee to relocate his residence will be reimbursed by Buyer for all relocation expenses in accordance with the relocation benefits plans set forth in a schedule provided to Seller prior to the date hereof. For purposes of the foregoing a required relocation of residence shall include a change in the principal place of work that is more than 30 miles farther from such employee's principal place of work immediately prior to the Closing Date and requires an average commute from his current residence of at least one hour in each direction.

(g) Seller shall be responsible, with respect to the Business, for performing and discharging all requirements under the WARN Act and under applicable state and local laws and regulations for the notification of its employees of any "employment loss" within the meaning of the WARN Act which occurs on or prior to the Closing Date.

(h) Buyer shall not be responsible for, but Seller shall be responsible for, extending COBRA Continuation Coverage to any employees and former employees of Seller, or to any qualified beneficiaries of such employees and former employees, who become or became entitled to COBRA Continuation Coverage on or before the Closing Date, including those for whom the Closing Date occurs during their COBRA election period.

(i) Seller or its Affiliates shall pay or cause to be paid to all Transferred Employees, all compensation (including vacation pay), workers' compensation or other employment benefits to which they are entitled under the terms of the applicable compensation or Seller benefit plans or programs as of the Closing Date. Buyer shall pay to each Transferred Employee all unpaid salary or other compensation or employment benefits which have accrued to such employees following the Closing Date, at such times as provided under the terms of the applicable compensation or benefit programs. Notwithstanding the foregoing, if the Closing Date is on or after July 1 of any calendar year, Seller and Buyer shall pro-rate the obligation to pay any bonuses declared by Seller on or after the Closing Date (but prior to March 1 of the calendar year following the year in which the Closing Date occurs) that would have been payable to the Transferred Employees had the Transferred Employees remained employed by Seller or its Affiliates throughout the calendar year in which the Closing Date occurs, in accordance with the provisions of any policy, plan, practice or arrangement of Seller under which such bonus would have been paid. Buyer shall be obligated to pay that portion of each such bonus determined by multiplying the amount of such bonus by a fraction, the numerator of which is the number of days from and after the Closing Date through the end of the calendar year in which the Closing Date occurs, and the denominator of which is 365.

(j) Seller shall be responsible for maintaining workers' compensation coverage for all Union Employees and Non-Union Employees for claims relating to occurrences prior to the Closing Date.

(k) Individuals who are otherwise Union Employees or Non-Union Employees but who on any date are not actively at work due to a leave of absence covered by the Family and Medical Leave Act (FMLA), or due to any other authorized leave of absence, including, without limitation, short-term disability, or who are on long-term disability, shall nevertheless be treated as "Union Employees" or as "Non-Union Employees", as the case may be, on such date if they are able (i) to return to work within the protected period under the FMLA or such other leave (which in any event shall not extend more than twelve (12) weeks after the Closing Date), whichever is applicable, and (ii) to perform the essential functions of their job, with or without a reasonable accommodation.

(l) Buyer shall be responsible, with respect to the Business, for performing and discharging all requirements under the WARN Act and under applicable state and local laws and regulations for the notification of its employees of any "employment loss" within the meaning of the WARN Act which occurs following the Closing Date.

(m) Buyer is responsible for extending and continuing to extend COBRA Continuation Coverage to all Transferred Employees, and qualified beneficiaries of such employees who become entitled to such COBRA Continuation Coverage following the Closing Date.

(n) The provisions of this Section 6.12 shall not be construed as being for the benefit for any person other than the Parties hereto, and shall not be enforceable by persons other than such Parties (including, without limitations, the Transferred Employees).

6.13 Risk of Loss.

(a) From the date hereof through the Closing Date, all risk of loss or damage to the assets included in the Assets shall be borne by Seller, other than loss or damage caused by the acts or negligence of Buyer or any Buyer Representative, which loss or damage shall be the responsibility of Buyer.

(b) If, before the Closing Date, all or any portion of the Assets are taken by eminent domain, municipalization or condemnation or are the subject of a pending taking which has not been consummated, (such event being called, in either case, a "Taking"), then Seller shall notify Buyer promptly in writing of such Taking.

(i) If such Taking relates to Assets of Seller having an aggregate net book value in excess of \$50,000,000, then such Taking shall be a "Material Taking." Upon a Material Taking, Seller and Buyer shall negotiate to settle the loss, if any, resulting from such Material Taking (and such negotiation shall include, without limitation, the negotiation of a fair and equitable reduction in the Base Purchase Price to offset such loss, if any, based on consideration of all relevant circumstances). If Seller and Buyer shall fail to agree to settle the loss, if any, resulting from said Material Taking, said Material Taking shall be conclusively deemed to be an Asset Material Adverse

Effect. Any Taking relating to any Assets of Seller's Santa Cruz division shall not be deemed to be a Material Taking.

(ii) If such Taking is not a Material Taking, then (A) Buyer may elect to, in the name of Seller, negotiate for, claim, contest and receive the portion of the award properly allocable to those Assets that are the subject of the Taking, (B) to the extent the Taking shall have been consummated prior to the Closing, Seller shall be relieved of its obligation to convey to Buyer those Assets that were the subject of the Taking, (C) at the Closing, Seller will assign to Buyer all of its rights to damages payable as a result of the Taking, and will pay to Buyer all damages previously paid to it in connection with the Taking, in each case to the extent properly allocable to those Assets that are the subject of the Taking, and (D) following the Closing, Seller will give to Buyer any further assurances of such rights and assignment with respect to the Taking as Buyer reasonably may request from time to time.

(c) (i) If any casualty loss or damage to the Assets shall occur before the Closing Date, then the Base Purchase Price shall be reduced, to the extent such loss or damage is not remedied prior to the Closing Date, by an amount mutually acceptable to the Parties, which amount shall be equal to the estimated out-of-pocket costs and expenses which Buyer reasonably can be expected to incur to repair or replace, in accordance with Good Utility Practices, such lost or damaged Assets after Closing. If the actual out-of-pocket costs and expenses which Buyer reasonably incurred to repair or replace, in accordance with Good Utility Practices, such lost or damaged Assets exceeds such estimated amount, Seller shall reimburse Buyer for such excess costs. If the Parties do not agree to an adjustment to the Base Purchase Price in respect of the casualty loss, then the Closing shall be postponed for such period of time (not to exceed six (6) months), and Seller shall repair or replace the lost or damaged Assets in accordance with Good Utility Practices and Buyer or its Representatives will have the right to inspect and observe and approve, all repairs or replacements made by Seller to remedy such casualty loss.

(ii) Notwithstanding anything to the contrary in Section 6.13(c)(i) above, if Seller shall have failed to remedy, cure or otherwise reverse by the Closing Date any casualty loss or damage to the Assets such that the estimated out-of-pocket costs and expenses that Buyer reasonably can be expected to incur to repair or replace such lost or damaged Assets exceeds \$25,000,000, such loss or damage shall be conclusively deemed to be an Asset Material Adverse Effect.

6.14 Tax Exempt Financing

(a) Seller represents that:

(i) The Exempt Facilities have been financed, and refinanced, in whole or in part, with the proceeds of the issuance and sale by various governmental authorities of industrial development revenue bonds or private activity bonds the interest on which, with certain exceptions, is excluded from gross income for purposes of Federal

income taxation (such bonds, as currently outstanding, the "Revenue Bonds"); and Seller is the economic obligor in respect of such Revenue Bonds;

(ii) The Revenue Bonds are described in Schedule 6.14(a);

(iii) The basis for the exclusion of interest on the Revenue Bonds from gross income for Federal income tax purposes is the use of the Exempt Facilities for "the local furnishing of electric energy or gas" under Sections 142(a)(8) and 142(f) of the Code or, if applicable, Section 103(b)(4)(E) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), and in either case the applicable Treasury Regulations (the "Regulations") thereunder;

(iv) The use of the Exempt Facilities for a purpose other than a qualifying purpose indicated in subsection (iii) above could impair (A) such exclusion from gross income of the interest on the Revenue Bonds, possibly with retroactive effect, unless appropriate remedial action were taken (which could include prompt defeasance or redemption of the Revenue Bonds) and/or (B) the deductibility of payments by Seller or Buyer of interest based on the restrictions in Section 150(b) of the Code;

(v) After August 20, 1996, at least the following bonds exempt from tax under Section 103 of the Code and in whole or in part described in Section 142(a)(8) of the Code have been issued with respect to facilities of Seller for the "local furnishing of electric energy or gas": The Industrial Development Authority of the County of Navajo, Industrial Development Revenue Bonds (Citizens Utilities Company Project) 1997 Series B (\$12,380,000), and The Industrial Development Authority of the County of Yavapai, Industrial Development Revenue Bonds (Citizens Utilities Company Project) 1998 Series (\$20,000,000); and

(vi) Any breach by Buyer of its obligations under this Section 6.14 could result in the incurrence by Seller of additional costs and expenses with respect to the Revenue Bonds, including, without limitation, increased interest costs, loss of the interest deduction for tax purposes and transaction costs relating to any refinancing, redemption and/or defeasance of all or part of the Revenue Bonds (cumulatively, the "Tax Impact").

(b) Buyer agrees that Buyer will indemnify Seller for costs incurred by Seller in respect of any Tax Impact that would not have arisen but for Buyer's breach of its obligations under Section 6.14(c) (except as excused elsewhere in this Section 6.14).

(c) After August 20, 1996, at least the following bonds exempt from tax under Section 103 of the Code and described in whole or in part in Section 142(a)(8) of the Code have been issued with respect to facilities of Buyer for the "local furnishing of electric energy": The Industrial Development Authority of the County of Pima, Industrial Development Revenue Bonds (Tucson Electric Power Company Project) 1997 Series A, B and C (\$247,460,000), and The Industrial Development Authority of the County of Apache, Pollution Control Revenue Bonds (Tucson Electric Power Company Project) 1998 Series A, B and C (\$200,000,000). So long as any Revenue Bonds remain outstanding with respect to gas Exempt Facilities in any

county, Buyer agrees that it shall not use, or take any deliberate act to permit the use of, or fail to take any act within its control that would prevent the use of, the gas Exempt Facilities within that county for any purpose or in any manner other than as shall be consistent with the Exempt Facility Operating Protocols (as such Exempt Facility Operating Protocols may have been updated, amended or corrected by Seller for the purpose of their accuracy on or before the Closing Date; provided that such changes do not materially impact Buyer's operation of the Assets) delivered by Seller to Buyer on or before the date of this Agreement, unless Buyer:

(i) has obtained at its own expense an opinion addressed to Seller of nationally recognized bond counsel reasonably acceptable to Seller ("Bond Counsel") that such use will not impair (x) the exclusion from gross income of the interest on any issue of Revenue Bonds for Federal income tax purposes and (y) the deductibility of Seller's payments of interest based on the restrictions in Section 150(b) of the Code; or

(ii) has provided written notice to Seller of any act or failure to act either (x) not later than 45 days after the effective date of such action, or (y) if any of such affected Revenue Bonds are not then eligible for optional or mandatory redemption by the terms thereof, sufficiently in advance of such act or failure to act to permit Seller to request from the IRS a private letter ruling to the effect that such action does not constitute an event that would adversely affect the exclusion of the interest on such Revenue Bonds from gross income for Federal income tax purposes, to receive a final ruling to such effect from the IRS, and to dispose of the Revenue Bonds in a manner not inconsistent with such ruling ("Sufficient Notice"). (Reference is made to Schedule 6.14(a) for a listing of the respective optional redemption dates of the Revenue Bonds.)

(d) Notwithstanding any other provision of this Agreement, it is expressly understood and agreed that the provisions of Section 6.14(c) shall not prohibit Buyer from (and Buyer shall incur no liability to Seller for or in connection with Buyer) suspending the operation of the Exempt Facilities (in whole or in part) on a temporary basis, or from terminating the operation of the Exempt Facilities (in whole or in part) on a permanent basis and shutting down, retiring, abandoning and/or decommissioning the Exempt Facilities (in whole or in part); provided, however, that if the Exempt Facilities, in whole or in part, are dismantled and sold, including any sale for scrap, at any time when any Revenue Bonds remain outstanding, then the proceeds of such sale of Exempt Facilities shall within six months from the date of sale be expended to acquire replacement property to be used as described in the related Exempt Facility Operating Protocol, unless (I) Buyer has obtained at its own expense an opinion addressed to Seller of Bond Counsel that the failure to take this action will not impair (x) the exclusion from gross income of the interest on any issue of Revenue Bonds for Federal income tax purposes and (y) the deductibility of Seller's payments of interest based on the restrictions in Section 150(b) of the Code; (II) the proceeds of such sales are less than \$50,000 in a calendar year; or (III) Buyer has provided Sufficient Notice of such action to Seller.

(e) Buyer agrees that it shall not issue, or have issued on its behalf, any tax-exempt bonds to finance or refinance its acquisition of the Exempt Facilities, provided that it is expressly understood and agreed that this clause (e) shall not prohibit Buyer's use of

tax-exempt bonds to finance or refinance any improvement to the Exempt Facilities made after the date of acquisition or to any assets other than the Exempt Facilities.

(f) Buyer agrees to provide prompt written notice to Seller of any condemnation of, or casualty loss with respect to, the Exempt Facilities, in whole or in substantial part, to cooperate in good faith with Seller in Seller's efforts to ascertain the consequences of any such eminent domain proceeding or casualty loss for the (A) exclusion of interest on the Revenue Bonds from gross income for Federal income tax purposes and (B) the deductibility of Seller's payments of interest based on the restrictions in Section 150(b) of the Code.

(g) Seller agrees that the Revenue Bonds shall be redeemed no later than the earlier of (I) their respective stated maturity dates, and (II) their respective first optional redemption dates on or after the Closing Date. Seller also agrees that none of the Revenue Bonds shall be refunded.

(h) Seller hereby represents that it has performed all duties and obligations of "Company" under the documents relating to the Revenue Bonds, that the representations and warranties under the documents relating to the Revenue Bonds remain true and correct, and that there has been no breach of any covenant or agreement by Seller under the documents relating to the Revenue Bonds. Seller hereby covenants that, until all of the Revenue Bonds have been redeemed, Seller will perform all duties and obligations of "Company" under the documents relating to the Revenue Bonds, that Seller's representations and warranties under such documents will remain true and correct and that Seller will not breach any covenant or agreement of Seller under such documents; provided that Seller's covenant in this sentence shall not extend to any such duties, obligations, representations, warranties, covenants or agreements the necessary predicate for which is Seller's actual ownership, possession or control of the Exempt Facilities from and after the Closing Date. Seller acknowledges and agrees that although Seller from and after the Closing Date will not own, possess or control the Exempt Facilities, Seller shall remain primarily obligated under the documents relating to the Revenue Bonds and, as between itself and each issuer of the Revenue Bonds, shall remain subject to each of Seller's representations, warranties, covenants and agreements thereunder. Buyer shall have no liability under this Section 6.14 unless interest on the Revenue Bonds would be excluded from gross income for Federal income tax purposes absent an act or failure to act by Buyer in contravention of the terms of Section 6.14(c).

(i) In any case where Buyer has provided notice to Seller under this Section 6.14, Buyer agrees that it will join and cooperate with Seller with respect to any request by Seller to the Internal Revenue Service to obtain a private letter ruling regarding any Tax Impacts of the act or failure to act by Buyer that prompted such notice. Seller will join and cooperate with Buyer with respect to any request by Buyer to the Internal Revenue Service to obtain a private letter ruling regarding any Tax Impacts. The Party seeking the private letter ruling shall bear all costs of the filing, legal and related out-of-pocket expenses incurred in the course of such request.

(j) Seller agrees that it has sole responsibility to make any required payments of principal and interest on the Revenue Bonds and that Buyer has no responsibility to make such

payments. Seller agrees that it will indemnify, protect, defend and hold harmless Buyer from and against any claim that Buyer owes any payment of principal or interest on the Revenue Bonds. Seller agrees that Buyer shall retain any payments with respect to any casualty event or any condemnation of the Exempt Facilities and that, except as Buyer has otherwise agreed under Section 6.14(c), Buyer shall not be restricted in its use of any such proceeds.

(k) If Buyer shall sell, exchange, transfer or otherwise dispose of the Exempt Facilities in whole or substantial part (aggregate price of \$500,000 or more in a calendar year) to one or more third parties, Buyer shall cause to be included in the documentation relating to such transaction covenants and agreements on the part of such third party substantially identical to those on the part of Buyer contained in this Section 6.14.

(l) The covenants and agreements on the part of Buyer and Seller contained in this Section 6.14 shall continue in effect so long as any of the Revenue Bonds shall remain outstanding. Seller shall notify Buyer promptly when there shall be no Revenue Bonds outstanding.

(m) Buyer acknowledges and agrees that Seller's bond counsel may rely on Buyer's representations, warranties and covenants as hereinabove provided for the purpose of rendering legal opinions, as required by the Indentures of Trust, the Loan Agreements and the Tax Regulatory Agreements relating to the Revenue Bonds ("IDRB Documents") as a precondition to the sale by Seller of such Exempt Facilities, to the effect that the sale of such Exempt Facilities will not result in (I) the inclusion of the interest on the Revenue Bonds in the gross income of the recipient for purposes of Federal income taxation, and (II) disallowance of interest expense to Seller under Section 150(b) of the Code. Seller acknowledges and agrees that Buyer shall be an addressee of the above-described opinion letters of Seller's bond counsel or shall receive a reliance letter from Seller's bond counsel authorizing Buyer to rely on such opinion letters.

(n) Nothing in this Agreement is intended to nor shall it be interpreted as (i) an assignment to, and assumption by, Buyer of any of the IDR Documents, or (ii) as an undertaking or agreement by Buyer to assume, guarantee or pay any of Seller's loan or other payment obligations pursuant to the IDR Documents. Other than as stated in this Section 6.14, Buyer shall have no liability in respect of the Revenue Bonds.

(o) Each of Buyer and Seller shall use its Commercially Reasonable Efforts, and shall cooperate with the other Party in the other Party's efforts, to obtain all Consents, bond counsel opinions and IRS rulings as may be required under the IDR Documents and the Code to enable Seller to defease, prepay, redeem or retain until the first possible redemption date the IDR Indebtedness and to sell the Assets to Buyer without the result that the interest on the Revenue Bonds will be included in the gross income of the recipient for purposes of Federal income taxation; provided, however, that Buyer shall have no obligation in respect of its ownership or operation of the Exempt Facilities (including but not limited to rates imposed by Buyer in respect of utility service provided by the Exempt Facilities or by any other facilities of Buyer or affiliates of Buyer) other than to comply with the Exempt Facility Operating Protocols.

6.15 Seller Guarantees and Surety Instruments. Buyer shall use Commercially Reasonable Efforts to assist Seller in obtaining full and complete releases of the guarantees, letters of credit, bonds and other surety instruments listed in Schedule 6.15. In this connection, Buyer agrees to provide a guaranty, letter of credit, bond or other surety instrument at Closing to replace those listed in Schedule 6.15.

6.16 Citizens Marks. Buyer acknowledges and agrees with Seller that Seller has the absolute and exclusive proprietary right to the Citizens Marks, all rights to which and the goodwill represented thereby and pertaining thereto are being retained by Seller. Within ninety (90) days after the Closing Date, Buyer shall cease using any Citizens Mark and shall remove from the Assets any and all Citizens Marks. Thereafter, Buyer shall not use any Citizens Mark in connection with the sale of any products or services or otherwise in the conduct of the businesses. In the event that Buyer breaches this Section 6.16, Seller shall be entitled to specific performance and to injunctive relief against further violations, as well as any other remedies at law or in equity available to Seller.

6.17 Title Commitments. Prior to Closing, Seller shall cooperate with Buyer and use Commercially Reasonable Efforts to assist Buyer if Buyer desires to obtain American Land Title Association ("ALTA") title insurance commitments (collectively, the "Title Commitments," and each a "Title Commitment"), in final form, from one or more title insurance companies (collectively, the "Title Company"), committing the Title Company (subject only to the satisfaction of any industry standard requirements contained in the Title Commitment) to issue ALTA (or its local equivalent) form of title insurance policies in an amount acceptable to the Buyer and the Title Company insuring good, valid, indefeasible fee simple title to the Real Property in Buyer, in all cases, at Buyer's sole expense and in the respective amounts that Buyer requests prior to Closing, subject to no Encumbrances or other exceptions to title other than Permitted Encumbrances (collectively the "Title Policies"). On or prior to the Closing Date, Seller shall execute and deliver, or cause to be executed and delivered, to the Title Company, at no cost to Seller, any customary affidavits, standard gap indemnities, evidence of corporate existence and authority, and similar documents reasonably requested by the Title Company in connection with the issuance of the Title Commitments or the Title Policies; provided that such efforts and Buyer's request for Title Policies or Title Commitments shall, in no event, result in any delay in the consummation of the transactions contemplated by this Agreement, except to the extent caused by or resulting from Seller's breach of this Agreement; and provided further, that nothing in this Section 6.17 shall obligate Seller to execute or deliver any document that affects, in a manner adverse to Seller, Seller's liability to Buyer as expressed herein and in the Special Warranty Deed.

6.18 Joint Use Agreement re: Easements. To the extent reasonably requested by either Party, at least sixty (60) days before Closing, Buyer and Seller (or its appropriate Affiliate) will commence good faith negotiations of a joint use agreement, to be fully executed and delivered by the Parties at Closing, regarding the shared Easements to be partially assigned to Buyer at Closing as contemplated in Schedule 2.2. Such joint use agreement will be partially assignable by Seller to any purchaser of Seller's or its Affiliate's other utility plant permitted to be located on the real property that is the subject of any such shared Easements.

6.19 [Intentionally Omitted]

6.20 Post-Execution Delivery of Schedules. Within one hundred eighty days (180) following the date of execution of this Agreement, Seller shall deliver to Buyer a schedule, to be identified as Schedule 6.20, which sets forth all of the following identified by Seller after reasonable investigation (i) all Permits, (ii) all material items of Tangible Personal Property (other than Inventories), (iii) quantities of Inventories recorded in Seller's books and records for the Business as of the last day of the month preceding the date of this Agreement, together with the net book values of such Inventories as of such date, (iv) all Easements held by Seller in connection with the Business, (v) all line extension agreements and similar construction arrangements, railroad crossing agreements and similar arrangements, and (vi) all Real Property Leases. Schedule 6.20 will also designate those Permits that require the consent of the respective Governmental Authority to transfer and those that purport to be non-transferable.

ARTICLE VII

CONDITIONS

7.1 Conditions to Obligations of Buyer. The obligation of Buyer to effect purchase of the Assets and the other transactions contemplated by this Agreement shall be subject to the fulfillment of the following conditions, or waiver thereof, by Buyer at or prior to the Closing Date:

(a) The waiting period under the HSR Act applicable to the consummation of the sale of the Assets contemplated hereby shall have expired or been terminated;

(b) No preliminary or permanent injunction or other order or decree by any Governmental Authority which prevents the consummation of the sale of the Assets contemplated herein shall have been issued and remain in effect (each Party agreeing to use its reasonable best efforts to have any such injunction, order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority prohibiting the consummation of the sale of the Assets;

(c) Buyer shall have received all of Buyer's Required Regulatory Approvals by Final Order, and such Required Regulatory Approvals shall not contain terms and conditions that would result in a Regulatory Material Adverse Effect for Buyer or an Asset Material Adverse Effect;

(d) Seller shall have received all of Seller's Required Regulatory Approvals by Final Order, and such Required Regulatory Approvals shall not contain terms and conditions that would result in a Regulatory Material Adverse Effect for Buyer or an Asset Material Adverse Effect;

(e) Seller shall have performed and complied with each of its covenants and agreements contained in this Agreement which are required to be performed and complied with by Seller on or prior to the Closing Date except where the failure to so perform or comply, when taken in the aggregate, would not have a Buyer Material Adverse Effect or an Asset Material Adverse Effect;

(f) The representations and warranties of Seller set forth in this Agreement shall be true and correct as of the Closing Date as though made at and as of the Closing Date, except (i) subject to Section 6.11, to the extent due to changes expressly permitted by this Agreement or otherwise in writing by Buyer, (ii) that representations and warranties made as of, or in respect of, only a specified date or period shall be true and correct as of, or in respect of, such date or period and (iii) to the extent that any failure of such representations and warranties to be true and correct as aforesaid when taken in the aggregate would not have a Buyer Material Adverse Effect or an Asset Material Adverse Effect (it being understood and agreed that the economic impact of any Adverse Environmental Condition shall not be considered in the determination of an Asset Material Adverse Effect except as otherwise provided in Section 6.3);

(g) No Asset Material Adverse Effect shall have occurred and be continuing;

(h) Seller shall have delivered, caused to be delivered, or be standing ready to deliver, to Buyer at the Closing, Seller's closing deliveries described in Section 3.5;

(i) Buyer shall have received any consents of third parties required for the assignment to Buyer of any of the Assigned Agreements other than consents that, if not obtained, would not have an Asset Material Adverse Effect or a Buyer Material Adverse Effect, in form and substance reasonably acceptable to Buyer; and

(j) Buyer shall be reasonably satisfied that the consummation of the asset purchase and sale transaction contemplated by the Asset Purchase Agreement, dated as of the date hereof, between Seller and Buyer relating to purchase by Buyer of Seller's electric utility business in the State of Arizona (the "Arizona Electric Purchase Agreement"), will occur concurrently with the Closing.

7.2 Conditions to Obligations of Seller. The obligations of Seller to effect the sale of the Assets and the other transactions contemplated by this Agreement shall be subject to the fulfillment of the following conditions, or the waiver thereof, by Seller at or prior to the Closing Date:

(a) The waiting period under the HSR Act applicable to the consummation of the sale of the Assets contemplated hereby shall have expired or been terminated;

(b) No preliminary or permanent injunction or other order or decree by any Governmental Authority which prevents the consummation of the sale of the Assets contemplated herein shall have been issued and remain in effect (each of Seller and Buyer agreeing to use its reasonable best efforts to have any such injunction, order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority in the United States prohibiting the consummation of the sale of the Assets;

(c) Seller shall have received all of Seller's Required Regulatory Approvals by Final Order, and such Required Regulatory Approvals shall not contain terms and conditions that would have an Asset Material Adverse Effect or a Seller Material Adverse Effect;

(d) Seller shall have received any consents of third parties required for the assignment to Buyer of any of the Assigned Agreements other than consents that, if not obtained, would not have a Seller Material Adverse Effect;

(e) Buyer shall have performed and complied with each of its covenants and agreements contained in this Agreement which are required to be performed and complied with by Buyer on or prior to the Closing Date except where the failure to so perform or comply, when taken in the aggregate, would not have a Seller Material Adverse Effect;

(f) The representations and warranties of Buyer set forth in this Agreement shall be true and correct as of the Closing Date as though made at and as of the Closing Date, except (i) subject to Section 6.11, to the extent due to changes expressly permitted by this Agreement or otherwise in writing by Seller, (ii) that representations and warranties made as of, or in respect of, only a specified date or period shall be true and correct as of, or in respect of, such date or period and (iii) to the extent that any failure of such representations and warranties to be true and correct as aforesaid when taken in the aggregate would not have a Seller Material Adverse Effect;

(g) Buyer shall have assumed, as set forth in and subject to Section 6.12, all of the applicable obligations under the IBEW CBA;

(h) Buyer shall have delivered, caused to be delivered or standing ready to deliver, to Seller at the Closing, Buyer's closing deliveries described in Section 3.6;

(i) Seller shall be reasonably satisfied that the consummation of the Arizona Electric Purchase Agreement will occur concurrently with the Closing; and

(j) Seller shall have received opinions from Seller's Bond Counsel, dated the Closing Date, substantially in the form attached hereto as Exhibit E.

ARTICLE VIII

INDEMNIFICATION

8.1 Indemnification of Seller by Buyer. Subject to Section 8.3, Buyer shall indemnify, defend and hold harmless Seller, its officers, directors, employees, shareholders, Affiliates and agents (each, a "Seller Indemnitee") from and against any and all Indemnifiable Losses asserted against or suffered by any Seller Indemnitee (each, a "Seller Indemnifiable Loss") in any way relating to, resulting from or arising out of or in connection with (i) any breach by Buyer of any covenant or agreement of Buyer contained in this Agreement or any failure or inaccuracy of any representation or warranty of Buyer contained in this Agreement, (ii) the Assumed Liabilities, (iii) any loss or damages resulting from or arising solely out of any Inspection of the Assets, and (iv) any Third Party Claims against a Seller Indemnitee to the extent arising out of or in connection with Buyer's ownership or operation of the Assets on or after the Closing Date.

8.2 Indemnification of Buyer by Seller.

(a) Subject to Section 8.3, Seller shall indemnify, defend and hold harmless Buyer, its officers, directors, employees, shareholders, Affiliates and agents (each, a "Buyer Indemnatee") from and against any and all Indemnifiable Losses asserted against or suffered by any Buyer Indemnatee (each, a "Buyer Indemnifiable Loss") in any way relating to, resulting from or arising out of or in connection with (i) any breach by Seller of any covenant or agreement of Seller contained in this Agreement or failure or inaccuracy of any representation or warranty of Seller contained in this Agreement, (ii) the Excluded Liabilities, (iii) noncompliance by Seller with any bulk sales or transfer laws as provided in Section 10.12, and (iv) any Third Party Claims against a Buyer Indemnatee arising out of or in connection with Seller's ownership or operation of the Excluded Assets on or after the Closing Date.

(b) Subject to Sections 8.3(a), (e), (f) and (g) and the other provisions of this Section 8.2(b) and so long as Buyer complies with the Exempt Facilities Operating Protocols relating to an issue of outstanding Revenue Bonds, Seller agrees to indemnify, defend and hold harmless the Buyer Indemnitees from and against Buyer's Tax Losses (as defined below) upon a final decree or judgment of any federal court or a final action by the IRS (a "Final Determination") that the related Exempt Facilities are "tax-exempt bond financed property" under Section 168(g)(5) of the Code by reason of such issue of Revenue Bonds remaining outstanding from and after the Closing Date. No such decree or action shall be considered to be a Final Determination unless Seller has been given written notice and, if it is so desired and is legally allowed, has been afforded the opportunity to contest the same either directly or in the name of Buyer, and until conclusion of any appellate review, if sought. The maximum aggregate amount of Buyer's Tax Losses for which Seller shall be obligated to indemnify the Buyer Indemnitees both (i) under this Section 8.2(b) and (ii) under the corresponding Section 8.2(b) of the Arizona Electric Purchase Agreement shall be \$1,500,000. "Buyer's Tax Losses" shall mean the amount equal to the present value (calculated using a discount rate of 10 percent per annum) of the difference (multiplied by the applicable combined federal and State of Arizona corporate tax rate of Buyer Indemnatee) for each affected tax year between the respective dollar amounts of (x) depreciation of the related Exempt Facilities allowed under Section 168(g) of the Code, and (y) the depreciation of such Exempt Facilities that would be allowable under Section 168 of the Code if the Exempt Facilities were not "tax-exempt bond financed property." The indemnity granted by Seller in this Section 8.2(b) shall terminate at 5:00 p.m., local time in New York, New York, on the seventh anniversary of the Closing Date, provided that such termination shall not affect Seller's obligations under this Section 8.2(b) if Buyer provided Seller with proper notice of the claim or event for which indemnification is sought prior to such termination.

8.3 Certain Limitations on Indemnification.

(a) Notwithstanding anything to the contrary contained herein:

(i) any Indemnatee shall use Commercially Reasonable Efforts to mitigate all losses, damages and the like relating to a claim under these indemnification provisions, including availing itself of any defenses, limitations, rights of contribution, claims against third persons and other rights at law or equity. The Indemnatee's Commercially Reasonable Efforts shall include the reasonable expenditure of money to mitigate or otherwise reduce or eliminate any loss or expenses for which indemnification

would otherwise be due, and the Indemnifying Party shall reimburse the Indemnitee for the Indemnitee's reasonable expenditures in undertaking the mitigation; and

(ii) any Indemnifiable Loss shall be net of the dollar amount of any insurance or other proceeds actually received by the Indemnitee or any of its Affiliates with respect to the Indemnifiable Loss. Any Party seeking indemnity hereunder shall use Commercially Reasonable Efforts to seek coverage (including both costs of defense and indemnity) under applicable insurance policies with respect to any such Indemnifiable Loss.

(b) Except as otherwise provided in this Section 8.3(b), the representations, warranties, covenants and agreements of the Parties set forth in this Agreement shall survive the Closing Date for a period of eighteen (18) months, and all representations, warranties, covenants and agreements of the Parties under this Agreement and the related indemnities granted in this Article VIII shall terminate at 5:00 p.m., local time in New York City, New York, on the day that is eighteen (18) months after the Closing Date. The expiration, termination or extinguishment of any covenant or agreement shall not affect the Parties' obligations under Section 8.1 or 8.2 hereof if the Indemnitee provided the Indemnifying Party with proper notice of the claim or event for which indemnification is sought prior to such expiration, termination or extinguishment. Notwithstanding the foregoing provisions of this Section 8.3(b), the representations, warranties, covenants and agreements contained in Sections 3.3(e), 6.2(c), 6.3(c), 6.3(e), 6.4(a), 6.10, 6.12, 6.14, 6.16, and in Articles VIII and X, will survive the Closing in accordance with their terms.

(c) Notwithstanding anything to contrary in this Agreement, in no event shall Buyer indemnify Seller Indemnitees or Seller indemnify Buyer Indemnitees, or otherwise be liable in any way whatsoever to said Indemnitees, for any Losses otherwise subject to indemnification by the Indemnifying Party (determined after giving effect to the other provisions of this Section 8.3) until the Buyer Indemnitees or the Seller Indemnitees, as the case may be, have incurred otherwise indemnifiable Losses that in the aggregate exceed a threshold amount equal to one percent (1%) of the Purchase Price, after which Buyer or Seller, as the case may be, shall then be liable for all Losses incurred by the Seller Indemnitees or the Buyer Indemnitees, as applicable. The limitations on indemnification set forth in this Section 8.3(c) shall not apply to any losses asserted against or suffered by an Indemnitee in any way relating to, resulting from or arising out of or in connection with the failure of (i) the appropriate Party to make the payment required to be made by it in accordance with Section 3.3(d), (ii) Buyer to discharge Assumed Liabilities other than those specified in Sections 2.3(e) and 2.3(i), (iii) Seller to discharge Excluded Liabilities other than those specified in Sections 2.4(d), 2.4(g), 2.4(h), 2.4(j) and 2.4(n), (iv) Seller to make any payment to Buyer if and to the extent required by Section 3.3(e), 6.3(c), 6.10(b), 6.13(c) or 8.2(b), and (v) Buyer to make any payment to Seller if and to the extent required by Section 6.12(b). Any such losses also shall be disregarded when determining whether the threshold set forth in this Section 8.3(c) has been exceeded.

(d) Notwithstanding anything to the contrary in this Agreement, in no event shall Seller indemnify the Buyer Indemnitees or Buyer indemnify Seller Indemnitees, or be otherwise liable in any way whatsoever to said Indemnitees, for any Losses otherwise subject to indemnification by the Indemnifying Party (determined after giving effect to the other provisions

of this Section 8.3) that in the aggregate exceed an amount equal to fifty percent (50%) of the Purchase Price.

(e) Except to the extent otherwise provided in Section 3.3 (relating to adjustments to the Base Purchase Price), Section 6.3(c) (relating to post-Closing reimbursement of excess environmental Remediation costs), Section 6.10(b) (relating to post-Closing reimbursements for Taxes), Section 6.12(b) (relating to post-Closing reimbursements for Severance Costs), Section 6.13(c) (relating to post-Closing reimbursement of excess costs and expenses of repairing lost or damaged Assets), and Section 6.16 (relating to specific performance and injunctive relief with respect to Citizens Marks), the rights and remedies of Seller and Buyer under this Article VIII are exclusive and in lieu of any and all other rights and remedies which each of Seller and Buyer may have under this Agreement or otherwise for monetary relief, with respect to (i) all post-Closing claims relating to this Agreement, the events giving rise to this Agreement and the transactions provided for herein or contemplated hereby or thereby, or (ii) the Assumed Liabilities or the Excluded Liabilities, as the case may be. Notwithstanding any language contained in any Ancillary Agreement (including the Special Warranty Deed), the representations and warranties of Seller set forth in this Agreement will not be merged into any such Ancillary Agreement and the indemnification obligations of Seller, and the limitations on such obligations, set forth in this Agreement shall control. No provision set forth in any such Ancillary Agreement shall be deemed to enlarge, alter or amend the terms or provisions of this Agreement.

(f) Notwithstanding anything to the contrary contained herein, no Party (including an Indemnitee) shall be entitled to recover from any other Party (including an Indemnifying Party) for any liabilities, damages, obligations, payments, losses, costs, or expenses under this Agreement any amount in excess of the actual compensatory damages, court costs and reasonable attorney's and other advisor fees suffered by such Party. Each of Buyer and Seller waive any right to recover punitive, incidental, special, exemplary and consequential damages arising in connection with or with respect to this Agreement. The provisions of this Section 8.3(d) shall not apply to indemnification for a Third Party Claim.

(g) The limitations set forth in this Section 8.3 do not apply to fraud or willful misconduct of a Party.

(h) No amount shall be recovered from a Party for the breach or untruth of any of such Party's representations, warranties, covenants or agreements, or for any other matter, to the extent that the other such Party had knowledge of such breach, untruth or other matter at or prior to the Closing, nor shall the other Party be entitled to rescission with respect to any such matter.

8.4 Defense of Claims.

(a) If any Indemnitee receives notice of the assertion or commencement of any Third Party Claim made or brought by any Person who is not a Party to this Agreement or any Affiliate of a Party to this Agreement with respect to which indemnification is to be sought from an Indemnifying Party, the Indemnitee shall give such Indemnifying Party reasonably prompt written notice thereof, but in any event such notice shall not be given later than ten (10)

calendar days after the Indemnitee's receipt of notice of such Third Party Claim. Such notice shall describe the nature of the Third Party Claim in reasonable detail and shall indicate the estimated amount, if practicable, of the Indemnifiable Loss that has been or may be sustained by the Indemnitee. The Indemnifying Party will have the right to participate in or, by giving written notice to the Indemnitee, to elect to assume the defense of any Third Party Claim at such Indemnifying Party's expense and by such Indemnifying Party's own counsel, provided that the counsel for the Indemnifying Party who shall conduct the defense of such Third Party Claim shall be reasonably satisfactory to the Indemnitee. The Indemnitee shall cooperate in good faith in such defense at such Indemnitee's own expense. If an Indemnifying Party elects not to assume or to participate in the defense of any Third Party Claim, the Indemnitee may compromise or settle such Third Party Claim over the objection of the Indemnifying Party, which settlement or compromise shall conclusively establish the loss for which the Indemnified Party may seek indemnification from the Indemnifying Party pursuant to this Agreement.

(b) (i) If, within ten (10) calendar days after an Indemnitee provides written notice to the Indemnifying Party of any Third Party Claims, the Indemnitee receives written notice from the Indemnifying Party that such Indemnifying Party has elected to assume the defense of such Third Party Claim as provided in Section 8.4(a), the Indemnifying Party will not be liable for any legal expenses subsequently incurred by the Indemnitee in connection with the defense thereof; provided, however, that if the Indemnifying Party shall fail to take reasonable steps necessary to defend diligently such Third Party Claim within twenty (20) calendar days after receiving notice from the Indemnitee that the Indemnitee believes the Indemnifying Party has failed to take such steps, the Indemnitee may assume its own defense and the Indemnifying Party shall be liable for all reasonable expenses thereof.

(ii) Without the prior written consent of the Indemnitee, the Indemnifying Party shall not enter into any settlement of any Third Party Claim which would lead to liability or create any financial or other obligation on the part of the Indemnitee for which the Indemnitee is not entitled to indemnification hereunder. If a firm offer is made to settle a Third Party Claim without leading to liability or the creation of a financial or other obligation on the part of the Indemnitee for which the Indemnitee is not entitled to indemnification hereunder and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to the Indemnitee to that effect. If the Indemnitee fails to consent to such firm offer within ten (10) calendar days after its receipt of such notice, the Indemnifying Party shall be relieved of its obligations to defend such Third Party Claim and the Indemnitee may contest or defend such Third Party Claim at its own expense. In such event, the maximum liability of the Indemnifying Party as to such Third Party Claim will be the amount of such settlement offer plus reasonable costs and expenses paid or incurred by Indemnitee up to the date of said notice.

(c) Any claim by an Indemnitee on account of an Indemnifiable Loss which does not result from a Third Party Claim (a "Direct Claim") shall be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, stating the nature of such claim in reasonable detail and indicating the estimated amount, if practicable, but in any event such notice shall not be given later than ten (10) calendar days after the Indemnitee becomes aware of such Direct Claim, and the Indemnifying Party shall have a period of thirty (30) calendar days within which to respond to such Direct Claim. If the Indemnifying Party does not respond within such

thirty (30) calendar day period, the Indemnifying Party shall be deemed to have accepted such claim. If the Indemnifying Party rejects such claim, the Indemnitee will be free to seek enforcement of its right to indemnification under this Agreement.

(d) If the amount of any Indemnifiable Loss, at any time subsequent to the making of an indemnity payment in respect thereof, is reduced by recovery, settlement or otherwise under or pursuant to any insurance coverage or pursuant to any claim, recovery, settlement or payment by, from or against any other entity, the amount of such reduction (less any out-of-pocket costs incurred in connection therewith and the cost of any adjusted premium charges to the extent directly relating to the claim for such Indemnifiable Loss ("Recovery Costs"), together with interest thereon from the date of payment thereof at the publicly announced prime rate then in effect of Citibank, shall promptly be repaid by the Indemnitee to the Indemnifying Party.

(e) A failure to give timely notice as provided in this Section 8.4 shall not affect the rights or obligations of any Party hereunder except if, and only to the extent that, as a result of such failure, the Party which was entitled to receive such notice was actually prejudiced as a result of such failure.

ARTICLE IX TERMINATION

9.1 Termination.

(a) This Agreement may be terminated at any time prior to the Closing Date by mutual written consent of Seller and Buyer.

(b) This Agreement may be terminated by Seller or Buyer if (i) any federal or state court of competent jurisdiction shall have issued an order, judgment or decree permanently restraining, enjoining or otherwise prohibiting the Closing, and such order, judgment or decree shall have become final and nonappealable; (ii) any statute, rule, nonappealable order or regulation shall have been enacted or issued by any Governmental Authority which prohibits the consummation of the Closing; or (iii) the Closing shall have not occurred on or before the day which is fifteen (15) months from the date of this Agreement, subject to such extensions (not to exceed six months) as may be required by Seller to repair or replace lost or damaged Assets in accordance with Section 6.13(c) (the "Termination Date"); provided that the right to terminate this Agreement under this Section 9.1(b)(iii), and any other Section, shall not be available to any Party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in the event giving rise to the applicable termination right.

(c) Except as otherwise provided in this Agreement, this Agreement may be terminated by Buyer if any of the Buyer Required Regulatory Approvals, the receipt of which is a condition to the obligation of Buyer to consummate the Closing as set forth in Section 7.1(c), shall have been denied (and a petition for rehearing or refiling of an application initially denied without prejudice shall also have been denied) or, if such Required Regulatory Approval is obtained, contains terms or conditions that would have a Regulatory Material Adverse Effect for

Buyer (after Buyer's petition for rehearing objecting to such terms and conditions has been denied) or an Asset Material Adverse Effect, in either case that is not cured or otherwise addressed in a manner reasonably acceptable to Buyer by the Closing Date.

(d) Except as otherwise provided in this Agreement, this Agreement may be terminated by Seller if any of the Seller Required Regulatory Approvals, the receipt of which is a condition to the obligation of Seller to consummate the Closing as set forth in Section 7.2(c), shall have been denied (and a petition for rehearing or refiling of an application initially denied without prejudice shall also have been denied) or, if such Required Regulatory Approval is obtained, contains terms or conditions that would have a Regulatory Material Adverse Effect for Seller (after Seller's petition for rehearing objecting to such terms and conditions has been denied), in either case that is not cured or otherwise addressed in a manner reasonably acceptable to Seller by the Closing Date.

(e) This Agreement may be terminated by Buyer if there has been a violation or breach by Seller of any covenant, representation or warranty contained in this Agreement provided that such violation or breach would have an Asset Material Adverse Effect or a Buyer Material Adverse Effect that is not cured or otherwise addressed by Seller in a manner reasonably acceptable to Buyer by the Closing Date and such violation or breach has not been waived by Buyer.

(f) This Agreement may be terminated by Seller, if there has been a violation or breach by Buyer of any covenant, representation or warranty contained in this Agreement provided that such violation or breach would have a Seller Material Adverse Effect, (including, without limitation, Buyer's failure to pay the Purchase Price on the Closing Date) and such violation or breach is not cured or otherwise addressed by Buyer in a manner reasonably acceptable to Seller by the Closing Date, and such violation or breach has not been waived by Seller.

9.2 Procedure and Effect of Termination. In the event of termination of this Agreement by either or both Seller and Buyer pursuant to this Article IX, written notice thereof shall forthwith be given by the terminating Party to the other Party, whereupon the liabilities of the Parties hereunder will terminate, except as otherwise expressly provided in this Agreement (including Section 9.3), and thereafter none of the Parties shall have any recourse against any other Party by reason of this Agreement. If prior to Closing either Party resorts to legal proceedings to enforce this Agreement, the prevailing Party in such proceedings shall be entitled to recover all costs incurred by such Party, including reasonable attorney's fees, in addition to any other relief to which such Party may be entitled; provided, however, and notwithstanding anything to the contrary in this Agreement, in no event shall either Party be entitled to receive any punitive, indirect or consequential damages. If a Party terminates this Agreement pursuant to this Article IX, the Arizona Electric Purchase Agreement shall be automatically terminated, without any further liability to the parties thereto (including payment of liquidated damages or termination fees pursuant to Section 9.3 of the Arizona Electric Purchase Agreement, and both Parties agree that if the Arizona Electric Purchase Agreement is terminated pursuant to Article IX of the Arizona Electric Purchase Agreement, this Agreement shall be automatically terminated, without any further liability to the parties thereto.

9.3 Liquidated Damages; Termination Fees.

(a) Seller shall pay to Buyer \$10,000,000 if (i) Buyer terminates this Agreement pursuant to Section 9.1(e) or (ii) Buyer terminates this Agreement pursuant to Section 9.1(c) due to a Regulatory Material Adverse Effect on Buyer which is due in whole or in substantial part to concern by the ACC about the condition of the Assets and which is reasonably expected to have an aggregate economic impact on Buyer, taking into consideration all relevant circumstances, in excess of \$25,000,000.

(b) Buyer shall pay to Seller \$25,000,000 if (i) Seller terminates this Agreement pursuant to Section 9.1(f), (ii) Seller terminates this Agreement pursuant to Section 9.1(d) because the requisite Required Regulatory Approval from the ACC or the FERC has not been obtained due in whole or in substantial part to concerns about Buyer's financial qualifications or capabilities, or (iii) Buyer terminates this Agreement pursuant to Section 9.1(c), because the requisite Required Regulatory Approval from the ACC or the FERC has not been obtained, due in whole or in substantial part to concerns about Buyer's financial qualifications or capabilities, or has been obtained and contains financial terms and conditions that are unacceptable to Buyer.

(c) Buyer may terminate this Agreement upon payment of a \$25,000,000 termination fee upon any of the following events:

(i) There shall have occurred an Asset Material Adverse Effect having or reasonably expected to have a financial or economic impact, taking into account all relevant considerations, in excess of \$25,000,000;

(ii) Regulatory Exceptions (after Buyer's petition for rehearing objecting to such Regulatory Exceptions has been denied) shall have been imposed against Buyer having a financial or economic impact on Buyer, taking into account all relevant considerations in excess of \$25,000,000; or

(iii) There shall have occurred a casualty loss to the Assets having an aggregate financial or economic impact, taking into account all relevant considerations, in excess of \$25,000,000.

(d) Seller may terminate this agreement upon payment of a \$10,000,000 termination fee if there shall have occurred a casualty loss to the Assets having or reasonably expected to have an aggregate financial or economic impact, taking into account all relevant considerations, in excess of \$25,000,000.

(e) In view of the difficulty of determining the amount of damages which may result to the non-terminating Party from a termination pursuant to any of Sections 9.3(a) through 9.3(d) or pursuant to any of the Sections of this Agreement referenced in Section 9.3(a) through 9.3(d), and the failure of the terminating Party to consummate the transactions contemplated by this Agreement, Buyer and Seller have mutually agreed that each of the payments set forth in Section 9.3(a) through 9.3(d) shall be made to the non-terminating Party as liquidated damages, and not as a penalty, and this Agreement shall thereafter become null and void except for those provisions which by their terms survive termination of this Agreement. In the event of any such

termination, the Parties have agreed that each of the payments set forth in Section 9.3(a) through Section 9.3(d) shall be the non-terminating Party's sole and exclusive remedy. ACCORDINGLY, THE PARTIES HEREBY ACKNOWLEDGE THAT (1) THE EXTENT OF DAMAGES TO THE NON-TERMINATING PARTY CAUSED BY THE FAILURE OF THIS TRANSACTION TO BE CONSUMMATED WOULD BE IMPOSSIBLE OR EXTREMELY DIFFICULT TO ASCERTAIN, (2) THE AMOUNT OF THE LIQUIDATED DAMAGES PROVIDED FOR IN EACH OF SECTIONS 9.3(a) THROUGH 9.3(d) ARE FAIR AND REASONABLE ESTIMATES OF SUCH DAMAGES UNDER THE CIRCUMSTANCES AND (3) RECEIPT OF SUCH LIQUIDATED DAMAGES BY THE NON-TERMINATING PARTY DOES NOT CONSTITUTE A PENALTY. THE PARTIES HEREBY FOREVER WAIVE AND AGREE TO FOREGO TO THE FULLEST EXTENT UNDER APPLICABLE LAW ANY AND ALL RIGHTS THEY HAVE OR IN THE FUTURE MAY HAVE TO BRING ANY ACTION OR ARBITRAL PROCEEDING DISPUTING OR OTHERWISE OBJECTING TO ANY OR ALL OF THE FOREGOING PROVISIONS OF THIS SECTION 9.3.

(f) All payments under this Section 9.3 shall be from payor to payee by wire transfer of immediately available funds to a bank account in the United States of America designated in writing by payee not later than three (3) business days following payor's receipt of such account designation from payee.

ARTICLE X

MISCELLANEOUS PROVISIONS

10.1 Amendment and Modification. This Agreement may be amended, modified or supplemented only by written agreement of the Parties.

10.2 Waiver of Compliance; Consents. Except as otherwise provided in this Agreement, any failure of any of the Parties to comply with any obligation, covenant, agreement or condition herein may be waived by the Party entitled to the benefits thereof only by a written instrument signed by the Party granting such waiver, but any such waiver of such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent failure to comply therewith.

10.3 [Intentionally Omitted]

10.4 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile transmission with completed transmission acknowledgment, or mailed by overnight delivery via a nationally recognized courier or registered or certified first class mail (return receipt requested), postage prepaid, to the recipient Party at its address (or at such other address or facsimile number for a Party as shall be specified by like notice; provided; however, that notices of a change of address shall be effective only upon receipt thereof):

(a) If to Seller, to:

Citizens Communications Company
1460 Poydras Street, Suite 1800
New Orleans, LA 70112
Attention: Kenneth L. Cohen
Telephone: (504) 299-4501
Telecopier: (504) 544-5822

with a copy to:

Citizens Communications Company
High Ridge Park
Stamford, CT 06905
Attention: L. Russell Mitten
Telephone: (203) 614-5047
Telecopier: (203) 614-4651

and:

Fleischman and Walsh, L.L.P.
1400 Sixteenth Street, N.W.
Washington, D.C. 20036
Attention: Jeffrey L. Hardin
Telephone: (202) 939-7914
Telecopier: (202) 387-3467

(b) if to Buyer, to:

Tucson Electric Power Company
One South Church Avenue, Suite 100
Tucson, Arizona 85701
Attention: Vincent Nitido, Jr.
Telephone: (520) 884-3670
Telecopier: (520) 884-3612

with a copy to:

Thelen Reid & Priest LLP
40 West 57th Street
New York, NY 10019
Attention: J. Anthony Terrell
Telephone: (212) 603-2108
Attention: John T. Hood
Telephone: (212) 603-2140
Telecopier: (212) 603-2001

10.5 Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any Party hereto, including by operation of law, without the prior written consent of each other Party, nor is this Agreement intended to confer upon any other Person except the Parties hereto any rights, interests, obligations or remedies hereunder; provided, however, in the event of any such assignment by a Party by operation of law without the consent of the other Party, this Agreement and all the provisions hereof shall be binding upon the Person receiving such assignment by operation of law. Notwithstanding the foregoing, Buyer may (i) assign any or all of its rights and obligations hereunder to a UniSource Designee, or (ii) make a security assignment to any lender providing financing in respect of the Buyer's acquisition of the Assets. Upon receipt of notice by Seller from Buyer of any such assignment to a UniSource Designee, such assignee will be deemed to have assumed, ratified, agreed to be bound by and perform all such obligations, and all references herein to "Buyer" shall thereafter be deemed to be references to such assignee, in each case without the necessity for further act or evidence by the Parties hereto or such assignee; provided, however, that no such assignment shall relieve or discharge UniSource from any of its obligations hereunder.

10.6 Governing Law. This Agreement shall be governed by and construed in accordance with the law of the State of Arizona (without giving effect to conflict of law principles) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies (except to such matters of real estate law that must be governed by the law of the State of Arizona). THE PARTIES HERETO AGREE THAT VENUE IN ANY AND ALL ACTIONS AND PROCEEDINGS RELATED TO THE SUBJECT MATTER OF THIS AGREEMENT SHALL BE IN THE STATE AND FEDERAL COURTS IN AND FOR PHOENIX, ARIZONA, WHICH COURTS SHALL HAVE EXCLUSIVE JURISDICTION FOR SUCH PURPOSE, AND THE PARTIES HERETO IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS AND IRREVOCABLY WAIVE THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF ANY SUCH ACTION OR PROCEEDING. SERVICE OF PROCESS MAY BE MADE IN ANY MANNER RECOGNIZED BY SUCH COURTS. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

10.7 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.8 Interpretation. The articles, section and schedule headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the Parties and shall not in any way affect the meaning or interpretation of this Agreement.

10.9 Schedules and Exhibits. Except as otherwise provided in this Agreement, all Exhibits and Schedules referred to herein are intended to be and hereby are specifically made a part of this Agreement. Any matter or item disclosed on any Schedule shall not be deemed to give rise to circumstances which result in an Asset Material Adverse Effect or a Material

Adverse Effect solely by reason of it being so disclosed. Any matter or item disclosed pursuant to any Schedule shall be deemed to be disclosed for all purposes under this Agreement reasonably related thereto and any matter disclosed in one Schedule will be deemed disclosed with respect to another Schedule if such disclosure is made in such a way as to make its relevance with respect to such other Schedule readily apparent.

10.10 Entire Agreement. This Agreement, the Ancillary Agreements and the Exhibits, Schedules, documents, certificates and instruments referred to herein or therein, embody the entire agreement and understanding of the Parties hereto in respect of the transactions contemplated by this Agreement. There are no restrictions, promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein or therein. This Agreement and the Ancillary Agreements supersede all prior agreements and understandings between the Parties other than the Confidentiality Agreement with respect to such transactions.

10.11 U.S. Dollars. Unless otherwise stated, all dollar amounts set forth herein are United States (U.S.) dollars.

10.12 Bulk Sales Laws. Buyer acknowledges that, notwithstanding anything in this Agreement to the contrary, Seller will not comply with the provision of the bulk sales laws of any jurisdiction in connection with the transactions contemplated by this Agreement. Buyer hereby waives compliance by Seller with the provisions of the bulk sales laws of all applicable jurisdictions to the extent permitted by law.

10.13 Construction of Agreement. The terms and provisions of this Agreement represent the results of negotiations between Buyer and Seller, each of which has been represented by counsel of its own choosing, and neither of which has acted under duress or compulsion, whether legal, economic or otherwise. Accordingly, the terms and provisions of this Agreement shall be interpreted and construed in accordance with their usual and customary meanings, and Buyer and Seller hereby waive the application in connection with the interpretation and construction of this Agreement of any rule of law to the effect that ambiguous or conflicting terms or provisions contained in this Agreement shall be interpreted or construed against the Party whose attorney prepared the executed draft or any earlier draft of this Agreement. It is understood and agreed that neither the specification of any dollar amount in the representations and warranties contained in this Agreement nor the inclusion of any specific item in the Schedules or Exhibits is intended to imply that such amounts or higher or lower amounts, or the items so included or other items, are or are not material, and none of the Parties shall use the fact of the setting of such amounts or the fact of any inclusion of any such item in the Schedules or Exhibits in any dispute or controversy between the Parties as to whether any obligation, item or matter is or is not material for purposes hereof.

10.14 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good

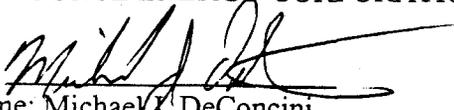
faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the greatest extent possible.

10.15 Third Party Beneficiary. No provision of this Agreement shall create any third party beneficiary rights in any employee or former employee of Seller (including any beneficiary or dependant thereof) in respect of continued employment or resumed employment, and no provision of this Agreement shall create any rights in any such Persons in respect of any benefits that may be provided, directly or indirectly, under any employee benefit plan or arrangement.

IN WITNESS WHEREOF, Buyer and Seller have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

UNISOURCE ENERGY CORPORATION

CITIZENS COMMUNICATIONS COMPANY

By: 
Name: Michael J. DeConcini
Title: Senior Vice President

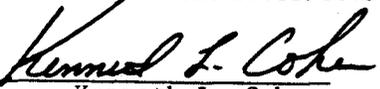
By: _____
Name:
Title:

IN WITNESS WHEREOF, Buyer and Seller have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

UNISOURCE ENERGY CORPORATION

CITIZENS COMMUNICATIONS COMPANY

By: _____
Name:
Title:

By: 
Name: Kenneth L. Cohen
Title: President and C.O.O.

2

LIST OF EXHIBITS AND SCHEDULES**EXHIBITS**

| | |
|-----------|---|
| Exhibit A | Form of Assignment and Assumption Agreement |
| Exhibit B | Form of Bill of Sale |
| Exhibit C | Special Warranty Deed |
| Exhibit D | Form of Seller General Counsel Opinion |
| Exhibit E | Form of Seller Bond Counsel Opinion |
| Exhibit F | Form of Buyer General Counsel Opinion |

SCHEDULES

| | |
|-----------------|--|
| 1.1 | Seller Employees on Whose Knowledge Buyer May Rely |
| 2.2 | Excluded Assets |
| 2.3(g) | Governmental Orders |
| 2.3(i) | Assumed Actions and Proceedings |
| 4.3(a) | Seller Conflicts, Defaults and Violations |
| 4.3(b) | Seller Required Regulatory Approvals |
| 4.4 | Seller Insurance |
| 4.5 | Seller Real Property Leases |
| 4.6 | Seller Environmental Matters |
| 4.7 | Seller Labor Matters |
| 4.8 | Seller Benefit Plans |
| 4.9 | Seller Real Property |
| 4.10 | Seller Condemnation Matters |
| 4.11(a) | Certain Seller Material Agreements |
| 4.11(b) | Certain Seller Material Agreements Requiring Consent to Transfer |
| 4.11(c) | Defaults Under Certain Material Agreements |
| 4.12 | Legal Proceedings Involving Seller |
| 4.13 | Seller Permit Violations |
| 4.14 | Seller Tax Matters |
| 4.15 | Seller Intellectual Property Exceptions |
| 4.20 | Seller Financial Statements |
| 5.3(a) | Buyer Conflicts, Defaults and Regulations |
| 5.3(b) | Buyer Required Regulatory Approvals |
| 5.6 | Legal Proceedings Involving Buyer |
| 6.1(a) | Exceptions to Conduct of Business and Operation of the Assets |
| 6.12(d)(iii) | Buyer Benefit Plans |
| 6.12(d)(iii)(D) | Retirees |
| 6.14(a) | Seller Revenue Bonds |
| 6.15 | Seller Surety Instruments |

EXHIBIT A

ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption Agreement (this "Assignment") is made as of _____, 2003, between Citizens Communications Company, a Delaware corporation ("Transferor"), and UniSource Energy Corporation, an Arizona corporation ("Transferee"), and is entered into pursuant to, and is subject to, the terms of the Asset Purchase Agreement, dated as of _____, 2002, by and between Transferor and Transferee (the "Purchase Agreement") with respect to the sale of the Arizona Gas Division. Capitalized terms not otherwise defined in this Assignment shall have the meanings given to such terms in the Purchase Agreement.

In consideration of the foregoing premises, the transactions contemplated by the Purchase Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Transferor does hereby transfer and assign unto Transferee, its successors and assigns, all of the Assumed Liabilities, and Buyer does hereby assume and agrees to pay, perform and discharge when due, all Assumed Liabilities.

No provisions set forth in this Assignment shall be deemed to enlarge, alter or amend the terms and provisions of the Purchase Agreement. In the event of any conflict between the provisions of this Assignment and the provisions of the Purchase Agreement, the Purchase Agreement shall control.

This Assignment is made solely for the benefit of Transferor and Transferee and no third party shall have any right to enforce its terms or to rely on it.

This Assignment shall be governed by and construed in accordance with laws of the State of Arizona, without regard to its conflicts of laws rules.

This Assignment may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Assignment and Assumption effective as of the date first written above.

TRANSFEROR:

CITIZENS COMMUNICATIONS COMPANY

By: _____

Name:

Title:

TRANSFEEE:

UNISOURCE ENERGY CORPORATION

By: _____

Name:

Title:

EXHIBIT B

BILL OF SALE

This Bill of Sale is made as of _____, 2003, between Citizens Communications Company, a Delaware corporation ("Transferor"), and UniSource Energy Corporation, an Arizona corporation ("Transferee"), and is entered into pursuant to, and is subject to, the terms of the Asset Purchase Agreement, dated as of _____, 2002, by and between Transferor and Transferee (the "Purchase Agreement") with respect to the sale of the Arizona Gas Division. Capitalized terms not otherwise defined in this Bill of Sale shall have the meanings given to such terms in the Purchase Agreement.

In consideration of the foregoing premises, the transactions contemplated by the Purchase Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Transferor does hereby sell, transfer, assign and convey unto Transferee, its successors and assigns, all of the Tangible Personal Property.

No provisions set forth in this Bill of Sale shall be deemed to enlarge, alter or amend the terms and provisions of the Purchase Agreement. In the event of any conflict between the provisions of this Bill of Sale and the provisions of the Purchase Agreement, the Purchase Agreement shall control.

This Bill of Sale is made solely for the benefit of Transferor and Transferee and no third party shall have any right to enforce its terms or to rely on it.

This instrument and the rights of the parties under it shall be governed by and construed in accordance with laws of the State of Arizona, without regard to its conflicts of laws rules.

This Bill of Sale may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Assignment and Assumption effective as of the date first written above.

TRANSFEROR:

CITIZENS COMMUNICATIONS COMPANY

By: _____
Name:
Title:

TRANSFEE:

UNISOURCE ENERGY CORPORATION

By: _____
Name:
Title:

EXHIBIT C

SPECIAL WARRANTY DEED

When Recorded, return to:

Lee Esch
Jennings, Strouss & Salmon, P.L.C.
201 East Washington Street - Suite 1100
Phoenix, Arizona 85004-2385

For the consideration of Ten Dollars, and other valuable considerations, the undersigned Citizens Communications Company, a Delaware Corporation (Grantor"), does hereby convey to UniSource Energy Corporation, an Arizona corporation ("Grantee"), the following described real property (the "Property") situated in _____ County, Arizona:

See Exhibit A attached hereto and by this reference made a part hereof.

together with all rights and privileges appurtenant thereto; SUBJECT however, to all taxes and other assessments, reservations in patents and all easements, rights of way, encumbrances, liens, covenants, conditions, restrictions, obligations and liabilities as may appear of record, all matters which would be shown by a current ALTA Survey of the Property and all Permitted Encumbrances.

As used within this Special Warranty Deed, the term, "Permitted Encumbrances" shall mean and include usual and customary nonmonetary encumbrances, covenants, imperfections in title, Easements, restrictions and other title matters (whether or not the same appear of record) that do not and will not materially interfere with the operation of that portion of the business of Grantor or Grantee currently conducted on the Property

Grantor hereby binds itself and its successors to Grantee, only, to warrant and defend the title, as against all acts of the Grantor herein and no other, subject to the matters above set forth.

Dated this _____ day of _____, 2003.

Citizens Communications Company,
a Delaware corporation

By: _____

Its _____

STATE OF)
) ss.
COUNTY OF)

On this ___ day of _____, 2003, before me, the undersigned Notary Public, personally appeared, _____, the _____ of Citizens Communications Company, a Delaware corporation, and acknowledged that he executed the foregoing instrument.

WITNESS my hand and official seal.

Notary Public

My Commission Expires:

EXHIBIT D

_____, 2003

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

Ladies and Gentlemen:

I have acted as counsel for Citizens Communications Company, a Delaware corporation (the "Company"), in connection with the execution and delivery by the Company, and UniSource Energy Corporation, an Arizona corporation ("Buyer"), of the Asset Purchase Agreement, dated as of _____, 2002 (the "Purchase Agreement") with respect to the sale of the Arizona Gas Division. All capitalized terms used herein without definition shall have the respective meanings ascribed to them in the Purchase Agreement.

In connection with the opinions expressed below, I have made such examination of law and have examined originals, or copies certified or otherwise identified to our satisfaction, of the Purchase Agreement, the Bill of Sale, and the Assignment and Assumption Agreement, and the other documents delivered by the Company at Closing pursuant to the Purchase Agreement dated the date hereof (collectively, the "Transaction Documents"), and such corporate documents and records of the Company, certificates of public officials and of officers of the Company, and such other documents as I have deemed necessary or appropriate. With respect to the matters set forth in Paragraph 1 below, I have relied upon certain documentation received from public officials.

In making such examination and rendering the opinions set forth below, I have assumed the genuineness of all signatures, the authenticity of all documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as certified, conformed or photostatic copies and the authenticity of the originals of such documents. As to factual matters material to our opinion, I have had such discussions with the officers of the Company as I have deemed relevant or necessary, and, I have assumed, with your permission and without independent investigation, the truthfulness of all recitals, representations, warranties and factual matters set forth in all documents, instruments, certificates and reports I have examined.

In rendering the opinions set forth below, I have also assumed that (a) each of the parties to the Purchase Agreement and the Transaction Documents, other than the Company, is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (b) each of such other parties to the Purchase Agreement and the Transaction Documents has the requisite corporate power and corporate authority and has taken the corporate action necessary to execute and deliver the Purchase Agreement and the Transaction Documents and to consummate the transactions contemplated thereby; (c) the Purchase Agreement and the Transaction Documents have been duly executed and delivered by each of such other parties thereto; and (d) the Purchase Agreement and the Transaction Documents constitute the legal,

valid and binding obligations of each such other party thereto, enforceable against such other party in accordance with its respective terms.

I am a member of the bar of the State of Missouri, and I express, subject to the qualifications herein, no opinion as to the laws of any jurisdiction except the General Corporation Law of the State of Delaware, the federal laws of the United States of America (with the exception of federal antitrust laws and regulations, federal securities laws and regulations, matters relating to the Communications Act of 1934, as amended, and the rules and regulations of the Federal Communications Commission), and the laws of the State of Missouri (with the exception of state antitrust or unfair competition laws and regulations, state securities laws and other statutes, ordinances, administrative decisions and rules and regulations of counties, towns, municipalities and special political subdivisions). I am not admitted to practice in the States of Delaware or Arizona. To the extent that any matter with respect to which an opinion is rendered herein is governed by the laws of another jurisdiction other than the General Corporation Law of the State of Delaware, I have, with your permission, assumed that the laws of such other jurisdiction are identical to the laws of the State of Missouri.

“Actual Knowledge” as used in this letter means the conscious awareness of facts or other information by myself or any lawyer in the employ of the Company who has had active involvement in negotiating the Purchase Agreement, preparing the Transaction Documents or preparing this letter.

The opinions hereinafter expressed are subject to the following further qualifications:

(i) This opinion is subject to the effect of bankruptcy, insolvency, fraudulent conveyance, reorganization, arrangement, moratorium or otherwise similar laws now or hereafter relating to or affecting debtors’ obligations and the rights of creditors generally.

(ii) This opinion is subject to limitations imposed by general principles of equity upon the specific enforceability of any of the remedies, covenants or other provisions of the Transaction Documents and upon the availability of injunctive relief or other equitable remedies, and the application of principles of equity (regardless of whether enforcement is considered in proceedings in law or in equity).

(iii) The opinions stated herein are as of the date hereof and are limited to laws, facts and circumstances in existence on the date hereof, and I assume no undertaking to advise Buyer of any change in the opinions expressed herein, whether or not material, as a result of any change in any laws, facts or circumstances pertaining to the Transaction Documents which may come to my attention after the date hereof.

Based upon and subject to the foregoing, it is my opinion that as of the date hereof:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, is duly qualified as a foreign corporation under the laws of the State of Arizona and has requisite corporate power and authority to own, lease and operate its material assets and properties and to carry on its business as is now being conducted, and to execute and deliver the Transaction Documents and to consummate the transactions contemplated hereby or thereby; and the execution and delivery of the Transaction Documents and the consummation by the Company of the transactions contemplated hereby or thereby have been duly and validly authorized by all necessary corporate action required on the part of the Company.

2. The Transaction Documents have been duly and validly executed and delivered by the Company and constitute legal, valid and binding agreements of the Company, enforceable against the Company in accordance with their terms, except as may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally and general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity).

3. The execution, delivery and performance of the Transaction Documents do not (A) conflict with the Certificate of Incorporation or Bylaws of the Company or (B) to my Actual Knowledge, constitute a default under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which the Company is a party or by which it, or any of the Assets may be bound, except for such defaults (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or that would not, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

4. The Bill of Sale, the Assignment and Assumption Agreement and the Special Warranty Deeds are in proper form to transfer to Buyer such title as was held by the Company to the Assets. In rendering the foregoing opinion, I have relied exclusively upon the attached opinion of Jennings, Strouss & Salmon, the Company's local Arizona counsel, with respect to such matters.

5. No consent or approval of, filing with, or notice to, any Governmental Authority is necessary for the execution and delivery by the Company of the Transaction Documents or the consummation by the Company of the transactions contemplated hereby and thereby, other than such consents, approvals, filings or notices set forth in Schedules 4.3(a) and 4.3(b) of the Purchase Agreement or which, if not obtained or made, will not result in a Seller Material Adverse Effect or an Asset Material Adverse Effect. In rendering the foregoing opinion as it relates to matters of Arizona law, I have relied exclusively upon the opinion of Deborah Scott, Associate General Counsel of the Company, who is in charge of Arizona regulatory affairs for the Company and a member of the State Bar of Arizona.

The opinions expressed herein are intended only for your benefit and use, and may not, without my written consent, be used or relied upon in any manner for any purpose by any other person or entity.

Very truly yours,

L. Russell Mitten, Vice President,
General Counsel and Secretary

ATTACHMENT TO EXHIBIT D

_____, 200____

L. Russell Mitten, Vice President,
General Counsel and Secretary
Citizens Communications Company
High Ridge Park
Stamford, Connecticut 06905

Dear Mr. Mitten:

Pursuant to the terms and conditions of that certain Asset Purchase Agreement ("Purchase Agreement"), dated as of _____, 2002 for the sale of the Arizona Gas Division to UniSource Energy Corporation, you are obliged to render certain opinions to UniSource Energy Corporation, an Arizona corporation ("Buyer") on behalf of Citizens Communications Company, a Delaware corporation ("Seller"). You have asked that in my role as Citizens' Associate General Counsel for the Western Region that I provide a legal opinion in connection with certain of those opinions. This request is based on the fact that I am a member of the Arizona State Bar and have practiced regulatory law in Arizona for many years.

No consent or approval of, filing with, or notice to, any state or local Governmental Authority in the State of Arizona is necessary for the execution and delivery by the Company of the Transaction Documents or the consummation by the Company of the transactions contemplated hereby and thereby, other than such consents, approvals, filings or notices set forth in Schedules 4.3(a) and 4.3(b) of the Purchase Agreement or which, if not obtained or made, will not result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

This opinion is based upon and relies upon the current status of law and in all respects is subject to, and may be limited by, future enhancements of law and by developing case law. The opinions expressed above are based solely upon applicable laws, statutes, ordinances, rules, regulations and facts, all as in existence on this date. In rendering the foregoing opinions, I express no opinion as to the applicability or effect of the laws of any jurisdictions, other than the State of Arizona and the United States of America.

This opinion is rendered solely for the benefit of you, Citizens Communications Company and UniSource Energy Corporation.

Sincerely,

Deborah R. Scott
Associate General Counsel

ATTACHMENT TO EXHIBIT D

_____, 200__

L. Russell Mitten, Vice President
General Counsel and Secretary
Citizens Communications Company
High Ridge Park
Stamford, Connecticut 06905

Dear Mr. Mitten:

Pursuant to the terms and conditions of that certain Asset Purchase Agreement ("Purchase Agreement"), dated as of _____, 2002 with respect to the sale of the Arizona Gas Division, you are obliged to render certain opinions to UniSource Energy Corporation, an Arizona corporation ("Buyer") on behalf of Citizens Communications Company, a Delaware corporation ("Seller"). You have asked that we serve as local Arizona counsel in connection with certain of those opinions.

In furtherance of that engagement, we have examined the following documents of legal significant in connection with the consummation of the transaction contemplated by the Purchase Agreement, each dated as of _____, 200__, unless otherwise indicated:

- (a) Bill of Sale executed by Seller in favor of Buyer for the purpose of selling and transferring certain personal property located within the State of Arizona ("Bill of Sale"); and
- (b) Assignment and Assumption Agreement executed by Seller in favor of Buyer ("Assignment and Assumption Agreement"); and
- (c) Special Warranty Deeds executed by Seller in favor of Buyer to convey real property situated within the State of Arizona ("Deeds").

Based upon the scope of review set forth above, and subject to the qualifications herein set forth, and having due regard for such legal considerations as we deem relevant, we are of the opinion that the Bill of Sale, the Assignment and Assumption Agreement and Deeds are in proper form to transfer to Buyer such right, title and interest as is held by Seller in and to the property and assets described therein, at the date thereof.

This opinion is given as of the date hereof, and we disclaim any obligation to update this opinion letter for events occurring after the date of this opinion letter. This opinion is limited to the matters stated herein and no opinion is implied or may be inferred beyond the matters expressly stated herein. This opinion is based upon and relies upon the current status of law in all respects is subject to, and may be limited by, future enactments of law and by developing case

L. Russell Mitten

_____, 200_____

Page 2

law. The opinions expressed above are based solely upon applicable laws, statutes, ordinances, rules, regulations and facts, all as in existence on this date, and we express no opinion as to the effect which any amendments, changes, additions, or modifications thereof may have upon the effect of the Bill of Sale, the Assignment and Assumption Agreement or the Deeds.

In rendering the foregoing opinions, we express no opinion as to the applicability or effect of the laws of any jurisdictions, other than the State of Arizona and the United States of America, upon the Bill of Sale, the Assignment and Assumption Agreement and the Deeds.

This opinion is rendered solely for the benefit of you, Citizens Communications Company, its successors and assigns, and UniSource Energy Corporation.

Very truly yours,

JENNINGS, STROUSS & SALMON, P.L.C.

By: _____
Lee E. Esch

Attachment
150660v1

EXHIBIT E
FORM OF SELLER'S BOND COUNSEL OPINION

_____, 200__

Citizens Communications Company
High Ridge Park
Stamford, CT 06905

UniSource Energy Corporation
One South Church Avenue
Tucson, AZ 85701

Re: Citizens Communications Company Bond Issues Identified by Schedule I hereto

Ladies and Gentlemen:

You have requested our opinion as bond counsel with respect to the bond issues identified by Schedule I hereto (collectively the "Bonds") in connection with the sale (the "Sale") by Citizens Communications Company and the purchase by UniSource Energy Corporation of the Assets (as defined in the Asset Purchase Agreement, as defined below), consisting of facilities for the local furnishing of electric energy and gas, financed in whole or in part by the proceeds of the Bonds. In such capacity, we have examined the two Asset Purchase Agreements between Citizens Communications Company (formerly named Citizens Utilities Company) ("Citizens") and UniSource Energy Corporation ("UniSource") dated as of _____, 200__, (collectively, the "Asset Purchase Agreement"); the IDR Documents (as defined in the Asset Purchase Agreement), as amended or supplemented to the date hereof; the transcripts of proceedings of the issuance of the Bonds and such other documents and laws as we deemed relevant and necessary in rendering this opinion. For the purposes of this opinion we have relied on (i) the representations of Citizens set out in the Asset Purchase Agreement regarding its ownership, operation, use and maintenance of the Assets in accordance with its representations and warranties in the IDR Documents, and (ii) the representations, warranties, covenants and agreements of UniSource set out in the Asset Purchase Agreement regarding its use and operation of the Assets in compliance with applicable federal income tax law requirements for tax-exempt bonds.

Under existing laws, regulations, rulings and judicial decisions, and based on such examination and in reliance on the aforesaid representations and covenants and assuming UniSource's operation of the Assets in a manner that is consistent with the Exempt Facility Operating Protocols referred by the Asset Purchase Agreement, and subject to the qualification described herein, we are of the opinion that the Sale does not adversely affect (i) the exclusion from gross income of the interest on the Bonds for federal income tax purposes, or (ii) the deductibility of Citizens' payments of interest on the Bonds based on the restrictions in Section 150(b) of the Internal Revenue Code of 1986, as amended.

We express no opinion with respect to the proposed "Gateway" interconnection described in Section IV of the Exempt Facility Operating Protocol relating to the Santa Cruz Electric Facility.

In addition to the addressees of this letter, each Trustee and each Issuer (as such terms are defined in the IDR Documents) of each issue of the Bonds, may rely on the opinion expressed in this letter as if this letter were addressed to them.

Very truly yours,

SCHEDULE I
Citizens Communications Company Bond Issues

- I. The Industrial Development Authority of the County of Coconino Industrial Development Revenue Bonds (Citizens Utilities Company Project)
 - A. \$2,100,000 1993 Series

- II. The Industrial Development Authority of the County of Mohave Industrial Development Revenue Bonds (Citizens Utilities Company Project)
 - A. \$11,000,000 1985 Series
 - B. \$15,000,000 1988 Series
 - C. \$10,000,000 1993B Series
 - D. \$22,960,000 1993 Series
 - E. \$6,640,000 1994 Series

- III. The Industrial Development Authority of the County of Navajo Industrial Development Revenue Bonds (Citizens Utilities Company Project)
 - A. \$4,500,000 1993 Series
 - B. \$12,380,000 1997 Series B

- IV. The Industrial Development Authority of the County of Santa Cruz Industrial Development Revenue Bonds (Citizens Utilities Company Project)
 - A. \$8,200,000 1985 Series
 - B. \$12,680,000 1988 Series
 - C. \$8,000,000 1994 Series

- V. The Industrial Development Authority of the County of Yavapai Industrial Development Revenue Bonds (Citizens Utilities Company Project)
 - A. \$17,500,000 1993 Series
 - B. \$20,000,000 1998 Series

EXHIBIT F

[BUYER OPINION]

_____, 2003

Citizens Communications Company
High Ridge Park
Stamford, CT 06905

Ladies and Gentlemen:

I have acted as counsel for UniSource Energy Corporation, an Arizona corporation (the "Company"), in connection with the execution and delivery by the Company, and Citizens Communications Company, a Delaware corporation ("Seller"), of the Asset Purchase Agreement, dated as of _____, 2002 (the "Purchase Agreement"), with respect to the sale of the Arizona Gas Division. All capitalized terms used herein without definition shall have the respective meanings ascribed to them in the Purchase Agreement.

In connection with the opinions expressed below, I have made such examination of law and have examined originals, or copies certified or otherwise identified to our satisfaction, of the Purchase Agreement, the Bill of Sale, and the Assignment and Assumption Agreement, and the other documents delivered by the Company at Closing pursuant to the Purchase Agreement dated the date hereof (collectively, the "Transaction Documents"), and such corporate documents and records of the Company, certificates of public officials and of officers of the Company, and such other documents as I have deemed necessary or appropriate. With respect to the matters set forth in Paragraph 1 below, I have relied upon certain documentation received from public officials.

In making such examination and rendering the opinions set forth below, I have assumed the genuineness of all signatures, the authenticity of all documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as certified, conformed or photostatic copies and the authenticity of the originals of such documents. As to factual matters material to our opinion, I have had such discussions with the officers of the Company as I have deemed relevant or necessary, and, I have assumed, with your permission and without independent investigation, the truthfulness of all recitals, representations, warranties and factual matters set forth in all documents, instruments, certificates and reports I have examined.

In rendering the opinions set forth below, I have also assumed that (a) each of the parties to the Purchase Agreement and the Transaction Documents, other than the Company, is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (b) each of such other parties to the Purchase Agreement and the Transaction Documents has the requisite corporate power and corporate authority and has taken the corporate action necessary to execute and deliver the Purchase Agreement and the Transaction Documents

and to consummate the transactions contemplated thereby; (c) the Purchase Agreement and the Transaction Documents have been duly executed and delivered by each of such other parties thereto; and (d) the Purchase Agreement and the Transaction Documents constitute the legal, valid and binding obligations of each such other party thereto, enforceable against such other party in accordance with its respective terms.

I am a member of the bar of the State of Arizona, and I express, subject to the qualifications herein, no opinion as to the laws of any jurisdiction except the federal laws of the United States of America (with the exception of federal antitrust laws and regulations and federal securities laws and regulations) and the laws of the State of Arizona (with the exception of state antitrust or unfair competition laws and regulations, state securities laws and other statutes, ordinances, administrative decisions and rules and regulations of counties, towns, municipalities and special political subdivisions).

"Actual Knowledge" as used in this letter means the conscious awareness of facts or other information by myself or any lawyer in the employ of the Company who has had active involvement in negotiating the Purchase Agreement, preparing the Transaction Documents or preparing this letter.

The opinions hereinafter expressed are subject to the following further qualifications:

(i) This opinion is subject to the effect of bankruptcy, insolvency, fraudulent conveyance, reorganization, arrangement, moratorium or otherwise similar laws now or hereafter relating to or affecting debtors' obligations and the rights of creditors generally.

(ii) This opinion is subject to limitations imposed by general principles of equity upon the specific enforceability of any of the remedies, covenants or other provisions of the Transaction Documents and upon the availability of injunctive relief or other equitable remedies, and the application of principles of equity (regardless of whether enforcement is considered in proceedings in law or in equity).

(iii) The opinions stated herein are as of the date hereof and are limited to laws, facts and circumstances in existence on the date hereof, and I assume no undertaking to advise Seller of any change in the opinions expressed herein, whether or not material, as a result of any change in any laws, facts or circumstances pertaining to the Transaction Documents which may come to my attention after the date hereof.

Based upon and subject to the foregoing, it is my opinion that as of the date hereof:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Arizona and has requisite corporate power and authority to own, lease and operate its material assets and properties and to carry on its business as is now being conducted, and to execute and deliver the Transaction Documents and to consummate the transactions contemplated hereby or thereby; and the execution and delivery of the Transaction Documents and the consummation by the Company of the transactions contemplated hereby or

thereby have been duly and validly authorized by all necessary corporate action required on the part of the Company.

2. The Transaction Documents have been duly and validly executed and delivered by the Company and constitute legal, valid and binding agreements of the Company, enforceable against the Company in accordance with their terms, except as may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally and general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity).

3. The execution, delivery and performance of the Transaction Documents do not (A) conflict with the Certificate of Incorporation or Bylaws of the Company or (B) to my Actual Knowledge, constitute a default under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which the Company is a party or by which it, or any of the Assets may be bound, except for such defaults (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or that would not, individually or in the aggregate, result in a Buyer Material Adverse Effect.

4. The Bill of Sale, the Special Warranty Deeds and the Assignment and Assumption Agreement is in proper form for Buyer to acquire such title as was held by Seller to the Assets and to assume the Assumed Liabilities.

5. No consent or approval of, filing with, or notice to, any Governmental Authority is necessary for the execution and delivery by the Company of the Transaction Documents or the consummation by the Company of the transactions contemplated hereby and thereby, other than such consents, approvals, filings or notices set forth in Schedules 5.3(a) and 5.3(b) of the Purchase Agreement or which, if not obtained or made, will not result in a Buyer Material Adverse Effect.

The opinions expressed herein are intended only for your benefit and use, and may not, without my written consent, be used or relied upon in any manner for any purpose by any other person or entity.

Very truly yours,

Vincent Nitido, Jr.
Vice President, General Counsel
and Corporate Secretary

3

LIST OF SCHEDULES

| | |
|-----------------|---|
| 1.1 | Seller Employees on Whose Knowledge Buyer May Rely |
| 2.2 | Excluded Assets |
| 2.3(g) | Governmental Orders |
| 2.3(i) | Assumed Actions and Proceedings |
| 4.3(a) | Seller Conflicts, Defaults and Violations |
| 4.3(b) | Seller Required Regulatory Approvals |
| 4.4 | Seller Insurance |
| 4.5 | Seller Real Property Leases |
| 4.6 | Seller Environmental Matters |
| 4.7 | Seller Labor Matters |
| 4.8 | Seller Benefit Plans |
| 4.9 | Seller Real Property |
| 4.10 | Seller Condemnation Matters |
| 4.11(a) | Certain Seller Material Agreements |
| 4.11(b) | Certain Seller Material Agreements Requiring Consent to Transfer |
| 4.11(c) | Defaults Under Certain Material Agreements |
| 4.12 | Legal Proceedings Involving Seller |
| 4.13 | Seller Permit Violations |
| 4.14 | Seller Tax Matters |
| 4.15 | Seller Intellectual Property Exceptions |
| 4.20 | Seller Financial Statements |
| 5.3(a) | Buyer Conflicts, Defaults and Regulations |
| 5.3(b) | Buyer Required Regulatory Approvals |
| 5.6 | Legal Proceedings Involving Buyer |
| 6.1(a) | Exceptions to Conduct of the Business and Operation of the Assets |
| 6.12(d)(iii) | Buyer Benefit Plans |
| 6.12(d)(iii)(D) | Retirees |
| 6.14(a) | Seller Revenue Bonds |
| 6.15 | Seller Surety Instruments |

SCHEDULE 1.1

SELLER EMPLOYEES ON WHOSE KNOWLEDGE BUYER MAY RELY

With respect to all applicable matters:

Kenneth L. Cohen, President, Public Services Sector

Gary A. Smith, Vice President and General Manager, Arizona Gas

Nathan C. Shelley, Director, Gas Operations, Arizona Gas

With respect to environmental matters addressed in Section 4.6 only:

Kenneth L. Cohen, President, Public Services Sector

Gary A. Smith, Vice President and General Manager, Arizona Gas

Nathan C. Shelley, Director, Gas Operations, Arizona Gas

Martin S. Anaya, Flagstaff District Manager

Alvie W. "Scott" McKnight, Mohave District Manager

L. Dale Edwards, Prescott District Manager

Hector R. Riojas, Jr., Verde Valley District Manager

Robert L. Adams, Show Low District Manager

Jack R. Schoonmaker, Lake Havasu City Manager

Jonathan Weeda, Environmental Project Manager

SCHEDULE 2.2

EXCLUDED ASSETS

1. R/3 Software End-User Value License Agreement, dated February 28, 1997, between SAP America, Inc. and Citizens Communications Company, together with the licenses for SAP GUI clients that are installed on desktop machines.
2. National Account Services Master Services Agreement and Addendum, dated September 20, 2001, between Citizens Communications Company and ADP, Inc.
3. Netscape, Novell, and other network, Internet and email software packages and related licenses owned by Citizens Communications Company.
4. All communications circuits owned or leased by a subsidiary or division of Citizens Communications Company other than the Arizona Gas Division (including Electric Lightwave, Inc.) and all communications and network equipment and personal computers owned or leased by a subsidiary or division of Citizens Communications Company other than the Arizona Gas Division, including WAN equipment (routers, DSU/CSU's and related miscellaneous devices), LAN equipment (servers, hubs, patch panels, cables and connections and related miscellaneous devices) located in facilities at the following location:
 - a. 2901 West Shamrell Boulevard, Flagstaff, Arizona (real property leased by Arizona Gas Division. See Schedule 4.5, item 7.) (Note: The personal computers located at this facility and used by the Arizona Gas Division employees are owned by the Arizona Gas Division.)
5. All land, buildings, improvements, office furniture and equipment, and communications circuits and communications and network equipment, including WAN equipment (routers, DSU/CSU's and related miscellaneous devices), LAN equipment (servers, hubs, patch panels, cables and connections and related miscellaneous devices) and personal computers located at the following locations:
 - a. 1300 South Yale Street, Flagstaff, Arizona (former main office owed by Citizens Communications Company and formerly used by Arizona Gas Division; now vacant.)
 - b. 1710 N. Mastick Way, Nogales, Arizona, including the Lease Agreement, dated April 1, 1994, as amended, between Citizens Communications Company's Arizona Electric Division and Mastick Family Trust Limited Partnership (real property leased by the Arizona Electric Division; all such excluded assets other than the communications circuits and communications, network equipment and personal computers owned or leased by a subsidiary or division of Citizens Communications Company other than the Arizona Gas Division will be transferred to the Buyer of Arizona Electric Division)

- c. 1741 North Grand Avenue, Nogales, Arizona (real property owned by the Arizona Electric Division; all such excluded assets other than the communications circuits and communications, network equipment and personal computers owned or leased by a subsidiary or division of Citizens Communications Company other than the Arizona Gas Division will be transferred to the Buyer of Arizona Electric Division)
 - d. 2901 North Central Avenue, Phoenix, Arizona (real property leased by Citizens Communications Company; three dedicated Arizona Gas Division employees situated in the Phoenix office)
6. All billing, printing, computer and other equipment and devices used to provide support services to the Business and located outside the State of Arizona.
 7. Various Easements (most of which are located in Mohave and Santa Cruz Counties, Arizona) granted to Citizens Communications Company (or to a specific subsidiary or division of Citizens Communications Company) that were not granted solely for gas use but permit joint use for gas, telephone and/or electric. (Note: When permitted by a particular Easement that permits multiple uses, including gas use, Citizens Communications Company and/or its Affiliates at Closing will assign to the Buyer its rights and interests in such Easement but only to the extent relating to gas use (*i.e.*, the Buyer will receive only a "partial assignment" of such Easement). A joint use agreement with respect to such partially assigned Easements will be prepared by Citizens Communications Company (and mutually acceptable to Buyer) and executed at Closing by the Buyer and the then owners of all other utility businesses now being conducted by Citizens Communications Company or its Affiliates that are permitted to use such common Easements.)
 8. Agreement for the Collection of Unpaid Accounts, dated October 16, 2001, between Citizens Communications Company and NCO Financial Systems, Inc. (Note: This agreement covers all of the Citizens utilities properties.)

SCHEDULE 2.3(g)

GOVERNMENTAL ORDERS

See attached list of Governmental Orders.

Arizona Gas

| TYPE | DECISION NUMBER | DATE | DOCKET NUMBER | DESCRIPTION |
|------|-----------------|----------|---------------------------------|---|
| CC&N | 18433-A | 09/28/48 | 10020-E-1090 U-1240 | In The Matter Of The Application Of The Arizona Power Company, An Arizona Public Service Corporation, For A Certificate Of Convenience And Necessity For The Sale And Distribution Of Gas, Both Natural And Manufactured In Yavapai And Coconino Counties, Arizona; In The Matter Of The Application Of Southern Union Gas Company For A Certificate Of Convenience And Necessity For The Construction And Operation Of Facilities For The Transportation, Distribution And Sale Of Natural Gas As A Public Utility In Mohave, Coconino, Navajo And Yavapai Counties, Arizona, And To The Extent That All The Franchises Contemplated And Applied For Are Not Yet Finally Granted, For The Preliminary Order Provided By Statute In Such Cases. |
| CC&N | 18433-B | 09/28/48 | 10020-E-1090 U-1240 | In The Matter Of The Application Of The Arizona Power Company, An Arizona Public Service Corporation, For A Certificate Of Convenience And Necessity For The Sale And Distribution Of Gas, Both Natural And Manufactured In Yavapai And Coconino Counties, Arizona; In The Matter Of The Application Of Southern Union Gas Company For A Certificate Of Convenience And Necessity For The Construction And Operation Of Facilities For The Transportation, Distribution And Sale Of Natural Gas As A Public Utility In Mohave, Coconino, Navajo And Yavapai Counties, Arizona, And To The Extent That All The Franchises Contemplated And Applied For Are Not Yet Finally Granted, For The Preliminary Order Provided By Statute In Such Cases. |
| CC&N | 18433-C | 09/28/48 | U-1237 U-1240 9964-E-1034 | In The Matter Of The Application Of Gas Service Co. For A Certificate Of Convenience And Necessity To Construct And Operate A Gas Plant System In Kingman, Arizona For The Purpose Of Furnishing Gas, Either Natural Or Artificial, To The Residents Of And Business Establishments At The Town Of Kingman, County Of Mohave, State Of Arizona, And The Addition Thereto; In The Matter Of The Application Of Southern Union Gas Company For A Certificate Of Convenience And Necessity For The Construction And Operation Of Facilities For The Transportation, Distribution And Sale Of Natural Gas As A Public Utility In Mohave, Coconino, Navajo And Yavapai Counties, Arizona, And To The Extent That All The Franchises Contemplated And Applied For Are Not Yet Finally Granted, For The Preliminary Order Provided By Statute In Such Cases; In The Matter Of The Application Of Citizens Utility Company For A Certificate Of Public Convenience And Necessity To Construct And Operate A Natural Gas Distribution System In The Unincorporated Town Of Kingman, Arizona, And Vicinity And To Serve Same Artificial Gas Until Natural Gas Is Available. |
| CC&N | 18433-D | 09/28/48 | U-1240 | In The Matter Of The Application Of Southern Union Gas Company For A Certificate Of Convenience And Necessity For The Construction And Operation Of Facilities For The Transportation, Distribution And Sale Of natural Gas As A Public Utility In Mohave, Coconino, Navajo And Yavapai Counties, Arizona, And To The Extent That All The Franchises Contemplated And Applied For Are Not Yet Finally Granted, For The Preliminary Order Provided By Statute In Such Cases. |
| CC&N | 18433-E | 09/28/48 | U-1237 U-1240 9964-E-1034 | In The Matter Of The Application Of Gas Service Co. For A Certificate Of Convenience And Necessity To Construct And Operate A Gas Plant System In Kingman, Arizona For The Purpose Of Furnishing Gas, Either Natural Or Artificial, To The Residents Of And Business Establishments At The Town Of Kingman, County Of Mohave, State Of Arizona, And The Addition Thereto; In The Matter Of The Application Of Southern Union Gas Company For A Certificate Of Convenience And Necessity For The Construction And Operation Of Facilities For The Transportation, Distribution And Sale Of Natural Gas As A Public Utility In Mohave, Coconino, Navajo And Yavapai Counties, Arizona, And To The Extent That All The Franchises Contemplated And Applied For Are Not Yet Finally Granted, For The Preliminary Order Provided By Statute In Such Cases; In The Matter Of The Application Of Citizens Utility Company For A Certificate Of Public Convenience And Necessity To Construct And Operate A Natural Gas Distribution System In The Unincorporated Town Of Kingman, Arizona, And Vicinity And To Serve Same Artificial Gas Until Natural Gas Is Available. |

Arizona Gas

| TYPE | DECISION NUMBER | DATE | DOCKET NUMBER | DESCRIPTION |
|-----------------|-----------------|----------|--|---|
| RATES | 21510 | 11/30/51 | 9968-E-1038 | In The Matter Of The General Utilities, Inc. Regarding Escalator Clause Pertaining To All The Rates. |
| RATES | 27021 | 12/30/52 | U-1240 | In The Matter Of Southern Union Gas Company For Application Of The Escalator Clause To Its Gas Rates. |
| RATES | 43221 | 04/06/73 | U-1656 9962-E-1032 | In The Matter Of The Application Of Sun City Water Company For A Determination Of The Fair Value Of The Company For Rate-Making Purposes, A Finding Of A Just And Reasonable Rate Of Return Thereon, And Approval Of Rate Schedules Designed To Develop Such Return; In The Matter Of The Application Of Citizens Utilities Company For A Determination Of The Value Of Its Gas Utility Property In Santa Cruz County For Rate-Making Purposes, A Finding Of A Just And Reasonable Return Thereon, And Approval Of Rate Schedules Designed To Develop Such Return; In The Matter Of The Application Of Citizens Utilities Company For A Determination Of The Value Of Its Water Utility Property In Mohave County For Rate-Making Purposes, A Finding Of A Just And Reasonable Rate Of Return Thereon, And Approval Of Rate Schedules Designed To Develop Such Return; In The Matter Of The Application Of Citizens Utilities Company For A Determination Of The Value Of Its Electric Utility Property In Mohave County For Rate-Making Purposes, A Finding Of A Just And Reasonable Rate Of Return Thereon, And Approval Of Rate Schedules Designed To Develop Such Return. |
| FINANCE | 43737 | 10/25/73 | 9962-E-1032 | In The Matter Of The Application Of Citizens Utilities Company For A Determination Of The Value Of Its Electric, Gas And Water Utility Properties In Mohave And Santa Cruz Counties And Sun City Water Company. |
| RATES | 46849 | 03/25/76 | U-1656 9962-E-1032 | In The Matter Of The Application Of Citizens Utilities Company For Rate Adjustments For Natural Gas Service In Santa Cruz County, Arizona. |
| RATES | 50448 | 11/28/79 | 9962-E-1032 | In The Matter Of The Application Of Citizens Utilities Company For Rate Adjustments For Natural Gas Service In Santa Cruz County, Arizona. |
| RATE ADJUSTMENT | 52623 | 11/23/81 | 9962-e-1032 | In The Matter Of The Application Of Citizens Utilities Company for rate adjustments for natural gas service in Santa Cruz County |
| RATES | 53103 | 07/08/82 | E-1032-81-394 | In The Matter Of The Application Of Citizens Utilities For A General Increase In Natural Gas Rates In Santa Cruz County, Arizona. |
| FUEL ADJUSTMENT | 53371 | 01/03/83 | E-1032-82-374 | In The Matter Of The Application Of Citizens Utilities Company For A Gas Fuel Adjustment Increase In Santa Cruz County, Arizona. |
| RATES | 53665 | 07/27/83 | U-1240-82-283 | In The Matter Of The Application Of Southern Union Gas Company For Rate Adjustments For Gas Utility Service In Its Service Areas Within The State Of Arizona. |
| FUEL ADJUSTMENT | 54075 | 07/02/84 | E-1032-84-142 | In The Matter Of The Commission's Own Motion For A Gas Fuel Adjustment Decrease And Refund For Citizens Utilities Company In Santa Cruz County, Arizona. |
| COMPLAINT | 54394 | 03/04/85 | U-2334-84-160 E-1032-84-213 E-1032-84-214 E-2283-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Sun City West Utilities Company; Fair Value Of The Company For Rate Making Purposes Thereof; And, To Approve A Schedule Of Rates And Charges Designed To Develop Such Return; Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Mohave Electric, Value Of The Company For Rate Making Purposes Thereof; And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return; Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Nogales Electric And Gas Division; The Fair Value Of The Company For Rate Making Purposes Thereon, And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return; In The Matter Of The Application Of Citizens Utilities Company For A Rate Adjustment For Sewer And Water Service, In Mohave County-Sierra Utility Company And Oasis Water Company. |
| FUEL ADJUSTMENT | 54576 | 06/28/85 | U-1240-85-173 | In The Matter Of The Application Of Southern Union Gas Corporation For A Fuel Adjustor Increase. |
| FUEL ADJUSTMENT | 54782 | 11/26/85 | U-1240-85-319 | In The Matter Of The Application Of Southern Union Gas Corporation For A Fuel Adjustor Increase. |
| PGA | 55090 | 07/09/86 | E-1032-86-157 | In The Matter Of The Application Of Citizens Utilities Company, Santa Cruz County Gas Division, For A Purchased Gas Adjustor Decrease. |

Arizona Gas

| TYPE | DECISION NUMBER | DATE | DOCKET NUMBER | DESCRIPTION |
|-----------------------------|-----------------|----------|---|---|
| COMPLAINT/ OSC PHASE I | 55474 | 03/18/87 | E-1032-86-020 U-1656-86-020 U-2276-86-020 U-2334-86-020 E-1032-86-177 U-1595-86-176 U-1656-85-066 U-2276-85-066 E-1032-84-160 E-1032-84-213 E-1032-84-214 E-1032-83-227 E-1032-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Santa Cruz Electric And Gas Division, The Fair Value Of The Company For Ratemaking Purposes Thereof And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return; |
| COMPLAINT/ OSC PHASE II | 55488 | 03/19/87 | E-1032-86-020 U-1656-86-020 U-2276-86-020 U-2334-86-020 E-1032-86-177 U-1595-86-176 U-1656-85-066 U-2276-85-066 E-1032-84-160 E-1032-84-213 E-1032-84-214 E-1032-83-227 E-1032-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Santa Cruz Electric And Gas Division, The Fair Value Of The Company For Ratemaking Purposes Thereof And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return; |
| COMPLAINT/ OSC PHASE III | 55535 | 04/23/87 | E-1032-86-020 U-1656-86-020 U-2276-86-020 U-2334-86-020 E-1032-86-177 U-1595-86-176 U-1656-85-066 U-2276-85-066 E-1032-84-160 E-1032-84-213 E-1032-84-214 E-1032-83-227 E-1032-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Santa Cruz Electric And Gas Division, The Fair Value Of The Company For Ratemaking Purposes Thereof And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return; |

Arizona Gas

| TYPE | DECISION NUMBER | DATE | DOCKET NUMBER | DESCRIPTION |
|----------------------------|-----------------|----------|---|--|
| COMPLAINT/ OSC PHASE IV | 55584 | 06/03/87 | E-1032-86-020 U-1656-86-020 U-2276-86-020 U-2334-86-020 E-1032-86-177 U-1595-86-176 U-1656-85-066 U-2276-85-066 E-1032-84-160 E-1032-84-213 E-1032-84-214 E-1032-83-227 E-1032-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Santa Cruz Electric And Gas Division, The Fair Value Of The Company For Ratemaking Purposes Thereof And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return;... |
| COMPLAINT/ OSC PHASE V | 55585 | 06/03/87 | E-1032-86-020 U-1656-86-020 U-2276-86-020 U-2334-86-020 E-1032-86-177 U-1595-86-176 U-1656-85-066 U-2276-85-066 E-1032-84-160 E-1032-84-213 E-1032-84-214 E-1032-83-227 E-1032-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Santa Cruz Electric And Gas Division, The Fair Value Of The Company For Ratemaking Purposes Thereof And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return;... |
| RATES/ TARIFF | 55796 | 11/24/87 | E-1032-87-267 U-1954-87-267 U-1656-87-267 U-2276-87-267 U-2334-87-267 U-1595-87-267 U-1938-87-267 | In The Matter Of The Application Of Citizens Utilities Company, Its Arizona Operating Divisions And Arizona Subsidiaries, For An Order And Tariff Approving The Accounting And Ratemaking Treatment For Advances And Contributions In Aid Of Construction. |
| RATES/ TARIFF | 55911 | 03/09/88 | E-1032-87-267 U-1954-87-267 U-1656-87-267 U-2276-87-267 U-2334-87-267 U-1595-87-267 U-1938-87-267 | In The Matter Of The Application Of Citizens Utilities Company, Its Arizona Operating Divisions And Arizona Subsidiaries, For An Order And Tariff Approving The Accounting And Ratemaking Treatment For Advances And Contributions In Aid Of Construction. |
| PGA | 56162 | 10/03/88 | U-1240-88-170 | In The Matter Of The Application Of Southern Union Gas Company For A Purchased Gas Adjustor Increase. |
| PGA | 56647 | 10/05/89 | U-1240-89-188 | In The Matter Of The Application Of Southern Union Gas Company For A Purchased Gas Adjustor Decrease. |

Arizona Gas

| TYPE | DECISION NUMBER | DATE | DOCKET NUMBER | DESCRIPTION |
|----------------|-----------------|----------|--------------------------------|---|
| PGA | 56689 | 11/07/89 | E-1032-89-254 | In The Matter Of The Application Of Citizens Utilities Company (Santa Cruz Gas Division) - Request To Refund The Current Purchased Gas Adjustor Overcollection. |
| PGA | 57189 | 12/20/90 | U-1240-90-347 | In The Matter Of The Application Of Southern Union Gas Company For A Purchased Gas Adjustor Decrease. |
| RATES | 57396 | 05/24/91 | U-1240-90-051 | In The Matter Of The Application Of Southern Union Gas Company For A Hearing To Determine The Fair Value Of The Utility Property Of The Company For Rate-Making Purposes, To Fix A Just And Reasonable Return Thereon, And To Approve Rate Schedules Designed To Develop Such Return. |
| CC&N | 57647 | 12/02/91 | E-1032-91-248 U-1240-91-248 | In The Matter Of The Joint Application Of Southern Union Gas Company, A Division Of Southern Union Company, And Citizens Utilities Company For Approval Of The Transfer And Assignment Of The Assets Of And CC&N Comprising Southern Union Company's Northern Arizona Gas Transmission And Distribution System To Citizens Utilities Company And For Approval Of Asset Purchase Agreement Dated July 3, 1991. |
| REFUND | 57898 | 06/17/92 | E-1032-92-160 | In The Matter Of The Application Of Citizens Utilities To Refund Overrecovered Gas Cost To Sales Customers In Its Northern Arizona Service Area. |
| RATES/PGA | 58015 | 09/15/92 | E-1032-92-161 | In The Matter Of The Application Of Citizens Utilities Company (Arizona Gas Division) For The Adjustment Of Its Gas Cost Recovery Mechanism To Realign Rates With Current Market Conditions. |
| TARIFF | 58331 | 06/30/93 | E-1032-93-138 | In The Matter Of The Application Of Citizens Utilities Company, Arizona Gas Division, For Approval Of An Amendment To Tariff Section No. 4, Service Lines And Establishments. |
| PGA | 58420 | 09/30/93 | E-1032-93-130 | In The Matter Of The Application Of Citizens Utilities Company, Arizona Gas Division, For An Increase In Its Purchased Gas Adjustment Rate And For The Adjustment Of The Terms Of Its Purchased Gas Adjustment Clause Tariff. |
| RATES | 58664 | 06/16/94 | E-1032-93-111 | In The Matter Of The Application Of Citizens Utilities Company (Arizona Gas Division) For A Hearing (1) To Determine The Fair Value Of Its Properties For Rate-Making Purposes, To Fix A Just And Reasonable Rate Of Return Thereon And (2) To Approve The Proposed Accrual Method Of Accounting For Post Retirement Benefits Other Than Pensions, As Required By The Financial Accounting Standards Board Statement No. 106; |
| COMPLAINT | 58739 | 08/10/94 | E-1032-94-022 | In The Matter Of The Application Of Citizens Utilities Company, Arizona Gas Division, For An Order Approving Its Proposed Build Out Program For Northern Arizona And Authorizing The Rate-Making And Accounting Procedures Necessary To Implement The Build Out Program. |
| TARIFF NSP/PGA | 58943 | 01/12/95 | E-1032-94-25 | Caldenwood Family Trust V Citizens Utilities Company |
| TARIFF NSP/PGA | 59120 | 06/08/95 | E-1032-94-425 E-1032-95-079 | In The Matter Of The Application Of Citizens Utilities Company, Northern Arizona Gas Division, For An Order Approving The Proposed Tariff for The NSP. |
| TARIFF NSP/PGA | 59399 | 11/28/95 | E-1032-94-425 E-1032-95-079 | In The Matter Of The Application Of Citizens Utilities Company, Northern Arizona Gas Division, For An Order Approving The Proposed Tariff For The NSP; In The Matter Of The Application Of Citizens Utilities Company, Northern Arizona Gas Division, For A Decrease In Its PGA Rate, For The Establishment Of A Trust Fund Account, And For The Recovery Of Certain Capacity Costs. |
| RATES | 59875 | 10/29/96 | E-1032-95-473 | In The Matter Of The Application Of Citizens Utilities Company, Northern Arizona Gas Division, For A Hearing To Determine The Fair Value Of Its Properties For Rate-Making Purposes, To Fix A Just And Reasonable Rate Of Return Thereon, And To Approve Rate Schedules Designed To Provide Such Rate Of Return. |
| COMPLAINT | 59983 | 01/16/97 | E-1032-96-487 | Forest Heights and Fort Valley Apartments V. Citizens Utilities Company |

Arizona Gas

| TYPE | DECISION NUMBER | DATE | DOCKET NUMBER | DESCRIPTION |
|--|-----------------|----------|-------------------|--|
| PGA | 60052 | 02/06/97 | E-1032-97-011 | In The Matter Of The Application Of Citizens Utilities Company, Northern Arizona Gas Division To Increase Its Purchased Gas Adjustor Rate. |
| NSP | 60317 | 07/30/97 | E-1032-97-345 | In The Matter Of Citizens Utilities Company, Northern Arizona Gas Division, Filing For Review And Modification Of The Negotiated Sales Program Tariff. |
| PGA | 60346 | 07/31/97 | E-1032-97-346 | In The Matter Of The Application Of Citizens Utilities Company, Northern Arizona Gas Division To Continue Its Surcharge To The Purchased Gas Adjustor Rate. |
| NPS | 60423 | 09/26/97 | E-1032-97-345 | In The Matter Of Citizens Utilities Company, Northern Arizona Gas Division, Filing For Review And Modification Of The Negotiated Sales Program Tariff. |
| COMPLAINT | 60542 | 12/18/97 | G-01032D-97-0630 | Arizona Corporation Commission, Complainant vs Citizens Utilities Company, Respondent |
| COMPLAINT | 61058 | 08/10/99 | G-01032C-98-0181 | Ray L. Quackenbush, Sr., Complainant, vs Citizens Utilities Company (Arizona Gas Division), Respondent |
| PGA | 61225 | 10/30/98 | G-00000C-98-0568 | In The Matter Of The Commission Examination Of Local Distribution Company Purchased Gas Adjustor Mechanisms. |
| PGA | 61249 | 11/23/98 | G-01032E-98-0637 | In The Matter Of The Application Of Citizens Utilities Company, Northern Arizona Gas Division To Decrease Its Purchased Gas Adjustor Rate. |
| PGA | 61701 | 05/13/99 | G-00000C-98-0568 | In The Matter Of The Application Of Citizens Utilities Company To Amortize The Purchased Gas Adjustor Balance. |
| AGREEMENT | 61800 | 06/29/00 | G-01032A-99-0268 | In The Matter Of The Application Of Citizens Utilities Company - Filing For Approval Of A Special Gas Transportation Agreement With Griffith Energy LLC. |
| AGREEMENT | 61835 | 07/21/99 | G-01032A-99-0268 | In The Matter Of The Application Of Citizens Utilities Company - Filing For Approval Of A Special Gas Transportation Agreement With Griffith Energy LLC. |
| PGA | 61913 | 08/27/99 | G-00000C-98-01568 | In The Matter Of The Application Of Citizens Utilities Company (Santa Cruz Gas Division) - Filing To Amortize The Purchased Gas Adjustor Bank Balance. |
| AGREEMENT | 62125 | 12/14/99 | G-01032A-99-0677 | In The Matter Of The Application Of Citizens Utilities Company For Approval Of A Gas Transportation Agreement With Nutri-Source LLC. |
| AGREEMENT | 62328 | 02/29/00 | G-01032A-99-0677 | In The Matter Of The Application Of Citizens Utilities Company For Approval Of A Gas Transportation Agreement With Nutri-Source LLC. |
| PGA MECHANISM | 62994 | 11/02/00 | G-00000C-98-0568 | In The Matter Of The Staff Report On The Filing Average Purchased Gas Adjustor Mechanism |
| RULES REGARDING TRANSPORTATION OF NATURAL GAS | 63517 | 3-30-01 | RG-00000A-00-0548 | In the Matter of the Notice of Proposed Rulemaking regarding the Transportation of Natural Gas, Other Gases and Hazardous Liquids by Pipelines |
| TARIFF | 63674 | 05/24/01 | G-01032A-01-0355 | In the Matter of the Application of Citizens Communications Company-Filing to Revise the General Gas Service Rate Tariff for the Santa Cruz Gas Division |
| AGREEMENT AND NSP TARIFF | 63678 | 05/24/01 | G-01032A-01-0372 | In the Matter of the Application of Citizens Communications-Filing for approval of a gas supply agreement with PP&L Energy Plus and Changes to the Negotiated Sales Program Tariff |
| NATURAL GAS PROCUREMENT ACTIVITIES | 63848 | 06/28/01 | G-00000C-98-0568 | In the Matter of the Staff Proposal for Review of Natural Gas Procurement Activities |
| PROPOSED RULEMAKING REGARDING TRANSPORTATION OF NATURAL GAS FOR STANDARD PORTFOLIO | 64660 | 03/25/02 | RG-00000A-00-0548 | In the Matter of the Notice of Proposed Rulemaking regarding the Transportation of Natural Gas, Other Gases and Hazardous Liquids by Pipelines |

Arizona Gas

| TYPE | DECISION NUMBER | DATE | DOCKET NUMBER | DESCRIPTION |
|---|-----------------|----------|-------------------|---|
| RULES REGARDING TRANSPORTATION OF NATURAL GAS | 63517 | 03/30/01 | RG-00000A-00-0548 | In the Matter of the Notice of Proposed Rulemaking regarding the Transportation of Natural Gas, Other Gases and Hazardous Liquids by Pipelines |
| PGA SURCHARGE | 64054 | 09/27/01 | G-01032A-01-0609 | In the matter of the application of Citizens Communications Company filing for approval of purchased gas adjuster surcharges and revisions to tariff T-1, transportation of customer secured natural gas |
| RULES REGARDING TRANSPORTATION OF NATURAL GAS | 64660 | 03/25/02 | RG-00000A-00-0548 | In the Matter of the Notice of Proposed Rulemaking regarding the Transportation of Natural Gas, Other Gases and Hazardous Liquids by Pipelines |
| INTER. AGREEMENT | 65051 | 07/24/02 | G-01032A-02-0478 | In the matter of the application of Citizens Communications Company filing for approval of an interconnection agreement between Questar Southern Trails Pipeline Company and Citizens Communications Company (suspension) |
| INTER. AGREEMENT | 65214 | 09/20/02 | G-01032A-02-0478 | In the matter of the application of Citizens Communications Company filing for approval of an interconnection agreement between Questar Southern Trails Pipeline Company and Citizens Communications Company |

SCHEDULE 2.3(i)ASSUMED ACTIONS AND PROCEEDINGS

1. Arizona Corporation Commission, Docket No. G-01032A-02-0478. In the Matter of the Application to Approve an Amendment to the Gas Transportation Agreement between Citizens Communications Company and Griffith Energy LLC.

On June 25, 2002, the Arizona Gas Division filed for approval of amendments to the Gas Transportation Agreement between Citizens and Griffith Energy to allow for interconnection with Questar Southern Trails Pipeline. Citizens is also seeking approval of its proposed accounting treatment for the revenues associated with the project. See Orders 65051 and 65214 listed on Schedule 2.3(g).

2. Arizona Corporation Commission, Docket No. G-01032A-02 __. In the Matter of the Joint Application of Citizens Communications Company, Arizona Gas Division, and Black Mountain Gas Company for an Order Approving a Borderline Agreement.

On August 14, 2002, Citizens and Black Mountain Gas Company filed for approval of a Borderline Agreement. A mobile home park homeowner's association that is located adjacent to the City of Page, Arizona had requested gas service. Citizens' nearest facilities are located near Flagstaff, Arizona; Black Mountain Gas Company provides propane gas service in an area near the mobile home park. Black Mountain Gas Company can provide propane service to these customers more economically than Citizens could provide natural gas service. For these reasons, Citizens has agreed to allow Black Mountain Gas Company to service these customers in Citizens' certified area. The Arizona Corporation Commission must approve the agreement.

3. Transwestern Pipeline/El Paso Natural Gas Company, filed with Federal Energy Regulatory Commission. As result of litigation initiated by Southern California Edison Company, the DC Circuit Court of Appeals remanded a 1996 FERC-approved settlement in an El Paso Natural Gas Company docket to FERC. These issues have been addressed in the consolidated matter:

Federal Energy Regulatory Commission, Docket Nos. RP00-336-002, RP01-484-000, RP01-486-000 and RP00-139-000. Order on Capacity Allocation and Complaints.

On May 31, 2002, FERC issued a significant order that addressed the allocation of El Paso Natural Gas Company's pipeline capacity. The order mandates the conversion of full-requirements capacity contracts, such as those held by Citizens, be converted to Contract Demand Contracts, effective November 2002. Parties have been ordered to attempt to settle outstanding issues. Parties are currently negotiating. (See Item I.1 of Schedule 4.12.)

SCHEDULE 4.3(a)

SELLER CONFLICTS, DEFAULTS AND VIOLATIONS

Failure to obtain certain consents listed on Schedule 4.3(b) or Schedule 4.11(b) or to provide notice to certain parties listed on Schedule 4.3(b) or Schedule 4.11(b) may result in a default of the related Assigned Agreement or applicable law upon assignment to Buyer.

SCHEDULE 4.3(b)

SELLER REQUIRED REGULATORY APPROVALS

I. FEDERAL GOVERNMENTAL BODIES

- A. U.S. Federal Trade Commission and U.S. Department of Justice, pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.
- B. Federal Communications Commission, with respect to the following licenses:
 - 1. WPUG622 – GO Service – Goat Hill, Lake Havasu City, Arizona
 - 2. WPTD549 – GO Service – Holbrook, Winslow, Pine Top, Flagstaff, Arizona
- C. Other Federal Governmental Bodies
 - 1. U.S. Department of Interior, Bureau of Indian Affairs, with respect to various Easements.
 - 2. U.S. Department of Agriculture, Forest Service, with respect to various Easements.
 - 3. U.S. Department of Interior, Bureau of Land Management, with respect to various Easements.

II. STATE GOVERNMENTAL BODIES

- A. Arizona Corporation Commission.
- B. State of Arizona Land Office, with respect to various Easements.
- C. Arizona Game and Fish Commission, with respect to the Lease Agreement set forth in Schedule 4.5, Item 5.
- D. Arizona Department of Transportation, with respect to various Easements.

III. LOCAL GOVERNMENTAL BODIES

- A. Franchise Ordinance No. 977, granting a Franchise to Citizens Utilities Company (nka Citizens Communications Company) by the Town of Eagar, Arizona, passed September 24, 1997.
- B. Ordinance No. 19-H, approving the grant of Franchise by the City of Nogales, Arizona to Citizens Utilities Company (nka Citizens Communications Company) to maintain and operate a gas/electric energy transmission and distribution system, passed November 19, 1986. (See Schedule 4.13, Item II.)
- C. Franchise, dated June 6, 1990, granted to Citizens Utilities Company (nka Citizens Communications Company) by the Board of Supervisors of the County of Santa Cruz, Arizona, authorizing Citizens Communications Company to operate an electric power and energy and gas distribution and sale systems. (Note: Written notice to Santa Cruz County is required to transfer this franchise. Approval of Santa Cruz County is required to release Citizens from the obligations of this franchise.)
- D. Resolution No. 40-95, approving the Franchise and License for Pipeline and Related Facilities granted to Citizens Utilities Company (nka Citizens Communications Company) by the Board of Supervisors of the County of Navajo, Arizona, authorizing Citizens Communications Company to operate a gas distribution and sale system, passed June 12, 1995. (Note: Transferor is required to provide the County with prior written notice of a transfer of this Franchise in order for the County "to make an informed decision regarding [the County's] position on the proposed assignment. This section shall not be deemed a warranty of assignability by the County.")
- E. Franchise Agreement, dated March 1, 1999, between Citizens Communications Company and the City of Kingman. (Note: Written notice is required upon assignment. Transferee is required to deliver an assumption agreement.)

SCHEDULE 4.4

SELLER INSURANCE

See attached list of material insurance policies. (Note: The attached list does not list the D&O policy.)

MATERIAL INSURANCE POLICIES

| Insurance | Policy No. | Broker (Compliant) | Company | Limits of Liability | Deductible | Expiration Date |
|--|---------------|--------------------|----------------------------------|---|--|-----------------|
| All Risk (including Boiler and Machinery, EDP and Fine Arts Excess Liability - Claims First Made | LE072 | Marsh USA Inc. | FM Global | All Risk Property: Blanket, with applicable sub-limits. | Various | 11/01/2003 |
| 2 nd Layer Excess Liability, Occurrence Reported | X0187A1A02 | (Marsh USA Inc.) | AEGIS | \$35,000,000 in excess of Employers Liability, General Liability and Auto Liability policy deductibles | \$500,000 Pollution Liability. \$500,000 Non-Owned Aviation. \$250,000 each claimant / \$1,000,000 any one occurrence - Employment Practices | 06/01/2003 |
| 3 rd Layer Excess Liability, Occurrence Reported | XLUMB-02322 | (Marsh USA Inc.) | X.L. Insurance Company Ltd. | \$90,000,000 in excess of \$35,000,000 underlying | \$35,000,000 retention per occurrence | 06/01/2003 |
| Workers Compensation | 6394285 | (Marsh USA Inc.) | Starr Bermuda | \$50,000,000 in excess of \$125,000,000 underlying | \$35,000,000 AEGIS \$90,000,000 XL | 06/01/2003 |
| Business Automobile Liability | WC 251887088 | Marsh USA Inc. | Transportation Insurance Company | WC: Statutory Benefits Employers Liability: \$500,000 each accident; \$500,000 each employee (disease); \$500,000 policy limit (disease); unlimited where required by law. | \$500,000 per accident/disease | 06/01/2003 |
| General Liability | BUA 251887141 | Marsh USA Inc. | Transportation Insurance Company | \$500,000 each accident; combined single limit for bodily injury and property damage (including Auto Physical Damage - Comprehensive Coverage only - collision coverage excluded) | N/A; all claims reimbursed 100% by Citizens at \$500,000 each accident | 06/01/2003 |
| | GL 251887124 | Marsh USA Inc. | Transportation Insurance Company | \$500,000 each occurrence combined single limit for bodily injury and property damage \$2,000,000 aggregate | \$500,000 per occurrence | 06/01/2003 |

SCHEDULE 4.5SELLER REAL PROPERTY LEASES

1. Lease Agreement, dated November 30, 1998, between Citizens Communications Company (Tenant) and Mountain Oaks Development, LLC, successor to 1560 East Thornton Road, LLC (Landlord), re: Show Low office, 1480 16th Street, Show Low, Arizona.
2. Real Estate Lease, dated February 1, 1999, as amended, between Citizens Communications Company (Tenant) and Adams/Hartnett Bldg. Co., LLC (Landlord), re: 625 W. Desmond Street, Winslow, Arizona.
3. Lease, dated February 1, 2001, between Citizens Communications Company (Tenant) and Paula Brockman (Landlord), re: 215 Coffee Pot Drive, Suite D, Sedona, Arizona.
4. Letter Agreement, dated January 6, 1992, between Citizens Communications Company (Tenant) and Transwestern Pipeline Company (Landlord), re: odorant injection meter station, Hualapai Mountain Road, Kingman, Arizona.
5. Lease Agreement (for Right-of-Way), dated August 27, 1998, between Citizens Communications Company (Lessee) and State of Arizona, by and through the Arizona Game and Fish Commission, (Lessor), re: joint-use right of way for gas and telephone service. (Note: Since this lease agreement is for joint use, Citizens will only partially assign this lease agreement to the Buyer.)
6. Lease of Land (Short Term) No. 137801, dated November 1, 1971, as amended, between Citizens Communications Company (Lessee) and Burlington Northern Santa Fe Corporation (Lessor), re: storage site for pipeline materials and a regulator site, near Williams, Coconino County, Arizona. (Note: Citizens only has a copy of the amendment in its files.)
7. Lease Agreement, dated January 18, 2002, between Citizens Communications Company (Tenant) and Pulliam I, L.L.C. (Landlord), re: Flagstaff office, 2901 Shamrell Boulevard, Flagstaff, Arizona.
8. Lease Agreement, dated April 5, 2001, between Citizens Communications Company (Tenant) and Richard Henderson (Landlord), re: Commercial/Industrial Building, 4366 E. Huntington, Suite 200, Flagstaff, Arizona.

9. Commercial Lease and Deposit Receipt, dated December 26, 2000, between Citizens Communications Company (Tenant) and William L. Nugent (Landlord), re: 2002 Stockton Hill Road, Suite 103, Kingman, Arizona.
10. Standard Industrial/Commercial Single-Tenant Lease Agreement, dated June 28, 2000, as amended, between Citizens Communications Company (Tenant) and Gerald J. Strunz et al. (Landlords), re: 3198 Sweetwater, Lake Havasu City, Arizona.
11. Lease Agreement, dated July 9, 2001, as amended, between Citizens Communications Company (Tenant) and Michael and Peri Olson Ferris, successors to Cottonwood Industrial, LLC, (Landlords), re: 500 South Willard Street, Cottonwood, Arizona.
12. Lease, dated February 28, 19994, between Citizens Communications Company (Tenant) and Sandra C. Beck and Carole D. Campbell (Landlords), re: 107 East Third Street, Winslow, Arizona.

SCHEDULE 4.6

SELLER ENVIRONMENTAL MATTERS

None.

SCHEDULE 4.7

SELLER LABOR MATTERS

I. COLLECTIVE BARGAINING AGREEMENTS

1. Agreement between Citizens Communications Company, Santa Cruz Division, and International Brotherhood of Electrical Workers, Local Union No. 387, effective March 1, 2002 through February 28, 2005. (Note: This agreement applies to certain Santa Cruz gas and electric employees.)

II. EXCEPTIONS TO COMPLIANCE WITH EMPLOYMENT REGULATIONS

None.

III. NATIONAL LABOR RELATIONS BOARD NOTICES

None. On May 21, 2002, the NLRD Region 28 office in Phoenix issued a determination deferring charges in the matter of Citizens Arizona Gas Case 28-CA-17899. This case is in reference to a dispute and cause filed by a former Arizona Gas employee Guillermo Lopez. That office deferred charges until the grievance process has been exhausted and proof provided to them. That process has been exhausted, the union has dropped the grievance and the NLRB has been duly notified as they requested. The NLRB was notified of the updated status of the grievance on June 6, 2002. The NLRB has yet to provide any dismissal or further comment on the case.

IV. PENDING ARBRITATION

None.

V. WORK STOPPAGES

None.

SCHEDULE 4.8**SELLER BENEFIT PLANS**

| | Providers of Service |
|--|--|
| Citizens Pension Plan | Company sponsored |
| Citizens 401(k) | Putnam Investments |
| Medical Plan | North American Benefits Network, Inc. - Intermediary Plan Anthem Blue Cross and Blue Shield - PPO & EPO Plans |
| Dental Plan | North American Benefits Network, Inc. |
| Vision Plan | Vision Services Plan |
| Long-term Disability | MetLife |
| Business Travel Accident | CAN |
| Basic Group Term and Optional Life Insurance | MetLife |
| Spousal and Child Term Life Insurance | MetLife |
| Flexible Spending Accounts (including Medical, Dependent Care and Mass Transit accounts) | North American Benefits Network, Inc. |
| Citizens Incentive Plan | Company administered |
| Equity Incentive Plan (including Management Stock Option Plan and Distinguished Performer Award) | Company administered |
| Citizens Executive Deferred Savings Plan | Putnam Investments |
| Employee Assistance Plan | Worklife Solutions, Inc. |

SCHEDULE 4.9

SELLER REAL PROPERTY

See attached list of Real Property.

**CITIZENS COMMUNICATIONS COMPANY
ARIZONA GAS DIVISION - LIST OF OWNED REAL PROPERTY**

| COUNTY | TITLE HOLDER OF RECORD | PROPERTY ADDRESS | USE | LEGAL DESCRIPTION | RECORDING INFO | PARCEL/TAX ID NO. |
|--------|---|---|--|---|--|-------------------|
| 1 | Coconino Northern Arizona Gas Division CUC | Book 100, Map 18, Lot 10A off of Kendrick Street, Flagstaff | Ruckers District Regulator Station | NE 1/4, SE 1/4 of Section 16, Township 21 North, Range 7 East, Block 2B, Parcel 10A per Tax Report | Instrument No. 3021535 Recorded 9/9/99 | 100-18-010A |
| 2 | Coconino Citizens Utilities Company | Mountainare Road | Mountainare District Regulator Station | SW 1/4 NW 1/4 Section 28, Township 20 North, Range 7 East | | 115-07-251A |
| 3 | Coconino Citizens Utilities Company | Book 403, Map 52, Lot 42D at corner of Old Rim Road and Sheep Spring Road per Tax Map | | Forest Lakes Estates Unit 6, Section 13, Township 11 North, Range 14 East | Docket 1729, page 45 Instrument No. 94-39721 Recorded 12/2/94 | 403-52-42D |
| 4 | Coconino Citizens Utilities Company | 1459 East Butler Avenue, Flagstaff | Butler Service Center | Book 104, Map 13, Lot 4A, Portion of SE 1/4 of NE 1/4 of Section 22, Township 21 North, Range 7 East | Docket 1439, page 654 Instrument No. 91-26289 Recorded 12/5/91 | 104-13-004A |
| 5 | Coconino Citizens Utilities Company | Wheeler Park, Flagstaff | Regulator Station | A portion of Lot 12, Block 2-B, Flagstaff | Docket 1439, page 654 Instrument No. 91-26289 Recorded 12/5/91 | |
| 6 | Coconino Citizens Utilities Company | Turquoise Drive & East Ponderosa Parkway | Ponderosa District Regulator Station | A portion of Lot 1, Switzer Mesa Unit One | Docket 1439, page 654 Instrument No. 91-26289 Recorded 12/5/91 | 101-26-2A |
| 7 | Coconino Citizens Utilities Company | 401 West Grant, Williams | Williams Office | Lots 1 and 2, Block 22 in Town of Williams, Township 22 North, Section 33, Range 2 East | Docket 1439, page 654 Instrument No. 91-26289 Recorded 12/5/91 | 201-26-001 |
| 8 | Mohave Citizens Utilities Company | 3436 North Evans, Kingman | Kingman Operation Center | N 1/2 Lots 2 & 3 Block C, 2 nd Amended Map, Kingman Air-Rail Manor | Book 1980, page 902 Fee No. 91-65674 Recorded 12/6/91 | 311-03-102C |
| 9 | Mohave Citizens Utilities Company | Corner of Thompson and Patsy Streets, Kingman | Thompson District Regulator Station | Lot 1, Block 67, New Kingman Addition, Unit 6 | Book 1980, page 902 Fee No. 91-65674 Recorded 12/6/91 | |
| 10 | Mohave Citizens Utilities Company | Intersection of Benton Street and Thompson Street, Kingman | Benton District Regulator Station | Lot 37, Block 97, New Kingman Addition, Unit 7, Tract 1100 | Book 1980, page 902 Fee No. 91-65674 Recorded 12/6/91 | |
| 11 | Mohave Citizens Utilities Company | Jackson and Karen Streets, Kingman | Jackson Border Station | Parcel A, NW 1/4 SW 1/4 NE 1/4, Section 19, Township 21 North, Range 16 West | Book 1980, page 902 Fee No. 91-65674 Recorded 12/6/91 | |
| 12 | Mohave Citizens Utilities Company | 1658 W. Acoma, Lake Havasu City | Acoma Border Station, Pipe Yard & CP Rectifier | Lot 3, Block 1, Tract 2325, Lake Havasu City | Book 1980, page 902 Fee No. 91-65674 Recorded 12/6/91 | 106-33-003 |

Arizona Gas

| COUNTY | TITLE HOLDER OF RECORD | PROPERTY ADDRESS | USE | LEGAL DESCRIPTION | RECORDING INFO | PARCEL/TAX ID NO. |
|--------|---------------------------------------|--|---|---|--|--|
| 13 | Mohave Citizens Utilities Company | Lots 20, 71, 72, 73, 74 and 75 (Part of Campbell's Addition) per Tax Map | | Campbell's Addition, NE NW Section 30, Township 19 North, Range 16 East, Lots 20, 71, 72, 73, 74 and 75 per Tax Report (See Book, Map and Parcel numbers per Tax Records from the Assessor's Office in the far right column.) | | Book, Map and Parcel numbers as indicated below (i.e. Book 972, Map 71, Parcel 20) 972-71-020-2 963-90-100-0 963-90-105-5 963-70-130-7 963-90-131-0 963-90-132-3 963-90-201-0 963-90-205-2 963-90-210-6 936-90-305-9 963-90-310-3 963-90-350-9 963-90-355-4 963-90-501-1 963-90-540-4 963-90-561-5 963-90-571-4 963-91-020-4 963-91-021-7 963-91-022-0 963-93-271-2 963-93-290-7 103-32-020 |
| 14 | Navajo Citizens Utilities Company | | | Portion of Lot 2, Block 6, Campbell's Addition to Winslow | Docket 1059, Pages 593-596, Recorded 12/16/91 | |
| 15 | Navajo Citizens Utilities Company | 201 East Arizona Street, Holbrook | Holbrook Office | Lots 37 and 38, Block 8, Holbrook Townsite | Docket 1059, Pages 593-596, Recorded 12/16/91 | 109-19-361 |
| 16 | Navajo Citizens Utilities Company | 220 W. Third Street, Winslow | Winslow Pipe Yard | Lots 13 and 14, Block 9, Hicks Addition to the City of Winslow | Docket 1059, Pages 593-596, Recorded 12/16/91 | 103-16-284 |
| 17 | Navajo Citizens Utilities Company | | | Lot 16, Fairway Park Center, Section 23, Township 10, Range 21 | Recorded 12/16/91 | |
| 18 | Yavapai Citizens Utilities Company | 201 Grove Avenue, Prescott | Prescott Commercial Office | Lot 18, Block 2 of Fleury's Addition | Fee No. 97-1288, Recorded 1/24/97 | 209-52-016 |
| 19 | Yavapai Citizens Utilities Company | 501 North 6 th Street, Prescott | Prescott Service Center | NE 1/4 of SE 1/4, Section 33, Township 14 North, Range 2 West | Book 2426, Page 175 Instrument No. 9146741 Recorded 12/5/91 | 113-12-025 |
| 20 | Yavapai Citizens Utilities Company | Parent Road, Prescott Valley | Prescott Valley No. 2 Regulator Station | Portion of Lots 2128 and 2129, Prescott Valley Unit 5, Section 12, Township 14, Range 1 West, plus Lot 18, Block 2 | Book 2426, Pages 175-181, Instrument No. 9146741, Recorded 12/5/91 Book 2426, Pages 175-181 Instrument No. 9146741 Recorded 12/5/91 | 113-13-029 103-25-465B |

Arizona Gas

| COUNTY | TITLE HOLDER OF RECORD | PROPERTY ADDRESS | USE | LEGAL DESCRIPTION | RECORDING INFO | PARCEL/TAX ID NO. |
|--------|---------------------------------------|--|--|--|---|------------------------------|
| 21 | Yavapai Citizens Utilities Company | Corner of Roundup Drive and Sherril Drive, Prescott Valley | Prescott Valley No. 3 Regulator Station | Portion of Lot 6452, Prescott Valley, Unit 16 | Book 2426, Pages 175-181 Instrument No. 9146741 | 103-33-020A |
| 22 | Yavapai Citizens Utilities Company | Lot 193F and Lot 89D per Tax Map, in Town of Clarkdale | Haskell Springs Regulator Station | NW 1/4 SW 1/4 NW 1/4 Section 32, Township 16 North, Range 3 East, Clarkdale (.02 acres); and W 1/4 Section 32, Township 16 North, Range 3 East, Clarkdale (.02 acres) per Tax Report | Book 3156, page 882 No. 9608517 Recorded Date 2/16/96 | 406-29-0891D 406-29-1931F |
| 23 | Yavapai Citizens Utilities Company | Lot 32J near E-Z Street per Tax Map | | Lot 1, Sixth Street Subdivision, Prescott, Section 34, Township 14 North, Range 2 West (5,097 square feet) per Tax Report | Book 2649, Page 516 Recorded 6/18/93 | 114-01-032J |
| 24 | Yavapai Citizens Utilities Company | 501 North 6 th Street, Prescott | Storage area adjacent to the Prescott Service Center | Lot 40A, Sixth Subdivision, Prescott, Section 34, Township 14 North, Range 2 West per Tax Report | Book 2649, page 516 Recorded 6/18/93 | 114-01-040A |

SCHEDULE 4.10

SELLER CONDEMNATION MATTERS

None.

SCHEDULE 4.11(a)**CERTAIN SELLER MATERIAL AGREEMENTS****I. GAS PURCHASE AND SUPPLY AGREEMENTS**

1. Gas Purchase Agreement, dated January 1, 1999, between Citizens Communications Company and National Fuel Marketing Company, LLC.
2. Natural Gas Purchase and Sale Agreement, dated May 1, 1997, between Citizens Communications Company and The San Juan Basin Consortium, Ltd.
3. Gas Sales Agreement, dated April 1, 1992, between Citizens Communications Company and Engage Energy US, L.P., successor to Coastal Marketing Company.
4. Base Contract for Short-Term Sale and Purchase of Natural Gas, dated November 29, 2001, between Citizens Communications Company and BP Energy Company.
5. Base Contract for Short-Term Sale and Purchase of Natural Gas, dated May 7, 2001, between Citizens Communications Company and PPL Energy Plus, LLC, along with the Guaranty, dated May 7, 2001, by PPL Corporation (Guarantor) in favor of Citizens Communications Company (Guaranteed Party).
6. Letter of Intent – Natural Gas Supply and Management Agreement, dated March 25, 2002, as amended, between Citizens Communications Company and BP Energy Company.

II. CUSTOMER SUPPLY AGREEMENTS

1. Interruptible Natural Gas Sales and Agency Agreement, dated November 1, 1998, as amended, between Citizens Communications Company and Sturm Ruger & Company.
2. Interruptible Natural Gas Sales and Agency Agreement, dated September 25, 1996, as amended, between Citizens Communications Company and SCA Tissue North American LLC, successor to Wisconsin Tissue.
3. Interruptible Natural Gas Sales and Agency Agreement, dated October 22, 1997, as amended, between Citizens Communications Company and Potters Industries, Inc.
4. Interruptible Natural Gas Sales and Agency Agreement, dated July 21, 1997, as amended, between Citizens Communications Company and Phoenix Cement Company.

5. Interruptible Natural Gas Sales and Agency Agreement, dated May 29, 2001, between Citizens Communications Company and Abitibi.
6. Interruptible Natural Gas Sales and Agency Agreement, dated October 7, 1998, as amended, between Citizens Communications Company and Mission of Nevada.
7. Interruptible Natural Gas Sales and Agency Agreement, dated July 22, 1997, between Citizens Communications Company and City of Prescott, Arizona.
8. Firm Natural Gas Sales and Agency Agreement, dated December 1, 1998, as amended, between Citizens Communications Company and Paramount Petroleum Corporation.
9. Interruptible Natural Gas Sales and Agency Agreement, dated July 10, 2002, between Citizens Communications Company and Yavapai Community Hospital Association dba Yavapai Regional Medical Center.
10. Interruptible Natural Gas Sales and Agency Agreement, dated March 13, 2001, as amended, between Citizens Communications Company and Guardian Fiberglass.
11. Interruptible Natural Gas Sales and Agency Agreement, dated July 1, 1998, as amended, between Citizens Communications Company and Northern Arizona University.
12. Interruptible Natural Gas Sales and Agency Agreement, dated March 9, 2001, as amended, between Citizens Communications Company and Sinclair Oil Corporation dba Little America Hotel.
13. Interruptible Natural Gas Sales and Agency Agreement, dated April 10, 2002, between Citizens Communications Company and Verde Valley Medical Center.
14. Interruptible Natural Gas Sales and Agency Agreement, dated April 1, 2000, between Citizens Communications Company and Joy Cone Co.
15. Interruptible Natural Gas Sales and Agency Agreement, dated May 3, 2002, between Citizens Communications Company and Eurofresh, Inc.
16. Interruptible Natural Gas Sales and Agency Agreement, dated April 25, 2001, between Citizens Communications Company and Flagstaff Medical Center.

III. INTERCONNECTION AGREEMENTS

1. Delivery Point Construction and Operations Agreement, dated December 7, 1999, between Citizens Communications Company and Transwestern Pipeline Company.

2. Operating Agreement (Griffith Interchange Delivery Point), dated May 16, 2000, between Citizens Communications Company and El Paso Natural Gas Company, along with a Letter Agreement, dated May 16, 2000, between the parties covering construction of the interconnect.
3. Interconnect Agreement, dated May 6, 2002, between Citizens Communications Company and Questar Southern Trails Pipeline Company, along with Letter Agreement, dated March 8, 2002, between the parties covering construction of the interconnect.

IV. TRANSPORTATION AGREEMENTS

1. Transportation Service Agreement No. 20834, dated January 24, 1991, between Citizens Communications Company and Transwestern Pipeline Service Company. (Note: This agreement is governed by the provisions of Rate Schedule FTS-1 as well as the General Terms and Conditions, if applicable, contained in Transwestern's FERC Gas Tariff Second Revised Volume No. 1.)
2. Transportation Service Agreement No. 20822, dated January 24, 1992, as amended, between Citizens Communications Company and Transwestern Pipeline Company. (Note: This agreement is governed by the provisions of Rate Schedule FTS-1 as well as the General Terms and Conditions, if applicable, contained in Transwestern's FERC Gas Tariff Second Revised Volume No. 1.)
3. Transportation Service Agreement, Operator Balancing Agreement No. 21693, dated February 1, 1993, as amended, between Citizens Communications Company and Transwestern Pipeline Company.
4. Gas Transportation Agreement, dated July 27, 1994, between Citizens Communications Company and Potters Industries, Inc.
5. Gas Transportation Agreement, dated May 25, 1995, between Citizens Communications Company and SCA Tissue North American LLC, successor to Wisconsin Tissue.
6. Gas Transportation Agreement No. 18324, dated July 27, 1994, between Citizens Communications Company and Pinnacle West Energy Corporation, successor to Arizona Public Service Company.
7. Gas Transportation Agreement, dated August 29, 1994, as amended, between Citizens Communications Company and the Arizona Board of Regents for Northern Arizona University.
8. Gas Transportation Agreement, dated April 30, 1999, as amended, between Citizens Communications Company and Griffith Energy LLC.

9. Gas Transportation Agreement, dated August 29, 1994, between Citizens Communications Company and Phoenix Cement Company, a division of the Salt River Pima Maricopa Indian Community.
10. Gas Transportation Agreement, dated November 1, 1998, between Citizens Communications Company and Sturm Ruger & Company.
11. Gas Transportation Agreement, dated August 1, 1994, between Citizens Communications Company and Kingman Hospital, Inc. dba Kingman Regional Medical Center.
12. Gas Transportation Agreement No. GT0375-281-3, dated September 1, 1998, between Citizens Communications Company and Mission Industries.
13. Gas Transportation Agreement, dated December 1, 1998, between Citizens Communications Company and Paramount Petroleum Corporation.
14. Gas Transportation Agreement, dated July 27, 1994, as amended, between Citizens Communications Company and City of Kingman.
15. Gas Transportation Agreement No. GTAZ920801-1, dated August 1, 1992, between Citizens Communications Company and V.A. Medical Center.
16. Gas Transportation Agreement, dated August 18, 1994, between Citizens Communications Company and Flagstaff Medical Center.
17. Gas Transportation Agreement, dated August 17, 1994, as amended, between Citizens Communications Company and Abitibi Consolidated Sales Corporation, successor to Stone Container Corporation - Snowflake Mill.
18. Gas Transportation Agreement, dated July 22, 1997, between Citizens Communications Company and City of Prescott.
19. Gas Transportation Agreement, dated January 26, 1995, between Citizens Communications Company and Yavapai Community Hospital Association dba Yavapai Regional Medical Center.
20. Letter Agreement, dated May 2, 1995, between Citizens Communications Company and Transwestern Pipeline Company, re: discounted FTS reservation charge East of California deliveries, per Firm Transportation Agreement No. 20822. (See this Schedule 4.11(a), Item IV.2.)
21. Gas Transportation Agreement, dated August 18, 1994, between Citizens Communications Company and Sinclair Oil Corporation dba Little America Hotel.

22. Transportation Service Agreement As Amended and Restated (No. 97 ZH), dated August 28, 1991, as amended, between Citizens Communications Company and El Paso Natural Gas Company. (Note: This agreement is also governed by the general terms and conditions of El Paso's Rate Schedule I-3.)
23. Transportation Service Agreement (No. 989N), dated February 6, 1992, between El Paso Natural Gas Company (Transporter) and Citizens Communications Company, Arizona Gas Division (Shipper), re: delivery of natural gas to Citizens Communication Company's Arizona Electric Division, Valencia Power Plant. (Note: This agreement is also governed by the general terms and conditions of El Paso's underlying tariff.)
24. Natural Gas Pooling Agreement No. 26791, dated June 1, 1999, between Citizens Communications Company and Transwestern Pipeline Company.
25. Letter Agreement, re: Operational Balancing Agreement for Handling Transportation Gas Imbalances at Delivery Area Interconnects, dated January 13, 1997, between Citizens Communications Company and El Paso Natural Gas Company.
26. Letter Agreement, re: Agreement to Provide Onsite Metering Data at Certain Citizens Delivery Points, dated June 9, 1997, between Citizens Communications Company and El Paso Natural Gas Company.
27. Form of Gas Transportation Agreement No. GT 04-01-20002T1, dated April 1, 2000, between Citizens Communications Company and Joy Cone Co.
28. Gas Transportation Agreement No. GT 04-01-20001T1, dated April 1, 2000, between Citizens Communications Company and Verde Valley Medical Center.
29. Transportation Service Agreement, Operator Balancing Agreement No. 27602, dated April 1, 2001, between Citizens Communications Company and Transwestern Pipeline Company.
30. Operational Balancing Agreement, dated July 1, 2001, between Citizens Communications Company and El Paso Natural Gas Co.
31. Operator Balancing Agreement, dated June 28, 2001, between Citizens Communications Company and Griffith Energy, LLC.

V. CONSTRUCTION, CONSULTING AND OUTSOURCING AGREEMENTS

1. Blanket Construction Services Agreement, dated September 1, 2001, between Citizens Communications Company and Bogie Construction AZ, Inc.
2. Blanket Construction Services Agreement, dated September 1, 2001, between Citizens Communications Company and Northern Pipeline Construction Company.
3. General Services Agreement, dated January 1, 1999, as amended, between Citizens Communications Company and Coconino County Community Services Department.
4. Conversion of Individual Customers to Natural Gas, Northern Arizona, a General Services Agreement, dated March 10, 1999, between Citizens Communications Company and J.B. Rodgers/Kinetics.
5. Blanket Construction Services Agreement, dated December 4, 2001, between Citizens Communications Company and Hinkel & McCoy, Inc.
6. Blanket Construction Services Agreement, dated August 17, 2001, between Citizens Communications Company and Pacific Industrial Pipeline Co., Inc.
7. Letter Agreement, dated June 24, 2002, from Citizens Communications Company, Arizona Gas Division and Arizona Electric Division, to Andrejs Auskaps, re: Orcom assistance project. (Note: This letter agreement will only be partially assigned to the Buyer because the consultant also provides services to Arizona Electric Division.)
8. Consulting Services Agreement, dated February 1, 2002, between Citizens Communications Company and Foster Associates, Inc., re: developing depreciation studies for the Northern Arizona Gas Division and Santa Cruz Gas Division in connection with the gas rate filings.
9. Consulting Services Agreement, dated February 1, 2002, between Citizens Communications Company and Robert G. Rosenberg, re: conducting studies of the required rate of return of the Northern Arizona Gas Division and Santa Cruz Gas Division and developing an appropriate capital structure, cost of debt and cost of equity in connection with the gas rate filings.
10. Consultant Services Agreement, dated July 1, 2000, as amended, between Citizens Communications Company and The Johnco Group LLC, re: regulatory assistance.
11. Consultant Services Agreement, dated January 21, 2002, between Citizens Communications Company and R.J. Rudden Associates, re: coordinating rate filings and preparing financial models in connection with the gas rate filings.

12. Consultant Services Agreement, dated February 1, 2002, between Citizens Communications Company and MJ Solutions, Inc., re: gas rate filings.
13. Consultant Services Master Agreement, dated October 15, 1997, as amended, between Citizens Communications Company and Management Applications Consulting, Inc., re: gas rate filings. (Note: This agreement's term expired; Citizens is seeking to execute a new agreement. This agreement will only be partially assigned to the Buyer because the consultant also provides services to Arizona Electric Division.)
14. Engagement Letter, dated January 15, 2002, as amended, from Morris Loflin & Company, Inc. to Citizens Communications Company, re: assistance with compliance attainment.
15. CWS Software and Services Agreement – See this Schedule 4.11(a), Item VII.4.
16. Convergent Group Corporation – See this Schedule 4.11(a), Item VII.2.

VI. EQUIPMENT LEASES

1. Vehicle Lease Agreement No. 2106-1000, dated December 9, 1991, as amended, between Citizens Communications Company and Associates Fleet Services, successor to Trans-National Leasing, Inc., re: approximately 55 leased Arizona Gas Division vehicles. (Note: This lease can only be partially assigned to the Buyer because it covers other Citizens vehicles in addition to Arizona Gas Division vehicles.)
2. Lease Agreement, dated September 28, 1998, between Citizens Communications Company and Hughes-Callahan Corporation, re: two facsimile machines.
3. Lease Agreement, dated January 26, 2001, between Citizens Communications Company and Ikon Office Solutions, Inc., re: Canon LC9000L facsimile machine.
4. Lease Agreement, dated August 20, 1999, as amended, between Citizens Communications Company and Ikon Office Solutions, Inc., re: various office equipment.
5. Lease Agreement, dated October 21, 1999, between Citizens Communications Company and Baker's Office City, re: Sharp AR-335 Digital Document System, Show Low office.
6. Lease Agreement, dated July 7, 1995, between Citizens Communications Company and Hughes-Callahan Corporation, re: facsimile machine at Flagstaff office.

7. Lease Agreement, dated August 23, 1995, between Citizens Communications Company and Hughes-Callahan Corporation, re: facsimile machine at Flagstaff office.
8. Lease Agreement, dated August 3, 2000, between Citizens Communications Company and Pitney Bowes Credit Corporation, re: postage meter, Lake Havasu City office.

VII. SOFTWARE LICENSES

1. Software License Agreement, dated September 16, 1998, between Citizens Communications Company and Cook-Hurlbert, Inc.
2. Convergent Group Corporation, with respect to:
 - a. Agreement, dated September 15, 1997, between Citizens Communications Company and Convergent Group Corporation, re: computer consultant services.
 - b. Software Maintenance and Support Agreement, dated November 5, 1997, between Citizens Communications Company and Convergent Group.
3. Agreement, dated December 24, 1997, between Citizens Communications Company and Smallworld Systems, Inc., re: software license.
4. Symantec, with respect to:
 - a. Software License for Order 10239789, dated October 26, 1998, between Citizens Communications Company and Symantec, re: Act! Solution for Windows Platforms 4.0 Upgrade.
 - b. Software License for Order 10254452, dated November 21, 1998, between Citizens Communications Company and Symantec, re: Act! Solution for Windows Platforms 4.0 Upgrade.
5. CWS Software and Services Agreement, dated October 3, 1996, as amended, between Citizens Communications Company and Corporate Workflow Solutions, Inc., re: rate case management system software and consultant services. (Note: This agreement is a master agreement used by Citizens for its other utility operations besides Arizona Gas Division. Therefore, this agreement will only be partially assigned to the Buyer as it relates to consultant services performed by Mike Ragusa, a CWS employee, for Arizona Gas Division.)
6. Service Agreement, dated June 27, 2002, between Citizens Arizona Gas and Itron, Inc.

7. End User License and Warranty Agreement, dated June 27, 2002, between Citizens Arizona Gas and Itron, Inc.
8. Credit Bureau Internet Access Agreement, dated June 21, 2001, between Citizens Arizona Gas and Hart Software.

VIII. RELATED PARTY AGREEMENTS

1. Transportation Service Agreement (No. 989N), dated February 6, 1992, between El Paso Natural Gas Company (Transporter) and Citizens Communications Company, Arizona Gas Division (Shipper), re: delivery of natural gas to Citizens Communication Company's Arizona Electric Division, Valencia Power Plant. (Note: See Item IV.23 in this Schedule 4.11(a).)
2. Service Order PHNX3994, dated May 22, 2002, between Citizens Arizona Gas and Electric Lightwave, Inc., re: ELI maintained facility collocation, Phoenix Hub (staffed), additional 20 amp DC (DC power into new cabinet 03.C03.03).
3. Service Order PHNX4001, dated June 10, 2002, between Citizens Arizona Gas and Electric Lightwave, Inc., re: simple business lines, analog: Arizona for colo cabinet.
4. Service Order PHNX3874, dated April 29, 2002, between Citizens Arizona Gas and Electric Lightwave, Inc., re: Advantage dedicated 2 way long distance T1.
5. Service Order PHNX3937, dated May 3, 2002, between Citizens Arizona Gas and Electric Lightwave, Inc., re: switched long distance to Kingman customer service.
6. Service Order PHNX3947, dated May 3, 2002, between Citizens Arizona Gas and Electric Lightwave, Inc., re: switched long distance to Lake Havasu office.
7. Service Order PHNX3939, dated May 3, 2002, between Citizens Arizona Gas and Electric Lightwave, Inc., re: switched long distance to Show Low office.
8. Service Order PHNX3905, dated April 29, 2002, between Citizens Arizona Gas and Electric Lightwave, Inc., re: two frame relay ports to existing frame relay network.

IX. EMPLOYEE-RELATED AGREEMENTS

The collective bargaining agreement described on Schedule 4.7 (Seller Labor Matters) is hereby incorporated herein by reference.

X. OTHER CONTRACTS

1. Gas Service Borderline Agreement, dated July 24, 2002, between Citizens Communications Company and Black Mountain Gas Company. (See Schedule 4.12, Item I.6.)
2. Mutual Assistance Agreement, dated June 21, 2002, between Citizens Communications Company and Southwest Gas Company.
3. Customer Care Agreement, dated July 21, 2000, as amended, between Citizens Communications Company and Orcom Solutions, Inc.
4. Grant Agreement (CARES Gas Discount Program), dated June 30, 2000, between Citizens Communications Company and the Arizona Department of Economic Security – Community Services Administration.
5. Agreement, dated January 20, 2000, between Citizens Communications Company and Alarm Specialties, re: alarm service for Show Low office.
6. Confidentiality Agreement, dated November 25, 2001, between Citizens Communications Company and BP Energy Company.
7. Armored Service Agreement, dated January 25, 2001, between Citizens Communications Company and Loomis Fargo & Co., re: service for Lake Havasu City office.
8. Agreement for TransUnion Score Services, dated June 21, 2001, between Citizens Energy Services and Trans Union LLC, together with Pricing Addendum, dated June 26, 2001. (Note: This agreement is used in Citizens' other utility operations. Therefore, this agreement will only be partially assigned to Buyer as it relates to Arizona Gas Division.)
9. Service Agreement (Non Hazardous Waste), dated January 25, 2002, between Citizens Communications Company and Waste Management, re: service to Cottonwood office.
10. Service Rental Agreement (Dust Control), dated October 15, 1999, between Citizens Communications Company and Prudential Overall Supply.
11. Proposal and Standard Contract, dated March 26, 2002, between Citizens Energy Services and Southwest Hazard Control, Inc. (Note: This agreement will only be partially assigned to Buyer because Southwest Hazard Control also provides services to Arizona Electric Division.)

SCHEDULE 4.11(b)

CERTAIN SELLER MATERIAL AGREEMENTS REQUIRING CONSENT TO
TRANSFER

A. Gas Purchase and Supply Agreements

1. Gas Purchase Agreement, dated January 1, 1999, between Citizens Communications Company and National Fuel Marketing Company, LLC.
2. Natural Gas Purchase and Sale Agreement, dated May 1, 1997, between Citizens Communications Company and The San Juan Basin Consortium, Ltd.
3. Gas Sales Agreement, dated April 1, 1992, between Citizens Communications Company and Engage Energy US, L.P., successor to Coastal Marketing Company.
4. Base Contract for Short-Term Sale and Purchase of Natural Gas, dated November 29, 2001, between Citizens Communications Company and BP Energy Company.
5. Base Contact for Short-Term Sale and Purchase of Natural Gas, dated May 7, 2001, between Citizens Communications Company and PPL Energy Plus, LLC.

B. Customer Supply Agreements

1. Interruptible Natural Gas Sales and Agency Agreement, dated November 1, 1998, as amended, between Citizens Communications Company and Sturm Ruger & Company.
2. Interruptible Natural Gas Sales and Agency Agreement, dated September 25, 1996, as amended, between Citizens Communications Company and SCA Tissue North American LLC, successor to Wisconsin Tissue.
3. Interruptible Natural Gas Sales and Agency Agreement, dated October 22, 1997, as amended, between Citizens Communications Company and Potters Industries, Inc.
4. Interruptible Natural Gas Sales and Agency Agreement, dated July 21, 1997, as amended, between Citizens Communications Company and Phoenix Cement Company.
5. Interruptible Natural Gas Sales and Agency Agreement, dated May 29, 2001, between Citizens Communications Company and Abitibi.

6. Interruptible Natural Gas Sales and Agency Agreement, dated October 7, 1998, as amended, between Citizens Communications Company and Mission of Nevada.
7. Interruptible Natural Gas Sales and Agency Agreement, dated July 22, 1997, between Citizens Communications Company and City of Prescott, Arizona.
8. Firm Natural Gas Sales and Agency Agreement, dated December 1, 1998, as amended, between Citizens Communications Company and Paramount Petroleum Corporation.
9. Interruptible Natural Gas Sales and Agency Agreement, dated July 10, 2002, between Citizens Communications Company and Yavapai Community Hospital Association dba Yavapai Regional Medical Center.
10. Interruptible Natural Gas Sales and Agency Agreement, dated March 13, 2001, as amended, between Citizens Communications Company and Guardian Fiberglass.
11. Interruptible Natural Gas Sales and Agency Agreement, dated July 1, 1998, as amended, between Citizens Communications Company and Northern Arizona University.
12. Interruptible Natural Gas Sales and Agency Agreement, dated March 9, 2001, as amended, between Citizens Communications Company and Sinclair Oil Corporation dba Little America Hotel.
13. Interruptible Natural Gas Sales and Agency Agreement, dated April 10, 2002, between Citizens Communications Company and Verde Valley Medical Center.
14. Interruptible Natural Gas Sales and Agency Agreement, dated April 1, 2000, between Citizens Communications Company and Joy Cone Co.

15. Interruptible Natural Gas Sales and Agency Agreement, dated May 3, 2002, between Citizens Communications Company and Eurofresh, Inc.
16. Interruptible Natural Gas Sales and Agency Agreement, dated April 25, 2001, between Citizens Communications Company and Flagstaff Medical Center.

C. Interconnection Agreements

1. Delivery Point Construction and Operations Agreement, dated December 7, 1999, between Citizens Communications Company and Transwestern Pipeline Company.
2. Operating Agreement (Griffith Interchange Delivery Point), dated May 16, 2000, between Citizens Communications Company and El Paso Natural Gas Company, along with a Letter Agreement, dated May 16, 2000, between the parties covering construction of the interconnect.
3. Interconnect Agreement, dated May 6, 2002, between Citizens Communications Company and Questar Southern Trails Pipeline Company.

D. Transportation Agreements

1. Transportation Service Agreement No. 20834, dated January 24, 1991, between Citizens Communications Company and Transwestern Pipeline Service Company. (Note: This agreement is governed by the provisions of Rate Schedule FTS-1 as well as the General Terms and Conditions, if applicable, contained in Transwestern's FERC Gas Tariff Second Revised Volume No. 1.)
2. Transportation Service Agreement No. 20822, dated January 24, 1992, as amended, between Citizens Communications Company and Transwestern Pipeline Company. (Note: This agreement is governed by the provisions of Rate Schedule FTS-1 as well as the General Terms and Conditions, if applicable, contained in Transwestern's FERC Gas Tariff Second Revised Volume No. 1.)
3. Transportation Service Agreement, Operator Balancing Agreement No. 21613, dated February 1, 1993, as amended, between Citizens Communications Company and Transwestern Pipeline Company.
4. Gas Transportation Agreement, dated July 27, 1994, between Citizens Communications Company and Potters Industries, Inc.

5. Gas Transportation Agreement, dated May 25, 1995, between Citizens Communications Company and SCA Tissue North American LLC, successor to Wisconsin Tissue.
6. Gas Transportation Agreement No. 18324, dated July 27, 1994, between Citizens Communications Company and Pinnacle West Energy Corporation, successor to Arizona Public Service Company.
7. Gas Transportation Agreement, dated August 29, 1994, as amended, between Citizens Communications Company and the Arizona Board of Regents for Northern Arizona University.
8. Gas Transportation Agreement, dated April 30, 1999, as amended, between Citizens Communications Company and Griffith Energy LLC.
9. Gas Transportation Agreement, dated August 29, 1994, between Citizens Communications Company and Phoenix Cement Company, a division of the Salt River Pima Maricopa Indian Community.
10. Gas Transportation Agreement, dated November 1, 1998, between Citizens Communications Company and Sturm Ruger & Company.
11. Gas Transportation Agreement, dated August 1, 1994, between Citizens Communications Company and Kingman Hospital, Inc. dba Kingman Regional Medical Center.
12. Gas Transportation Agreement No. GT0375-281-3, dated September 1, 1998, between Citizens Communications Company and Mission Industries.
13. Gas Transportation Agreement, dated December 1, 1998, between Citizens Communications Company and Paramount Petroleum Corporation.
14. Gas Transportation Agreement, dated July 27, 1994, as amended, between Citizens Communications Company and City of Kingman.
15. Gas Transportation Agreement No. GTAZ920801-1, dated August 1, 1992, between Citizens Communications Company and V.A. Medical Center.
16. Gas Transportation Agreement, dated August 18, 1994, between Citizens Communications Company and Flagstaff Medical Center.
17. Gas Transportation Agreement, dated August 17, 1994, as amended, between Citizens Communications Company and Abitibi Consolidated

- Sales Corporation, successor to Stone Container Corporation - Snowflake Mill.
18. Gas Transportation Agreement, dated July 22, 1997, between Citizens Communications Company and City of Prescott.
 19. Gas Transportation Agreement, dated January 26, 1995, between Citizens Communications Company and Yavapai Community Hospital Association dba Yavapai Regional Medical Center.
 20. Letter Agreement, dated May 2, 1995, between Citizens Communications Company and Transwestern Pipeline Company, re: discounted FTS reservation charge East of California deliveries per Firm Transportation Service Agreement No. 20822.
 21. Gas Transportation Agreement, dated August 18, 1994, between Citizens Communications Company and Sinclair Oil Corporation dba Little America Hotel.
 22. Transportation Service Agreement As Amended and Restated (No. 97 ZH), dated August 28, 1991, as amended, between Citizens Communications Company and El Paso Natural Gas Company. (Note: This agreement is also governed by the general terms and conditions of El Paso's Rate Schedule I-3.)
 23. Transportation Service Agreement (No. 989N), dated February 6, 1992, between El Paso Natural Gas Company (Transporter) and Citizens Communications Company, Arizona Gas Division (Shipper), re: delivery of natural gas to Citizens Communication Company's Arizona Electric Division, Valencia Power Plant. (Note: This agreement is also governed by the general terms and conditions of El Paso's underlying tariff.)
 24. Letter Agreement, re: Operational Balancing Agreement for Handling Transportation Gas Imbalances at Delivery Area Interconnects, dated January 13, 1997, between Citizens Communications Company and El Paso Natural Gas Company.
 25. Form of Gas Transportation Agreement No. GT 04-01-20002T1, dated April 1, 2000, between Citizens Communications Company and Joy Cone Co.
 26. Gas Transportation Agreement No. GT 04-01-20001T1, dated April 1, 2000, between Citizens Communications Company and Verde Valley Medical Center.

27. Operator Balancing Agreement, dated June 28, 2001, between Citizens Communications Company and Griffith Energy, LLC.

E. Equipment Leases

1. Vehicle Lease Agreement No. 2106-1000, dated December 9, 1991, as amended, between Citizens Communications Company and Associates Fleet Services, successor to Trans-National Leasing, Inc., re: approximately 55 leased Arizona Gas Division vehicles. (Note: This lease can only be partially assigned to the Buyer because it covers other Citizens vehicles in addition to Arizona Gas Division vehicles.)
2. Lease Agreement, dated September 28, 1998, between Citizens Communications Company and Hughes-Callahan Corporation, re: two facsimile machines.
3. Lease Agreement, dated January 26, 2001, between Citizens Communications Company and Ikon Office Solutions, Inc., re: Canon LC9000L facsimile machine.
4. Lease Agreement, dated August 20, 1999, as amended, between Citizens Communications Company and Ikon Office Solutions, Inc., re: various office equipment.
5. Lease Agreement, dated October 21, 1999, between Citizens Communications Company and Baker's Office City, re: Sharp AR-335 Digital Document System, Show Low office.
6. Lease Agreement, dated July 7, 1995, between Citizens Communications Company and Hughes-Callahan Corporation, re: facsimile machine at Flagstaff office.
7. Lease Agreement, dated August 23, 1995, between Citizens Communications Company and Hughes-Callahan Corporation, re: facsimile machine at Flagstaff office.
8. Lease Agreement, dated August 3, 2000, between Citizens Communications Company and Pitney Bowes Credit Corporation, re: postage meter, Lake Havasu City office.

F. Software Licenses

1. Software License Agreement, dated September 16, 1998, between Citizens Communications Company and Cook-Hurlbert, Inc.

2. Convergent Group Corporation, with respect to:
 - a. Agreement, dated September 15, 1997, between Citizens Communications Company and Convergent Group Corporation, re: computer consultant services.
 - b. Software Maintenance and Support Agreement, dated November 5, 1997, between Citizens Communications Company and Convergent Group.
3. Agreement, dated December 24, 1997, between Citizens Communications Company and Smallworld Systems, Inc., re: software license.
4. Symantec, with respect to:
 - a. Software License for Order 10239789, dated October 26, 1998, between Citizens Communications Company and Symantec, re: Act! Solution for Windows Platforms 4.0 Upgrade.
 - b. Software License for Order 10254452, dated November 21, 1998, between Citizens Communications Company and Symantec, re: Act! Solution for Windows Platforms 4.0 Upgrade.
5. CWS Software and Services Agreement, dated October 3, 1996, as amended, between Citizens Communications Company and Corporate Workflow Solutions, Inc., re: rate case management system. (Note: This agreement is a master agreement used by Citizens for its other utility operations besides Arizona Gas Division. Therefore, this agreement will only be partially assigned to the Buyer as it relates to consultant services performed by Mike Ragusa, a CWS employee, for Arizona Gas Division.)
6. Service Agreement, dated June 27, 2002, between Citizens Arizona Gas and Itron, Inc. (Note: An assumption agreement is required to assign this agreement; prior written consent is not required to assign this agreement.)
7. End User License and Warranty Agreement, dated June 27, 2002, between Citizens Arizona Gas and Itron, Inc. (Note: An assumption agreement is required to assign this agreement; prior written consent is not required to assign this agreement.)

G. Other Contracts

1. Customer Care Agreement, dated July 21, 2000, as amended, between Citizens Communications Company and Orcom Solutions, Inc.

2. Agreement, dated January 20, 2000, between Citizens Communications Company and Alarm Specialties, re: alarm service for Show Low office.
3. Confidentiality Agreement, dated November 25, 2001, between Citizens Communications Company and BP Energy Company.
4. Armored Service Agreement, dated January 25, 2001, between Citizens Communications Company and Loomis Fargo & Co., re: service for Lake Havasu City office.
5. Agreement for TransUnion Score Services, dated June 21, 2001, between Citizens Energy Services and Trans Union LLC, together with Pricing Addendum, dated June 26, 2001. (Note: This agreement is used in Citizens' other utility operations. Therefore, this agreement will only be partially assigned to Buyer as it relates to Arizona Gas Division.)

H. Miscellaneous Consents

1. Railroad Crossing Agreements
 - a. Union Pacific/Southern Pacific Company, with respect to numerous railroad crossing agreements.
 - b. Burlington Northern Railroad Company, with respect to numerous railroad crossing agreements.
2. Tribal Right of Way Conveyances:
 - a. Hopi Tribe
 - b. Yavapai-Prescott Tribe
 - c. Yavapai-Apache Tribe (Note: Citizens is currently in negotiations for a Right of Way to serve a casino in Camp Verde.)

I. Real Property Lease Agreements

1. Lease Agreement, dated November 30, 1998, between Citizens Communications Company (Tenant) and Mountain Oaks Development, LLC, successor to 1560 East Thornton Road, LLC, (Landlord), re: Show Low office, 1480 16th Street, Show Low, Arizona.
2. Real Estate Lease, dated February 1, 1999, as amended, between Citizens Communications Company (Tenant) and Adams/Hartnett Bldg. Co., LLC (Landlord), re: 625 W. Desmond Street, Winslow, Arizona.

3. Lease, dated February 1, 2001, between Citizens Communications Company (Tenant) and Paula Brockman (Landlord), re: 215 Coffee Pot Drive, Suite D, Sedona, Arizona.
4. Lease Agreement (for Right-of-Way), dated August 27, 1998, between Citizens Communications Company (Lessee) and State of Arizona, by and through the Arizona Game and Fish Commission, (Lessor), re: joint-use right of way for gas and telephone service.
5. Lease of Land (Short Term) No. 137801, dated November 1, 1971, as amended, between Citizens Communications Company (Lessee) and Burlington Northern Santa Fe Corporation (Lessor), re: storage site for pipeline materials and a regulator site, near Williams, Coconino County, Arizona.
6. Lease Agreement, dated January 18, 2002, between Citizens Communications Company (Tenant) and Pulliam I, L.L.C. (Landlord), re: Flagstaff office, 2901 Shamrell Boulevard, Flagstaff, Arizona.
7. Lease Agreement, dated April 5, 2001, between Citizens Communications Company (Tenant) and Richard Henderson (Landlord), re: Commercial/Industrial Building, 4366 E. Huntington, Suite 200, Flagstaff, Arizona.
8. Commercial Lease and Deposit Receipt, dated December 26, 2000, between Citizens Communications Company (Tenant) and William L. Nugent, re: 2002 Stockton Hill Road, Suite 103, Kingman, Arizona.
9. Standard Industrial/Commercial Single-Tenant Lease Agreement, dated June 28, 2000, as amended, between Citizens Communications Company and Gerald J. Strunz et al., re: 3198 Sweetwater, Lake Havasu City, Arizona.

SCHEDULE 4.11(c)

DEFAULTS UNDER CERTAIN MATERIAL AGREEMENTS

None.

SCHEDULE 4.12LEGAL PROCEEDINGS INVOLVING SELLER

I. PROCEEDINGS

1. Transwestern Pipeline/El Paso Natural Gas Company, filed with Federal Energy Regulatory Commission. As result of litigation initiated by Southern California Edison Company, the DC Circuit Court of Appeals remanded a 1996 FERC-approved settlement in an El Paso Natural Gas Company docket to FERC. These issues have been addressed in the consolidated matter:

Federal Energy Regulatory Commission, Docket Nos. RP00-336-002, RP01-484-000, RP01-486-000 and RP00-139-000. Order on Capacity Allocation and Complaints.

On May 31, 2002, FERC issued a significant order that addressed the allocation of El Paso Natural Gas Company's pipeline capacity. The order mandates the conversion of full-requirements capacity contracts, such as those held by Citizens, be converted to Contract Demand Contracts, effective November 2002. Parties have been ordered to attempt to settle outstanding issues. Parties are currently negotiating.

2. In re Suntastic USA, Inc., District of Arizona Bankruptcy Court, Case No. 00-08420-ECF-CGC.

Suntastic filed a voluntary petition under Chapter 7 on August 4, 2000. There is a pending contested matter between Citizens and Robobank regarding Robobank's consent to use its Cash Collateral to pay Citizens the approximately \$90,000 that is owed for pre-petition natural gas service. The parties have agreed to a stipulation. The parties are waiting for court approval of the stipulation.

3. Citizens Communications Company vs Nutri-Sources, LLC, Yavapai County Superior Court, CV 200110534.

On August 10, 2001, Citizens filed a breach of contract complaint against Nutri-Source for failure to pay Citizens for services rendered pursuant to a transportation agreement as of February 2001 (approximately \$290,000). After the lawsuit was filed, Nutri-Source lawyers contacted Citizens' outside counsel and advised that Nutri-Source was in dire financial straits and requested a standstill on the litigation for eight months to finalize financial commitments. Citizens never responded to that offer.

4. ACC Docket No. G-01032A-02-0598.

On August 6, 2002, Citizens Arizona Gas Division filed a Request for a Rate Increase with the Arizona Corporation Commission. Citizens is seeking to increase its service rates by approximately \$21 million annually, an increase of approximately 28%. Citizens is seeking recovery of millions of dollars that have been invested to expand natural gas service to unserved areas and to repair and improve its existing facilities to provide reliable service to its Arizona customers. Staff has thirty days to do its initial review of the filings and to provide notice of sufficiency. Citizens filed additional information with the Commission as requested by Commission Staff. Citizens is still waiting for a notice of sufficiency.

5. Arizona Corporation Commission, Docket No. G-01032A-02-0478. In the Matter of the Application to Approve an Amendment to the Gas Transportation Agreement between Citizens Communications Company and Griffith Energy LLC.

On June 25, 2002, the Arizona Gas Division filed for approval of amendments to the Gas Transportation Agreement between Citizens and Griffith Energy to allow for interconnection with Questar Southern Trails Pipeline. Citizens is also seeking approval of its proposed accounting treatment for the revenues associated with the project. See Orders 65051 and 65214 listed on Schedule 2.3(g).

6. Arizona Corporation Commission, Docket No. G-01032A-02___. In the Matter of the Joint Application of Citizens Communications Company, Arizona Gas Division, and Black Mountain Gas Company for an Order Approving a Borderline Agreement.

On August 14, 2002, Citizens and Black Mountain Gas Company filed for approval of a Borderline Agreement. A mobile home park homeowner's association that is located adjacent to the City of Page, Arizona had requested gas service. Citizens' nearest facilities are located near Flagstaff, Arizona; Black Mountain Gas Company provides propane gas service in an area near the mobile home park. Black Mountain Gas Company can provide propane service to these customers more economically than Citizens could provide natural gas service. For these reasons, Citizens has agreed to allow Black Mountain Gas Company to service these customers in Citizens' certified area. The Arizona Corporation Commission must approve the agreement.

II. GOVERNMENTAL ORDERS

1. The Governmental Orders described on Schedule 2.3(g) are hereby incorporated herein by reference.

2. The FERC order referenced in Item I.1 of this Schedule 4.12 is incorporated herein by reference.

SCHEDULE 4.13

SELLER PERMIT VIOLATIONS

I. VIOLATIONS

None.

II. MISSING PERMITS

None. (Note: (a) The franchise from Mohave County expired in 1995; and

(b) The franchise from the City of Nogales expired on December 31, 1997. (See Schedule 6.1(a) item 2.) Citizens is currently operating pursuant to Ordinance No. 098-02-04, an ordinance of the City of Nogales, relating to the establishment of a Public Utility Tax (2% of gross income).)

SCHEDULE 4.14

SELLER TAX MATTERS

- I. NOTICES OF DEFICIENCY OR ASSESSMENT OR INFORMATION DOCUMENT REQUESTS
 - A. Internal Revenue Service 1997-2000.
 - B. State of Arizona Income Tax Audit for the years 1996-2000.
 - C. State of Montana Income Tax Audit for September 1, 1996 - September 1, 2001.
 - D. IRS Audit of Mohave County IDRB, 1993 Series.
- II. WAIVERS OF STATUTES OF LIMITATIONS
 - A. Citizens Communications Company has signed a waiver that extends the statute of limitations (Federal) until June 30, 2003 for the tax years ending December 31, 1997 and December 31, 1998.
- III. SAFE HARBOR LEASE PROVISIONS (SECTION 168(F) OF THE CODE)

None.
- IV. "TAX-EXEMPT USE" PROPERTY (SECTION 168(H) OF THE CODE)

Certain of the Assets are "Tax-Exempt Use" property; See Schedule 6.15.
- V. CERTAIN TAXING JURISDICTIONS

None.

SCHEDULE 4.15

SELLER INTELLECTUAL PROPERTY EXCEPTIONS

None.

SCHEDULE 4.20

SELLER FINANCIAL STATEMENTS

See attached.

Citizens Energy Services
Proforma Balance Sheet- Arizona Gas Division
December 31, 2001
(Unaudited)

| | Property Level Subtotal | Consolidations/ Corporate Adjustments | Consolidated Gas Sector Total |
|---------------------------------------|----------------------------|---|----------------------------------|
| Petty Cash | 157,005 | | |
| Accounts Receivable-Utilities | 14,065,353 | (36,785) | 120,220 |
| Accounts Receivable-Other | 1,343,786 | (693,000) | 13,372,353 |
| Reserve for Doubtful Accounts | (696,971) | (907,935) | 435,851 |
| Materials & Supplies | 951,443 | 693,000 | (3,971) |
| Special Deposits | - | - | 951,443 |
| Prepayments | 8,576 | - | - |
| Other Current Assets | 138,292 | - | 8,576 |
| Total Current Assets | 15,967,484 | (944,720) | 138,292 |
| | | | 15,022,764 |
| Property, Plant and Equipment | 253,786,704 | (7,802,004) | 245,984,700 |
| Construction Work In Process | 2,327,568 | - | 2,327,568 |
| Accumulated Depreciation | (55,356,497) | 3,268,199 | (52,088,298) |
| Net Fixed Assets | 200,757,775 | (4,533,804) | 196,223,971 |
| Preliminary Survey and Investigation | - | - | - |
| Deferred Debits | 39,824,963 | - | - |
| Regulatory Assets | 480,899 | - | 39,824,963 |
| Total Non-Current | 40,305,862 | - | 480,899 |
| | | | 40,305,862 |
| Total Assets | 257,031,121 | (5,478,524) | 251,552,597 |
| Accounts Payable | 12,556,469 | (3,691,563) | 8,864,906 |
| Customer Deposits | 1,884,152 | - | 1,884,152 |
| Income Taxes Accrued | - | - | - |
| Other Taxes Accrued | 3,482,504 | - | 3,482,504 |
| Interest Accrued on Customer Deposits | 180,059 | - | 180,059 |
| Other Current and Accrued Liabilities | 5,595,713 | (5,540,872) | 54,841 |
| Total Current and Accrued Liabilities | 23,698,897 | (9,232,435) | 14,466,462 |
| Customer Advances for Construction | 6,393,908 | (330,425) | 6,063,483 |
| Deferred Income Taxes | 7,644,618 | (7,644,618) | - |
| Regulatory Liabilities | 104,431 | - | 104,431 |
| Other Deferred Credits | 699,817 | - | 699,817 |
| Unamortized Investment Tax Credit | 46,618 | (46,618) | - |
| Other Payables | - | 459,281 | 459,281 |
| Total Non-Current Liabilities | 14,889,392 | (7,562,380) | 7,327,012 |
| Net Retained Earnings | 2,092,620 | 227,666,503 | 229,759,123 |
| Intercompany Receivables | 216,350,212 | (216,350,212) | - |
| Total Shareholder's Equity | 218,442,832 | 11,316,291 | 229,759,123 |
| Total Liabilities and Equity | 257,031,121 | (5,478,524) | 251,552,597 |

Notes to the Financial Statements:

- 1- For the Proforma Balance Sheet, Deferred Income Taxes, Cash held in Bank Accounts, Investment Tax Credits, and FASB 109 liability have been eliminated.
- 2- All assets which are non exclusive have been removed for presentation purposes.
- 3- Pension liability allocation based on 12/31/01 expense calculation.
- 4- Does not include IDR obligations and unamortized debt discount.

Citizens Energy Services
Proforma Income Statement- Arizona Gas Division
For the Twelve Months Ended December 31, 2001
(Unaudited)

| | Property Level Subtotal | Consolidations/ Corporate Adjustments | Consolidated Consolidated Gas Sector Total |
|---|----------------------------|---|--|
| Gas Revenue | 73,345,583 | - | 73,345,583 |
| Gas Purchased | 44,933,966 | - | 44,933,966 |
| Other O&M Expenses | 18,069,376 | - | 18,069,376 |
| Taxes Other Than Income | 3,504,921 | 907,935 | 4,412,856 |
| Total Operating Expenses | 66,508,263 | 907,935 | 67,416,198 |
| EBITDA | 6,837,320 | (907,935) | 5,929,385 |
| Depreciation & Amortization Expense | 8,406,677 | - | 8,406,677 |
| Income From Operations | (1,569,357) | (907,935) | (2,477,292) |
| Allowance for Funds Used During Construction | 2,115,223 | - | 2,115,223 |
| Investment Income | 1,432,017 | - | 1,432,017 |
| Other Income(Deductions) | 943,991 | - | 943,991 |
| Misc Nonoperating Income | 927,469 | (704,000) | 223,469 |
| Total Other Income(Deductions) | 5,418,700 | (704,000) | 4,714,700 |
| Operating Income Before Interest Expense and Income Taxes | 3,849,343 | (1,611,935) | 2,237,408 |
| Interest on Long Term Debt | - | - | - |
| Amortization of Debt Discount | - | - | - |
| Other Interest Expense | 113,469 | - | 113,469 |
| Total Interest Expense | 113,469 | - | 113,469 |
| Operating Income Before Income Taxes | 3,735,874 | (1,611,935) | 2,123,939 |
| Income Taxes | 1,643,254 | - | 1,643,254 |
| Net Income | 2,092,620 | (1,611,935) | 480,685 |

Notes to the Financial Statements:

- 1- The Proforma Income Statement does not include allocated interest from parent.
- 2- Income taxes are recorded at 35% for Federal and 8% for State. The corporation files a consolidated tax return including Arizona Gas.

SCHEDULE 5.3(a)

BUYER CONFLICTS, DEFAULTS AND REGULATIONS

None.

SCHEDULE 5.3(b)

BUYER REQUIRED REGULATORY APPROVALS

- I. Any and all approvals listed by Seller in Schedule 4.3(b) (*Seller Required Regulatory Approvals*) that require affirmative action on the part of Buyer to assume, transfer, or obtain the rights granted to Seller by the listed license, permit, order of approval or acceptance, easement, franchise, or other regulatory approval set forth in Schedule 4.3(b) (*Seller Required Regulatory Approvals*).

- II. FEDERAL GOVERNMENTAL BODIES
 - A. U.S. Federal Trade Commission and U.S. Department of Justice, pursuant to the Hart-Scott-Rodino Antitrust Improvement Acts of 1976, as amended.
 - B. Securities and Exchange Commission, PUHCA.
 - C. See I, *supra*.

- III. STATE GOVERNMENTAL BODIES
 - A. Arizona Corporation Commission, with respect to:
 - 1. Commission Review of Transaction between Public Utilities and Affiliates, Affiliated Interest Rules Section 14-2-804
 - 2. Transfer of Certificates of Convenience and Necessity
 - 3. Financing
 - 4. Order allowing acquisition pursuant to ARS 40-285
 - B. See I, *supra*.

- IV. LOCAL GOVERNMENTAL BODIES
 - A. See I, *supra*.

SCHEDULE 5.6

LEGAL PROCEEDINGS INVOLVING BUYER

None.

SCHEDULE 6.1(a)

EXCEPTIONS TO CONDUCT OF THE BUSINESS AND OPERATION OF THE ASSETS

1. Citizens may settle outstanding issues addressed in Item I.1 of Schedule 4.12.
2. Citizens may perform obligations pursuant to Revised Citizens Settlement Agreement, dated June 1, 1999, between City of Nogales, Arizona and Citizens Communications Company, including negotiating a 25 year franchise agreement with participation of UniSource.
3. Citizens may enter into a Natural Gas Supply and Management Agreement with BP Energy Company. (See Item I.6 of Schedule 4.11(a).)
4. Citizens may enter into a Purchase and Sale Agreement with El Paso Natural Gas Company for Citizens to acquire a gas lateral in Kingman, Arizona.
5. Citizens may enter into a Service Agreement with Atmos-Woodward for Atmos-Woodward to provide to Citizens scheduling and monitoring services for the Griffith Metering Station.

SCHEDULE 6.12(d)(iii)BUYER BENEFIT PLANS

| Plan | Provider |
|---|--|
| Medical - Aetna HMO - Self-funded PPO | Aetna US Healthcare Self-insured, Zenith Administrators - BCBSAZ network provider mgmt - Excess Health (organ/Tissue Transplant benefits) - Banner Health Systems (Mental Health/Substance Abuse benefits) |
| Dental - Self-funded Dental - Dental Maintenance Organization | Self-insured, Zenith Administrators Employers Dental Services |
| Vision - Vision Plan | Vision Services Plan |
| Life Insurance - Employee Life (\$10,000 - \$600,000) - Spouse Life (\$5,000 - \$25,000) - Child Life (\$1,000 - \$5,000) - Accidental Death and Dismemberment - Business Travel Accident (salaried only) | UNUM UNUM UNUM UNUM Life Ins. Co. of North America |
| Long-term Disability | UNUM |
| Health & Dependent Care Spending Accounts | Denver Reserve |
| 401(k) Plan | Fidelity Investments |
| Defined Benefit Pension Plans | State Street Bank & Trust |
| Performance Enhancement Plan (PEP) | Company administered |
| Management & Directors Deferred Compensation Plan | Clark/Bardes |
| Employee Assistance Plan | Banner Health Systems |

SCHEDULE 6.12(d)(iii)(D)

RETIREES

Current retirees

| LAST NAME | FIRST NAME | SEX | BIRTH DATE | HIRE DATE | RETIRE DATE | SPOUSE COVERED | MEDICAL COVERAGE | DENTAL COVERAGE | LIFE | DEP LIFE |
|-----------|------------|-----|------------|-----------|-------------|----------------|------------------|-----------------|--------|----------|
| BURSLEY | ROBERT K. | M | 09/28/19 | 06/20/76 | 10/31/92 | Y | Y | N | 10,000 | 0 |
| EDWARDS | DONALD R. | M | 07/22/37 | 12/04/58 | 07/31/95 | Y | Y | N | 10,000 | 0 |
| ORR | JACKIE C. | M | 07/26/36 | 07/13/56 | 07/31/95 | Y | Y | N | 10,000 | 0 |
| ROUSSELLE | SONJA H. | F | 10/18/36 | 05/29/90 | 07/31/95 | N | Y | N | 10,000 | 0 |
| SCOTT | GORDON J. | M | 06/01/31 | 01/24/72 | 05/31/93 | Y | Y | N | 10,000 | 0 |
| STEPHENS | JAMES L. | M | 09/14/34 | 07/30/62 | 03/31/94 | N | Y | N | 10,000 | 0 |
| WALSH | ALMEDA | F | 10/11/40 | 11/22/82 | 12/31/96 | ? | Y | N | 0 | 0 |
| WEST | BILLY M. | M | 04/13/33 | 09/15/64 | 07/31/95 | Y | Y | N | 10,000 | 0 |
| WISDOM | WILLIAM | M | 09/16/32 | 05/01/74 | 08/01/95 | Y | Y | N | 10,000 | 0 |
| CASTILLO | DANIEL | M | 02/17/37 | 10/19/70 | 02/18/98 | N | Y | N | 10,000 | 0 |
| WARREN | JAMES | M | 04/25/39 | 02/05/68 | | | | | | |
| VALASQUEZ | HECTOR | M | 09/20/38 | 01/29/79 | 10/01/00 | | | | | |

Grandfathered active employees

| Name | Birth Date | Hire Date |
|------------------------|------------|-------------------|
| Broughton, Carol A. | 07/08/42 | 11/05/68 |
| Butrymowicz, Donald M. | 02/26/37 | 01/24/77 |
| | | (retired 1/31/02) |
| Carroll, Richard G. | 10/21/38 | 10/09/61 |
| Duey, Daniel J. | 08/14/40 | 08/15/77 |
| Fetterman, Marvin J. | 04/19/40 | 03/09/81 |
| Fisher, Donald J. | 07/06/36 | 09/24/73 |
| | | (retired 7/31/02) |
| Hines, James W. | 07/29/40 | 03/21/60 |
| Jenkins, David G. | 06/21/42 | 10/01/62 |
| Smith, John W. | 01/19/43 | 06/29/81 |

(Eligible union employees)

| Name | Birth Date | Hire Date |
|----------------|------------|-----------|
| Felix, Esthela | 02/09/44 | 12/03/80 |

Actuarial Assumptions

Discount Rate: 7.5% per year as of January 1, 2001; 7.25% as of December 31, 2001

Expected Rate of Return on Assets: 8.25% per year as of January 1, 2000

Expected Salary Increase Rate: 4.0% per year for Citizens. Salary scale for Frontier is based on age. The weighted average salary scale is 5.17%.

Mortality: The 1983 Male and Female Group Annuity Table

Turnover: In accordance with the following tables:

| <u>Age</u> | <u>Male</u> | <u>Female</u> |
|------------|-------------|---------------|
| 25 | 15.1% | 26.2% |
| 30 | 10.3 | 16.5 |
| 35 | 7.2 | 11.2 |
| 40 | 4.2 | 7.8 |
| 45 | 2.2 | 4.8 |
| 50 | 0.3 | 2.6 |
| 55 | 0.0 | 0.7 |
| 60 | 0.0 | 0.0 |

Retirement:

In accordance with the rates shown below except as noted:

Percentage of Eligibles Retiring

| <u>Age</u> | |
|------------|-----|
| 45 | |
| 46 | |
| 47 | |
| 48 | |
| 49 | |
| 50 | |
| 51 | |
| 52 | |
| 53 | |
| 54 | |
| 55 | 5% |
| 56 | 5 |
| 57 | 5 |
| 58 | 5 |
| 59 | 5 |
| 60 | 5 |
| 61 | 5 |
| 62 | 25 |
| 63 | 10 |
| 64 | 10 |
| 65 | 100 |
| 66 | 100 |
| 67 | 100 |
| 68 | 100 |
| 69 | 100 |
| 70 | 100 |

Medical costs shown are average costs for covered individuals who are age 65. The starting costs are adjusted for age. Costs are assumed to increase 5% per year up to age 73 and 3% per year for ages 73 and over. Dental and vision costs are not aged.

Trend Rates:

The following trend rates were used for determining annual expense:

| <u>Year</u> | <u>Citizens</u> | |
|----------------|-----------------|---------------|
| | <u>Medical</u> | <u>Dental</u> |
| 2001 | 9.0% | 4.5% |
| 2002 | 9.0 | 4.5 |
| 2003 | 9.0 | 4.5 |
| 2004 | 9.0 | 4.5 |
| 2005 | 7.5 | 4.5 |
| 2006 | 7.5 | 4.5 |
| 2007-2029 | 7.5 | 4.5 |
| 2030-2039 | 6.5 | 4.5 |
| 2040-2049 | 5.5 | 4.5 |
| 2050 and later | 5.0 | 4.5 |

The following trend rates were used for determining year end disclosure (Citizens and Frontier):

| <u>Year</u> | <u>Medical</u> | <u>Dental</u> |
|----------------|----------------|---------------|
| 2002-2004 | 9.0% | 4.5% |
| 2005-2009 | 7.5% | 4.5% |
| 2010-2014 | 6.5% | 4.5% |
| 2015-2019 | 5.5% | 4.5% |
| 2020 and later | 5.0% | 4.5% |

Spouses:

Actual demographics of the current retiree spouses and surviving spouses were used.

Citizens: For employees currently active, 75% of males and females are assumed to be married at retirement. Spouses are assumed to be the same age as the retiree.

Participation:

Citizens: At retirement 80% of employees in locations with cost sharing are assumed to elect medical coverage.

| Service at Retirement | % Participate |
|-----------------------|---------------|
| < 15 years | NA |
| 15-19 years | 63% |
| 20-24 years | 77% |
| 25-29 years | 89% |
| 30+ years | 92% |

Starting Claim Costs (Citizens):

| | <u>Non-Medicare Eligible</u> | <u>Medicare Eligible</u> |
|---------------------|----------------------------------|------------------------------|
| All Other Locations | 7,000 | 1,149 |

SCHEDULE 6.14(a)**SELLER REVENUE BONDS****I. GAS ONLY**

| ISSUER | LOAN AGREEMENT | INDENTURE | TAX REGULATORY AGREEMENT |
|--|--|--|--|
| The Industrial Development Authority of the County of Coconino | | | |
| \$2,100,000 The Industrial Development Authority of the County of Coconino Industrial Development Revenue Bonds 1993 Series (Citizens Utilities Company Project) Callable on 11/15/02 @ 101 | Loan Agreement between The Industrial Development Authority of the County of Coconino and Citizens Utilities Company, dated as of November 1, 1993 | Indenture of Trust between The Industrial Development Authority of the County of Coconino and Shawmut Bank Connecticut, N.A., as Trustee, dated as of November 1, 1993 | Tax Regulatory Agreement among Citizens Utilities Company, The Industrial Development Authority of the County of Coconino and Shawmut Bank Connecticut, N.A., as Trustee, dated as of November 1, 1993 |
| The Industrial Development Authority of the County of Navajo | | | |
| \$4,500,000 The Industrial Development Authority of the County of Navajo Industrial Development Revenue Bonds 1993 Series (Citizens Utilities Company Project) Callable on 11/15/02 @ 101 | Loan Agreement between The Industrial Development Authority of the County of Navajo and Citizens Utilities Company, dated as of November 1, 1993 | Indenture of Trust between The Industrial Development Authority of the County of Navajo and Shawmut Bank Connecticut, N.A., as Trustee, dated as of November 1, 1993 | Tax Regulatory Agreement among Citizens Utilities Company, The Industrial Development Authority of the County of Navajo and Shawmut Bank Connecticut, N.A., as Trustee, dated as of November 1, 1993 |
| \$12,380,000 The Industrial Development Authority of the County of Navajo Industrial Development Revenue Bonds 1997 Series B (Citizens Utilities Company Project) Callable @ par within 30 days' notice | Loan Agreement between The Industrial Development Authority of the County of Navajo and Citizens Utilities Company, dated as of September 1, 1997 | Indenture of Trust between The Industrial Development Authority of the County of Navajo and State Street Bank and Trust Company, as Trustee, dated as of September 1, 1997 | Tax Regulatory Agreement among Citizens Utilities Company, The Industrial Development Authority of the County of Navajo and State Street Bank and Trust Company, as Trustee, dated as of September 1, 1997 |
| The Industrial Development Authority of the County of Yavapai | | | |
| \$20,000,000 The Industrial Development Authority of the County of Yavapai Industrial Development Revenue Bonds 1998 Series (Citizens Utilities Company Project) Callable on 06/01/07 @ 101 | Loan Agreement between The Industrial Development Authority of the County of Yavapai and Citizens Utilities Company, dated as of April 1, 1998 | Indenture of Trust between The Industrial Development Authority of the County of Yavapai and State Street Bank and Trust Company, as Trustee, dated as of April 1, 1998 | Tax Regulatory Agreement among Citizens Utilities Company, The Industrial Development Authority of the County of Yavapai and State Street Bank and Trust Company, as Trustee, dated as of April 1, 1998 |
| \$17,500,000 The Industrial Development Authority of the County of Yavapai Industrial Development Revenue Bonds 1993 Series (Citizens Utilities Company Project) Callable @ par on 30 days' notice | Loan Agreement between The Industrial Development Authority of the County of Yavapai and Citizens Utilities Company, dated as of March 1, 1993 | Indenture of Trust between The Industrial Development Authority of the County of Yavapai and Shawmut Bank Connecticut, N.A. as Trustee, dated as of March 1, 1993 | Tax Regulatory Agreement among Citizens Utilities Company, The Industrial Development Authority of the County of Yavapai and Shawmut Bank Connecticut, N.A., as Trustee, dated as of March 1, 1993 |

II. JOINT ELECTRIC/GAS

| ISSUER | LOAN AGREEMENT | INDENTURE | TAX REGULATORY AGREEMENT |
|---|---|--|--|
| The Industrial Development Authority of the County of Mohave | | | |
| \$6,640,000 The Industrial Development Authority of the County of Mohave Industrial Development Revenue Bonds 1994 Series (Citizens Utilities Company Project) Callable on 11/1/03 @ 101 | Loan Agreement between The Industrial Development Authority of the County of Mohave and Citizens Utilities Company, dated as of September 1, 1994 | Indenture of Trust between The Industrial Development Authority of the County of Mohave and Shawmut Bank Connecticut, N.A., as Trustee, dated as of September 1, 1994 | Tax Regulatory Agreement among The Industrial Development Authority of the County of Santa Cruz, Citizens Utilities Company and Shawmut Bank Connecticut, N.A., as Trustee, dated as of September 1, 1994 |
| \$10,000,000 The Industrial Development Authority of the County of Mohave Industrial Development Revenue Bonds 1993 Series B (Citizens Utilities Company Project) Callable on 11/15/02 @ 101 | Loan Agreement between The Industrial Development Authority of the County of Mohave and Citizens Utilities Company, dated as of November 1, 1993 | Indenture of Trust between The Industrial Development Authority of the County of Mohave and Shawmut Bank Connecticut, N.A., as Trustee, dated as of November 1, 1993 | Tax Regulatory Agreement among The Industrial Development Authority of the County of Mohave, Citizens Utilities Company and Shawmut Bank Connecticut, N.A., as Trustee, dated as of November 1, 1993 |
| \$22,960,000 The Industrial Development Authority of the County of Mohave Industrial Development Revenue Bonds 1993 Series (Citizens Utilities Company Project) Callable @ par on 30 days notice | Loan Agreement between The Industrial Development Authority of the County of Mohave and Citizens Utilities Company, dated as of March 1, 1993 | Indenture of Trust between The Industrial Development Authority of the County of Mohave and Shawmut Bank Connecticut, N.A., as Trustee, dated as of March 1, 1993 | Tax Regulatory Agreement among The Industrial Development Authority of the County of Mohave, Citizens Utilities Company and Shawmut Bank Connecticut, N.A., as Trustee, dated as of March 1, 1993 |
| The Industrial Development Authority of the County of Santa Cruz | | | |
| 8,200,000 The Industrial Development Authority of the County of Santa Cruz Industrial Development Revenue Bonds 1985 Series (Citizens Utilities Company Project) Callable @ par on 08/01/07 | Loan Agreement between The Industrial Development Authority of the County of Santa Cruz and Citizens Utilities Company, dated as of August 1, 1985 | Indenture of Trust among The Industrial Development Authority of the County of Santa Cruz, The Connecticut National Bank, as Trustee, and The Valley National Bank of Arizona, as co-Trustee, dated as of August 1, 1985 | None |
| \$12,680,000 The Industrial Development Authority of the County of Santa Cruz Industrial Development Revenue Bonds 1988 Series A and 1988 Series B Callable @ par on 30 days notice | Loan Agreement between The Industrial Development Authority of the County of Santa Cruz and Citizens Utilities Company, dated as of September 1, 1988 | Indenture of Trust between The Industrial Development Authority of the County of Santa Cruz and The Connecticut National Bank, as Trustee, dated as of September 1, 1988 | Tax Regulatory Agreement among Citizens Utilities Company, The Industrial Development Authority of the County of Santa Cruz (Arizona) and The Connecticut National Bank, as Trustee, dated as of September 1, 1988 |
| \$8,000,000 The Industrial Development Authority of the County of Santa Cruz Industrial Development Revenue Bonds 1994 Series (Citizens Utilities Company Project) Callable on 11/01/03 @ 101 | Loan Agreement between The Industrial Development Authority of the County of Santa Cruz and Citizens Utilities Company, dated as of September 1, 1994 | Indenture of Trust between The Industrial Development Authority of the County of Santa Cruz and The Connecticut National Bank, as Trustee, dated as of September 1, 1994 | Tax Regulatory Agreement among The Industrial Development Authority of the County of Santa Cruz, Citizens Utilities Company and The Shawmut Bank Connecticut, N.A., as Trustee, dated as of September 1, 1994 |

SCHEDULE 6.15SELLER SURETY INSTRUMENTS

| Bond No. | Principal | Obligee | State | Bond Type | Bond Amount | Eff. Date | Exp. Date |
|-----------------|---------------------------------|-----------------------------|--------------|--------------------------|--------------------|------------------|------------------|
| 219562 | Citizens Communications Company | Town of Jerome, Arizona | AZ | Gas Fitters License Bond | \$2,500 | 01/01/02 | 01/01/03 |
| 219557 | Citizens Communications Company | State of Arizona | AZ | License & Permit Bond | \$2,500 | 06/28/02 | 06/28/03 |
| 219558 | Citizens Communications Company | Town of Holbrook, Arizona | AZ | License Bond | \$2,500 | 07/01/02 | 07/01/03 |
| 408766 | Northern Arizona Gas | Yavapai County Public Works | AZ | Subdivision | \$1,200,000 | 11/11/01 | 11/11/02 |

4

ASSET PURCHASE AGREEMENT

Seller Deliveries at Signing

| <u>Section – Deliverable</u> | <u>Tab</u> |
|--|------------|
| 4.7 – Collective Bargaining Agreements..... | A |
| 4.16 – Capital Expenditures Schedule | B |
| 6.12(b)(iv) – Additional Severance Benefits | C |
| 6.12(d)(iii)(B) – Employees with Southern Union Service..... | D |
| 6.14(c) – Exempt Facility Operating Protocol | E |

A

AGREEMENT

BETWEEN

CITIZENS COMMUNICATIONS COMPANY

SANTA CRUZ DISTRICT

AND

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

LOCAL UNION NO. 387

MARCH 1, 2002- FEBRUARY 28, 2005

TABLE OF CONTENTS

| | |
|--|----|
| <u>ARTICLE I - RECIPROCAL COVENANTS AND UNION RECOGNITION</u> | 3 |
| <u>ARTICLE II - HOURS OF EMPLOYMENT</u> | 6 |
| <u>ARTICLE III - RATES OF PAY AND WAGES</u> | 7 |
| <u>ARTICLE IV - HOLIDAYS, VACATIONS AND LEAVE</u> | 8 |
| <u>Section 1.</u> Holidays | 8 |
| <u>Section 2.</u> Vacations | 9 |
| <u>Section 3.</u> Sick Leave | 10 |
| <u>Section 4.</u> Family Emergency Leave | 11 |
| <u>Section 5.</u> Leave of Absence | 11 |
| <u>Section 6.</u> Jury Duty Leave | 11 |
| <u>Section 7.</u> Bereavement Leave | 11 |
| <u>ARTICLE V - OTHER CONDITIONS OF EMPLOYMENT</u> | 12 |
| <u>ARTICLE VI - GENERAL WORKING RULES</u> | 13 |
| <u>ARTICLE VII - HEALTH AND WELFARE PLANS</u> | 16 |
| <u>ARTICLE VIII - WORKING RULES FOR THE PLANT DEPARTMENT</u> | 17 |
| <u>ARTICLE IX - WORKING RULES FOR GAS AND ELECTRIC DEPARTMENTS</u> | 18 |
| <u>ARTICLE X - WORKING RULES FOR WAREHOUSEPERSON</u> | 20 |
| <u>ARTICLE XI - APPRENTICESHIP AND TRAINING</u> | 20 |
| <u>ARTICLE XII - GRIEVANCE AND ARBITRATION PROCEDURES</u> | 21 |
| <u>ARTICLE XIII - WAIVER OF BARGAINING</u> | 22 |
| <u>ARTICLE XIV - TERM OF AGREEMENT</u> | 23 |
| <u>EXHIBIT "A" WAGE SCHEDULES</u> | 24 |

AGREEMENT

THIS AGREEMENT, entered into this first day of March 2002 by and between Citizens Communications Company, Santa Cruz District, a corporation, its successors and assigns, hereinafter referred to as the "Company" and the International Brotherhood of Electrical Workers, Local Union No. 387 of Phoenix, Arizona, affiliated with the American Federation of Labor - Congress of Industrial Organizations, hereinafter referred to as the "Union".

WITNESSETH

That for the purpose of facilitating the peaceful adjustment of differences that may arise from time to time, and to promote harmony and efficiency to the end that the Company, the Union, and the general public may mutually benefit, the parties hereto contract and agree with each other as follows:

ARTICLE I - RECIPROCAL COVENANTS AND UNION RECOGNITION

Section 1. The Company recognizes the Union as the exclusive bargaining agency for wages, hours, and other conditions of employment for all employees of the Company in the departments and classifications listed on Exhibit "A" in Santa Cruz County, Arizona only.

Should the Company acquire/operate a water distribution facility in Santa Cruz or Pima County with employees in classifications similar to those that existed in 1994, upon request of the Union, the Company shall recognize and negotiate with the Union on behalf of those employees in accordance with its obligations under the NLRA.

Section 2. This agreement shall be binding on any and all successors and assigns of the Company, whether by sale, transfer, merger, acquisition, consolidation, lease, receivership, bankruptcy or otherwise and whether the transfer be of the Company or of the Santa Cruz District. The Company shall make it a condition of transfer that the successor assigns shall be bound by the terms of this Agreement. It is the intent of the parties that this Agreement shall remain in effect for its full term and bind the successor or assigns of the respective parties.

Section 3. During the term of this agreement and during any period of time while negotiations are in progress between the parties hereto for the extension or renewal of this Agreement, the Company agrees that there will be no lockout.

Section 4. The Company is engaged in public service requiring continuous operations and it is agreed that recognition of such obligation of continuous service during the term of this agreement is imposed upon both the Company and the employees represented by Local 387. All grievances of employees shall be handled as hereinafter provided.

Section 5. The Union agrees for its members (who are employees of the Company) that they will work individually and collectively, perform loyal and efficient work and service, that they will use their influence and best efforts to protect the property of the Company in its service to the public and that they will cooperate in promoting and advancing the welfare of the Company and the protection of it to the public at all times.

Section 6. The Company and the Union agree that they will cooperate to promote harmony and efficiency among all of the Company's employees.

Section 7. During the term of this Agreement, and during any period of time while negotiations are in progress between the parties hereto for the extension or renewal of this Agreement, the Union agrees on behalf of itself and each of its members that there will be no authorized concerted failure to report to work, cessation or interruption of work, slowdown, strike, boycott, or any other type of organized interference, coercive or otherwise, with the Company's business.

The Company agrees, as part of the consideration of this Agreement, that neither the Union, its officers, representatives, nor members shall be liable for damages for unauthorized stoppages, strikes, intentional slowdowns, or suspension of work in the Company's services, if:

- (a) The Union gives written notice to the Company within 24 hours of such action that it has not authorized the stoppage, strike, slowdown, or suspension of work.
- (b) Copies of the notice described in (a) above are posted immediately by the Union on the bulletin board.
- (c) The Union further cooperates with the Company in getting the employees to return and remain at work.

It is recognized that the Company has the right to take disciplinary action, including discharge, against any employees who engage in any unauthorized stoppage, strike, intentional slowdown, or suspension of work, subject to the right to present a grievance on such discipline in accordance with Article XII of the Agreement in cases in which an issue of fact exists as to whether or not any particular employee has engaged in, participated in or encourage any such violation.

Section 8. When the Company requires any new employees of any classification, included in this Agreement, the Company may request the Business Manager of the Union to send qualified individuals to fill the Company's requirements or the Company may fill its own. In either event, when any new employee is hired, his name, classification, address, supervisor, department, Social Security number and date of hire will be forwarded to the Financial Secretary of the Union on cards to be furnished by the Union.

Section 9. The Company agrees to deduct the initiation fees, dues and assessments of Union members each month and pay such dues, initiation fees, and assessments to the Financial Secretary of the Union provided:

- (a) The deductions are on a voluntary basis on the part of each Union member.
- (b) The deductions are authorized by each Union member on special payroll deduction forms provided for that purpose on which a full explanation has been made as these understandings about such deductions and with such authorized payroll deduction forms submitted to the Company by the Financial Secretary of the Union.
- (c) The amount of such deduction to be made in accordance with Article XI, Section 7 (a) and (d) and Article XV, Section 1 of the By Laws of I.B.E.W. Local Union 387 and pay such dues, initiation fees and assessments to the Financial Secretary of Local Union 387, I.B.E.W.
- (d) The authorization for deductions shall be irrevocable for a period of 1 year from date of execution. This authorization may be revoked on any anniversary date of this Agreement, not more than 30 days and not less than 10 days prior to the anniversary date of assignment. Failing to give such notification, this assignment will be automatically renewed for successive periods of 1 year.

Section 10. Upon approval of the District Manager, which will not be unreasonably withheld, the duly authorized representative of the Union shall have free access to the plant, substations, or other locations where work is being carried on during working hours for the purpose of observing working conditions and to see that the provisions of this Agreement are being followed, provided that the employees are not interfered with in their work.

Section 11. This Agreement shall be subject to amendment at any time by mutual consent of the parties hereto. Such amendment must be reduced to writing and state the effective date of the amendment. The Business Manager of the Union and the District Manager of the Company or their authorized representatives must sign all amendments.

Section 12. The Company shall supply bulletin board space for the use of the Union in posting officially signed Union bulletins. It is understood that no bulletins will be posted which are anti-Company in nature.

Section 13. The management, including the right to hire, suspend, discipline, or discharge for proper cause, and the right to reduce the work force for lack of work, is vested exclusively in the Company, except as the same may be affected by any provisions of this Agreement.

Section 14. It is understood and agreed that if during the term of this Agreement, any provision of this Agreement is found to be invalid as a matter of law, either party may request the other in writing to reopen said conflicting provision for further negotiation.

Section 15. Nothing in this Agreement is intended or shall be used to violate any municipal ordinance, state law or safety standard, or any other legal public requirement, nor is it intended to allow public or personal danger to continue to the detriment of either the general public, the Company, or an employee.

Section 16. References to one gender in this Agreement shall be deemed to include the other gender.

Section 17. The Company and the Union agree to continue their policy of nondiscrimination because of sex, race, religion, color, national origin, age, marital status, membership or non-membership in the union, non-disqualifying physical or mental disability or status as a disabled and/or Vietnam Era veteran.

ARTICLE II - HOURS OF EMPLOYMENT

Section 1. (a) Eight (8) or ten (10) consecutive hours which shall begin between 5:00 a.m. and 8:00 a.m., except for 30 minutes or 1 hour at midpoint taken out for meals, shall constitute a normal work day for all employees covered by this Agreement. Except in unusual circumstances, employees shall be given no less than two weeks or as may be mutually agreed upon prior notice before a change in their regular schedule is effected and no change shall be made without good cause shown. Starting and ending hours and lunch period within the various departments can be changed from the above by mutual agreement between the parties. Five days in sequence, Monday through Friday, shall constitute a normal workweek. Other changes to the work schedules may be made where the Company and the Union so agree.

(b): And, for Plant employees, eight (8) or ten (10) consecutive hours beginning as follows:

The day or (A) shift, which shall begin between 5:00 a.m. and 8:00 a.m.;

The afternoon or (B) shift, which shall begin between 3:00 p.m. and 5:00 p.m.;

The evening or (C) shift, which shall begin between 10:00 p.m. and 12:00 a.m.;

Which except for 30 minutes or one (1) hour at midpoint taken out for meals shall constitute a normal workday.

(c): "Plant employees regularly assigned to the afternoon or (B) shift shall receive a shift differential of \$0.60 per hour in addition to the employees base rate of pay for all those hours worked on that shift, and a shift differential of \$0.90 per hour for all hours worked on the evening or (C) shift."

Section 2. Employees shall report at the headquarters and, when working out of headquarters, shall travel from headquarters to and from their working place on Company time and in Company vehicles.

ARTICLE III - RATES OF PAY AND WAGES

Section 1. The wage scale for employees covered by this Agreement are set forth in Exhibit A, which is attached hereto and made a part hereof. The Company, at its discretion, may place an employee at other than the entry-level step for the position based on qualifications. For purposes of this Agreement, "regular employees" shall be construed as meaning all employees who have been continuously in the employ of the Company for a period of not less than 3 months.

Section 2. Any regular employee injured in the course of his employment with the Company and entitled to compensation under the Workers' Compensation Act of the state where he is employed, shall also receive an amount equal to the difference between his regular monthly pay accordingly to the schedule of wages herein set out and the compensation so received for a period not to exceed 65 working days.

Section 3. Regular employees shall be paid at a rate of 1-1/2 times the regular rate at which they are employed for all time worked by them in excess of 40 hours in any week, or more than 8 hours in any day (more than 10 hours in any day for employees working a 10 hour day). For the proposes of this section, time worked shall be all paid time and all time spent in Union business but shall not include unpaid time off for personal reasons. Employees will receive at least eight- (8) hours rest in any 24-hour period, commencing at 8:00 a.m.

Section 4. Temporary employees on a daily or miscellaneous payroll period shall receive time and one-half pay for all hours worked over 8 hours in any one day.

Section 5. All employees called out for duty other than on regular shifts shall receive a minimum of 2 hours pay at the overtime rate for each such callout.

Section 6. When an employee is called out for duty, other than on regular shift, his time shall be computed from that time he received the call. In addition to the time actually worked he shall be allowed additional time as may be required to return to the place from which he was called. The time provided to respond to and return from such a call out assignment, which shall be paid, shall be such time as is reasonably necessary but in no event, more than thirty (30) minutes each way.

Section 7.

- (a) Regular meal periods of an employee may be either advanced or delayed where required by necessity.
- (b) When an employee is required to report for non-scheduled overtime two (2) hours or more before his normal reporting time or works two (2) hours or more after his normal work period, the Company will provide the appropriate meal.
- (c) The Company and Union agree to encourage each employee to use good judgment in ordering meals, so the cost will be reasonable for their area.

Section 8. Overtime shall be divided as equally as is practicable among those qualified and available in each classification.

Section 9. Employees shall not be paid by the Company for time spent in negotiating or, except with the prior consent of the District Manager, for time spent in discussing or processing grievances or conducting other Union business.

Section 10. No regular employee shall be paid less than the rate provided for helpers.

ARTICLE IV - HOLIDAYS, VACATIONS AND LEAVE

Section 1. Holidays.

- (a) Paid holidays for all employees coming under this Agreement shall be as follows: New Year's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and the following Friday, Christmas Day,

and four (4) floating holidays which shall be scheduled in accordance with the scheduling of vacation. Floating Holidays for all employees are forfeited if unused. They do not accumulate and may not be carried over into succeeding years.

Any employee shall be entitled to the benefit of holidays as they occur regardless of regular or probationary status.

- (b) New employees may take Floating Holidays in the calendar year in which they are hired in accordance with the following schedule:
- Four (4) Floating Holidays if hired between January 1 and March 15;
 - Three (3) Floating Holidays if hired between March 16 and May 31;
 - Two (2) Floating Holidays if hired between June 1 and August 15;
 - One (1) Floating Holiday if hired between August 16 and October 31;
 - None if hired between November 1 and December 31.
- (c) When one of these holidays falls on Sunday, the Monday following shall be the holiday. When one of these holidays falls on Saturday, the Friday preceding shall be the holiday.
- (d) All employees covered by this Agreement shall receive time off with pay at the straight time rate, equivalent to a regular 8-hour shift, for the holidays specified in this section. Each such holiday shall be considered as one of the regular 5 days of the workweek.
- (e) The Company may require employees to work on any holiday. Should any employee covered by this Agreement be required to work on any day observed as a holiday he shall receive pay at double or two times his normal straight time pay.
- (f) Employees will be entitled to an additional day of vacation if a holiday occurs in their normal workweek during their vacation period.

Section 2. Vacations.

January of each year shall be used for establishing vacation eligibility. Regular employees shall be entitled to and receive vacation with pay as follows:

| | |
|---|---------|
| At completion of 1 year of service | 10 days |
| Commencing in the year in which the employee attains 8 years of service | 15 days |

| | |
|---|---------|
| Commencing in the year in which the employee attains 17 years of service | 20 days |
| Commencing in the year in which the employee attains 25 years of service | 25 days |

After satisfactory completion of the probationary period, new regular employees are entitled to take vacation in the calendar year in which they are hired in accordance with the following schedule:

- Six (6) days if hired between January 1 and April 30th;
 - Three (3) days if hired between May 1st and August 31st;
 - None if hired between September 1 and December 31st.
- (a) An employee will be given credit for the month if he or she is hired on or before the 15th day of the month.
- (b) All employees entitled to 20 days annual vacation or more shall take vacation in periods of not more than 2 weeks at a time provided, however, that the full vacation entitlement may be taken at one time upon request to and approval of the Company.
- (c) Vacation time cannot be carried over from one year to another except at the discretion of the Company. An employee may request to carry over up to one week of vacation into a succeeding year for good cause shown. Such request will not be unreasonably denied. Pay in lieu of vacation will be granted only in extenuating circumstances, at the District Manager's discretion.
- (d) A regular employee who leaves the Company for reasons other than discharge for proper cause who has given 2 weeks' notice shall receive vacation pay for earned, unused vacation time from the prior years entitlement, and vacation pay on a monthly prorated basis in accordance with the employee's length of service in the current year. If 2 weeks notice is not given, the employee shall only receive vacation pay for earned, unused vacation time from the prior year's entitlement.

Section 3. Sick Leave.

From January 1 through December 31, regular employees with more than one complete year of service who are ill or disabled and, as a consequence thereof, unable to work are eligible for sick leave with full pay of up to 65 working days. Regular employees hired on or after January 1, 2002 and with less than one (1) complete year of service will be limited to 30 days of sick leave during their first year of employment.

The Company may require medical certification of an employee's inability to work due to illness or disability. The Company may also require medical certification that the employee is able to return to work following an absence due to illness or disability.

Sick leave time will not accumulate and may not be carried over in the next year.

Section 4. Family Emergency Leave.

Regular employees will be eligible for up to three (3) days (based on need) with pay in the event of a family emergency. A family emergency shall be defined as a critical illness or injury (an unusual circumstance of a serious, life-threatening, or critical nature that requires an employee's immediate attention – not routine family health care). Family members for whom this benefit is applicable are a parent, son, daughter and spouse of the employee. In addition, this benefit is applicable to a relative of the employee residing in the employee's household. The granting of such leave shall be subject to operating needs of the Company, the Company to exercise reasonable judgement in balancing those needs with the personal needs of the employee.

Section 5. Leave of Absence.

(a) An unpaid leave of absence for not more than 45 days may be granted for good personal reasons to employees who have completed at least 1 year of continuous service. The Company may grant extensions to a leave of absence if the extension is justified by emergency circumstances.

(b) Family/Medical Leaves of Absence: In the event of a request for leave due to the birth of, adoption of or receiving for foster care a child or for the serious illness of a spouse, parent, child, relative who is a dependent of the employee, or the employee, subject to the terms of this Article, the employee will be entitled to leave for up to 16 weeks in a twelve month period. This time shall run concurrently with any other leave granted in conjunction with this Article and may also run concurrently with any vacation or sick leave to which the employee may be entitled. Any leave granted in accordance with this provision shall also be subject to the then current provisions of the Family and Medical Leave Act of 1993 and any applicable laws of the State of Arizona.

Section 6. Jury Duty Leave.

An employee who may be called for jury duty shall be permitted to be absent without deduction in pay for all time spent while on jury duty.

Section 7. Bereavement Leave.

For death in the immediate family (spouse, children, father, mother, brother, sister, grandparent, father-in-law, mother-in-law, son-in-law, or daughter-in-law of either

the employee or his/her spouse) an employee is allowed up to three (3) days absence with pay.

ARTICLE V - OTHER CONDITIONS OF EMPLOYMENT

Section 1. Promotions shall be based on seniority, ability and qualifications; ability and qualifications being substantially equal, seniority shall prevail. Promotions mean bidding on a vacancy in an occupational classification with a higher regular rate of pay for persons similarly situated than the occupational classification of the persons bidding.

Section 2. Vacancies within the bargaining unit shall be posted for written bid and shall be open for 2 weeks. For the convenience of the Company, temporary assignments may be made for a period of 30 days until the bids are received and permanent assignments are made. An employee shall not be required to exercise his seniority, but shall not sacrifice any future rights to bid on vacancies through failure to do so.

Section 3. When the Company creates new positions within the bargaining unit, such new positions shall be posted for written bid and shall be open for 2 weeks. The Union and the Company shall negotiate on any new classifications and appropriate wage rates. It is recognized that the Company has the independent right to specify what the job content will be.

Section 4. Whenever, by reason of the workload, the Company contemplates a layoff during the term of this Agreement of 10% or more of the bargaining unit personnel, the Company shall negotiate with the Union to attempt to formulate a program for spreading the work, by moving employees from one group or department to another, or reducing the workday and/or workweek, or other appropriate action which may reduce the number of people to be laid off or eliminate the layoff. The Company shall give notice of their intention to layoff to the Union within 15 days prior to any action on the part of the Company.

Section 5. Work normally done by the employees covered herein shall not be performed by supervisory employees of the Company except under the following conditions:

- (1) Emergencies.
- (2) For the purpose of personnel training and instruction.
- (3) Other than during normal workdays, when there is no employee covered herein immediately available.

Section 6. Employees will lose their seniority under the following circumstances:

- (a) When an employee quits or is discharged for cause.
- (b) When an employee is laid off for more than 1 year.
- (c) When an employee fails to return to work after a layoff within 14 days from the date of mailing a certified or registered letter (with return receipt requested) to the employee at his last known address as shown by the records of the Company. A copy of such notice shall be mailed simultaneously to the Business Manger of the Union.
- (d) When an employee overstays a leave of absence without permission from the District Manager or takes other employment while on leave without permission of the District Manger.

However, an employee absent due to occupational injuries incurred while working for this company will continue to acquire seniority and employees absent due to non-occupational injuries or sickness will continue to acquire seniority provided they are able (if requested) to furnish a physician's certificate to substantiate their inability to return to work. The Company may require such employee to perform light duties at his regular rate of pay, if released to light duty and work is available to all employees who might otherwise be absent because of injuries or sickness.

Section 7. Each employee is required to notify his supervisor prior to the start of his shift or scheduled reporting time if he is going to be absent.

Section 8. When an employee has been absent because of a serious illness or injury, he shall, if requested to do so by the Company, undergo a physical examination to evaluate his ability and fitness to perform his job. The employee will not have to pay for the physical examination.

Section 9. Previous employees who are rehired shall, after five (5) years of additional continuous service, have their periods of continuous service bridged only for purposes of seniority, pensions and vacations.

ARTICLE VI - GENERAL WORKING RULES

Section 1. Scope.

The following general working rules are to apply to all employee classifications covered by this Agreement unless specifically covered in departmental rules as hereinafter set forth.

Section 2. Standby Duty and Callout Pay.

- (a) Any employee covered by this Agreement who is expressly required by the Company to standby after regular shift on weekends or holidays shall be paid 2 hours at the straight time rate for each 8 hour shift or portion hereof that such standby is required. Standby wages shall be paid regardless of pay for hours actually worked on emergency callout during any 8-hour shift. If employees are actually working at the beginning of a period of time that had previously been scheduled as standby time, their pay for standby will not begin until they have finished work and go on standby.
- (b) Employees on standby duty who are called out to work shall be paid overtime in accordance with Article III, Section 3. However, such employees who are called out on a Sunday shall be paid double their regular rate of pay for such callouts.
- (c) Employees not on standby duty who are called out to work shall be paid overtime in accordance with Article III, Section 3. However, such employees who are called out to work Sunday shall receive double time for all time worked.

Section 3. "Headquarters" as used herein means any permanent headquarters established by the Company for the purpose of engaging in work as covered by this agreement, recognized by the Union as such.

Section 4. Paydays shall be at regular intervals; no less often than twice per month; and no more than five workdays in arrears. In the event the Company elects to change paydays or pay periods, it shall discuss such change with the Union prior to implementation and shall negotiate with the Union the impact of any such change on employees. If a payday falls on a holiday, the preceding workday shall be the payday.

Section 5. The Company may at its discretion assign employees to perform work in more than 1 classification, subject to the following rules:

- (a) When assigned to a classification of lower rate of pay, an employee shall receive the wage rate of this regular classification.
- (b) An employee placed on a temporary assignment of higher classification shall receive the prevailing rate of pay for the higher classification during the entire period of the assignment; provided he is able to perform the work of such higher classification without assistance from another employee.

Section 6. When an employee is transferred to any position in which he has had no previous experience, he shall be given a reasonable break-on period with an experienced fellow employee, not to exceed 2 weeks, in which case he shall receive the rate of pay for their higher classification beginning with the third week unless additional training time is needed and agreed to between the Company and the employee and his representative.

Section 7. Employees hired for temporary employment shall not be paid less than the regular Company rate established for the classification in which they are working.

Section 8. Regular employees reporting to work on a normal scheduled workday shall not have their pay deducted because of inclement weather conditions when the Company directs that no fieldwork be undertaken.

It is understood that such employees may be held pending trouble calls or may be employed in other miscellaneous work.

Section 9. In transferring employees from one shift to another, no loss in regular pay shall result. A minimum of 16 hours off duty between shifts shall be allowed, except in emergencies, or where otherwise agreed upon by the parties hereto.

Section 10. The Company, except in cases of discharge for cause, shall give 2 weeks' notice of termination of an employee's employment or in lieu thereof shall pay him 2 weeks' pay in addition to the vacation allowance herein provided in Article IV, Section 2 (d) hereof.

Section 11. Employees being dispatched from permanent headquarters on temporary assignment out of the city will be paid the appropriate rate for the time consumed in traveling. Travel expenses (or transportation facilities) may be furnished at the Company's option. Reasonable room rent and meals for employees away from headquarters on Company work will be paid for by the Company.

Section 12. The Company agrees to furnish all safety and first aid equipment necessary for the well being of its employees. All safety equipment shall be inspected regularly and replaced when found in an unsafe condition. All employees required to work outside shall be furnished with rainwear. The Company further agrees to replace all tools, safety belts, body belts, straps and replaceable gaffs furnished by the Company, except those that are lost or destroyed by neglect of the employee shall be replaced at the expense of the employee.

Any employee's tools that he is required to provide for performing his job that are damaged or stolen while properly secured in a Company facility provided by the Company for such purpose will be replaced by the Company.

The Company will provide approved prescription safety glasses for those employees who need them. The Company will only provide single or bi-focal lens prescription glasses.

Section 13. The Company and the Union will select 4 persons who are active regular employees of the Company, two to be selected by the Union, who shall comprise the safety committee. This committee shall select its own chairman and secretary. This safety committee shall create, revise, maintain and review a safety manual, establish a safety program, review accidents to determine the cause thereof, and prepare a written report of the findings and recommend corrective action. The committee will meet no less often than quarterly. The chairman will call meetings of the committee. Any employees who have a safety suggestion will have such suggestion considered by the committee at a regular meeting.

Section 14. Notwithstanding any other provision of this Agreement, it is understood that the Company may hire students as temporary employees under such terms and conditions of employment as the Company may determine, and that such temporary employees shall not be subject to the terms and conditions of this Agreement, provided that no such persons may be employed to replace or fill the position of a regular employee covered under this Agreement. Such temporary employees may be employed only during such period, as the school they attend is not in session and shall not be employed for a continuous period of time in excess of 90 calendar days.

Section 15. If an employee has no performance problems that involve disciplinary or corrective action over a three year period (excepting major infractions such as drugs, alcohol, theft, insubordination or violation of the Company's safety manual), any disciplinary or corrective action taken prior to that three year period will be removed from the employee's file and shall not be used as a factor in any future employment decision.

ARTICLE VII - HEALTH AND WELFARE PLANS

Section 1. The Citizens Communications Company Medical Plan, Retiree Medical Plan, Dental Plan, Vision Plan, Long Term Disability Plan, Employee Assistance Program, Flexible Spending Accounts Plan, Life Insurance Plan, Pension Plan and savings plan(s) in effect on January 1, 1996, shall be provided for all eligible employees in accordance with the terms of said plans. The Company, however, reserves the right to unilaterally make any changes, additions or deletions to these plans, and the Company may drop or add plans, as the Company, in its sole discretion deems appropriate, provided that any changes, additions, deletions, subtractions or

additions apply to a majority of Citizens Communications Company employees covered under such plans.

Section 2. In no event in the exercise of its rights under this Article may the Company reduce the overall level of benefits below the level provided by the insurance/pension/benefits that were in effect on January 1, 1996, for employees covered under this Agreement. If there is a dispute with respect to whether or not the overall benefit level is below that in effect January 1, 1996, such dispute will be subject to the Arbitration procedure of this Agreement for a determination. If the arbitrator determines that the overall level of benefits is less than that in effect January 1, 1996, then the plans and terms and conditions in effect on that date shall be put into effect as soon as administratively possible after the arbitrators determination.

Section 3. Should the Company, in accordance with the provisions of this Article, increase the employee contributions or the annual deductibles for the health or dental plans in any calendar year, such increase may not increase the contributions or deductibles in effect the prior December 31 by more than 25% nor may the contribution be more than 15% of the appropriate COBRA rate (minus any administrative fee).

Section 4. Should another company or jurisdiction acquire Citizens Communications Company, Santa Cruz District, or another Company acquires Citizens Communications Company, the provisions of Article VII, Section I shall become null and void. In such event, the employer's (including the acquiring entity's) obligation shall be to maintain that coverage and those plans in effect for employees covered by the Agreement in accordance with all terms as in effect at the time such acquisition was consummated.

ARTICLE VIII - WORKING RULES FOR THE PLANT DEPARTMENT

Section 1.

- (a) The term "Mechanic A" means an employee who is capable of overhauling, repairing and operating the equipment in the plant or truck department of the Company and who has not less than 4 year experience in work of that type.
- (b) The term "Mechanic B" means an employee who is capable of repairing and operating the equipment in the truck department and who has not less than 2 years experience in work of that type. He will be responsible for the service and repair records of such equipment. He will assist the plant department when needed.

Section 2. The term "Operator" means an employee capable of operating the equipment in the plant of the Company and responsible for the operation of the plant when he is on duty.

Section 3. The term "Helper" is an employee who assists a "Mechanic" and/or an "Operator" in overhauling, repairing or operating plant equipment.

Section 4. The change room shall be properly heated and ventilated, and shall contain at least 1 locker for each plant employee.

ARTICLE IX - WORKING RULES FOR GAS AND ELECTRIC DEPARTMENTS

Section 1. The term "Journeyman Lineman" or Journeyman Electrical Worker" as used in this Agreement means an electric worker who has served his apprenticeship or who may be properly classified as journeyman as determined by the Company and the Union.

Section 2. The term "Working Foreman" means an employee in charge of and responsible for work who supervises the crew and who handles tools in the performance of the work.

Section 3. The term "Lineman" means Journeyman Lineman.

Section 4. The term "Apprentice Lineman" means a Lineman that does not qualify as a Journeyman Lineman.

- (a) An Apprentice Lineman shall be governed by the same rules as a Journeyman as to hours of work and overtime (but not as to the hourly pay rate), and shall not be required to do the work of a Journeyman except during the last 6 months of their 4 year apprenticeship.
- (b) When an Apprentice has completed his prescribed training and it is recognized that Journeyman vacancies may not exist and in such case the Apprentice may be retained in the last year of his apprenticeship until a vacancy occurs. When a vacancy occurs the Apprentice will be given an examination. If the Apprentice passes and qualifies, he shall be advanced to Journeyman.
- (c) Ratios of apprentices to Journeyman shall be as follows: one Apprentice Lineman to two Journeyman Lineman. If this relationship proves impracticable at some future time, it shall be subject to review and change by the parties.

Section 5. The term "Meter Tester/Repairman" means an employee capable of testing and repairing all types of gas meters and all types of electric meters, except for 3 phase electric meters.

Section 6. The term "Serviceman" means a Journeyman Lineman capable of running and cutting in and out customers' services, handling trouble calls, reading meters and adjusting and repairing all types of meters and equipment, including the wiring of metering transformer not to exceed 650 volts.

Section 7. The term "Customer Serviceman" means an employee who knows gas appliance installation, can adjust burner flames, check for gas leaks or bad service drops, reads electric meter, can change out gas and electric meters, can make pressure and voltage tests and generally is able to service the customer in the best interests of the Company.

Section 8. The term "Groundman" means an employee assigned to act as a lineman's helper, whose work is confined to groundwork and who is not permitted to do this work of a Lineman.

Section 9. Employees will not work on lines or equipment carrying over 650 volts unless they are on a crew consisting of a Working Foreman, a Journeyman and one of the following: Apprentice, Operator of Groundman. This requirement will not apply to employees closing oil switches, refusing with hot sticks, fusing transformers or performing any work where the equipment involved carries over 650 volts but imposes no hazard on the employee. This requirement will also not apply in cases of emergency where it is necessary to remove hazard to life or property.

Section 10. The term "Welder" shall mean a certified welder capable of welding with both gas and electric welding equipment on steel pipe and fusing plastic pipe. All Welders so classified shall be required to qualify and maintain such qualification or certification under the requirements of CFR Part 192 and any other state requirements that may be in effect.

Section 11. Classifications of Pipefitter and above may be required to light off pilot lights for customers whose service has been interrupted by gas department repairs.

Section 12. Whenever a total of 5 employees are assigned to work on a more complex, energized job, a Working Foreman shall be in charge of and responsible for the job. During such job, the working Foreman will not be required to perform duties other than the direction of the crew, except in emergencies. The Working Foreman will be paid 5% more than his regular rate for time worked on the job. The foregoing provisions of this Section shall not apply if a supervisor is present during the job.

Section 13. Hot Stick Duty Pay.

When Journeyman Linemen of a line crew work on energized line of 15,000 volts or over, they shall receive pay at time and one-half for the time actually engaged in such work, with minimum of 4 hours pay at the overtime rate.

ARTICLE X - WORKING RULES FOR WAREHOUSEPERSON

Section 1. The Warehouse classifications will dispense all material assigned to the warehouse inventory, store material after it is received, and reclaim reusable material. They will also operate all equipment necessary to the handling of material and keep the warehouse and area in a clean, safe condition.

ARTICLE XI - APPRENTICESHIP AND TRAINING

Section 1. There shall be a Joint Apprenticeship and Training committee of equal representation, 2 members representing the Company and 2 members representing the Union. This committee shall make legal standards governing the administration, supervision, selection, education and training of all apprentices. It shall also be responsible for tracking journeymen and other bargaining unit classifications. The parties to this Agreement will promptly agree upon these local standards.

Section 2. Members of the Joint Apprenticeship and Training Committee shall be selected by the party they represent. Their term of office shall be 2 years unless removed by the party they represent. The term of 1 Company and 1 Union representative shall expire each year with successors to be determined in the same manner as the original appointments were made. A committee member may succeed himself.

The committee shall select from its membership, but not both from the same group, a chairman and a secretary who shall retain voting privileges.

The committee shall meet a least quarterly, and also when called by the chairman.

Section 3.

- (a) The committee shall supervise all matters involving apprenticeship training, in conformity with the provisions of the Agreement and the Local Apprenticeship Standards. In case of a deadlock, the matter in dispute shall be referred to the parties to this Agreement for settlement. All aspects of apprenticeship and training should first be considered by the

committee for their recommendation before being acted upon by the parties to this Agreement.

- (b) The committee may establish or authorize a joint subcommittee to be similarly constituted and selected for authorized training programs other than apprentice training programs.

ARTICLE XII - GRIEVANCE AND ARBITRATION PROCEDURES

Section 1. Representatives of the Company and Union shall act in cases of grievances as hereinafter provided.

Section 2. A grievance as defined in this Agreement is an actual controversy or dispute between a supervisor or other representative of the Company and an employee or employees with respect to a specific act or situation claimed to have involved a misapplication of any provision of this Agreement other than a breach by the Union of any provision pertaining to a strike or striking or a breach by the Company of any provision pertaining to a lock out.

Section 3. All grievances, other than those involving the discharge or termination of an employee, shall be presented to the Company at Step (a) within 14 calendar days of the day the grieving party became aware (or reasonably should have become aware) of the event being grieved. After discussion at each step of the grievance procedure, an answer shall be made in writing by the Company representative handling that step. Steps of the grievance procedure shall be:

Step (a): Between the employee or employees involved and/or an authorized representative of the Union, a foreman or superintendent of the employee or employees involved. The Company shall give its answer to the grievance in writing within 10 calendar days of the date it is presented. If the written answer is unacceptable to the Union, the Union and/or employee shall have 14 calendar days within receipt of the response in which to advise the Company's District Manager in writing that it is dissatisfied with the response and wishes the Company's District Manager to hold a meeting and/or hearing with respect to the grievance. This written advice will include the nature of the grievance, the contractual provision(s) alleged to have been violated, and the remedy being sought.

In the event a grievance arises out of the discharge or termination of an employee, a written grievance may be filed directly with the Company's District Manager or, in his absence, his duly authorized representative within 14 calendar days after the discharge or termination.

Step (b): Within 14 calendar days of receipt of the grievance by the District Manager, the District Manager shall hold a meeting with the employee or another representative of the Union. All grievances appealed to the Company's District Manager or his authorized representative shall be answered in writing by the Company within 7 calendar days from the date on which the hearing and/or meeting with the District Manager is held.

Section 4. In the event a grievance cannot satisfactorily be adjusted as provided in the foregoing section, the same may be referred to arbitration and the following rules shall apply:

- (a) After the decision of the Company representative in Step (b) above of the grievance procedure has been rendered in writing, such decision may be appealed by a written notice of appeal to arbitration by the Union delivered to the District Manager within 21 calendar days of the date of the Company's responses at Step (b).
- (b) Within 5 working days after receipt of the written notice of appeal, representatives of the parties shall confer and attempt to agree on a mutually acceptable person to serve as an impartial arbitrator.
- (c) In the event the parties are unable to agree on the selection of an arbitrator, either party may ask the Federal Mediation and Conciliation Service to select an arbitrator. The fees and expenses of any arbitrator selected under this section shall be borne equally by the parties. The arbitrator shall not have the authority to change the terms of this Agreement.

Section 5. If the Union and/or Grievant fails to abide by the time limits of this Article, the grievance shall be deemed withdrawn. If the Company fails to abide by the time limits as provided in Section 3 and 4 of this Article, the union may file the grievance at the next step. The parties may by mutual agreement extend the time limits for a specified period of time.

Any grievance settled at Section 3, Step (a) shall be without precedent or prejudice regarding any other grievance.

ARTICLE XIII - WAIVER OF BARGAINING

The parties specifically waive any rights which either may have to bargain with the other during the life of this Agreement on any matter pertaining to rates of pay, wages, hours of employment, whether or not covered by this Agreement except as specifically provided herein.

ARTICLE XIV - TERM OF AGREEMENT

This agreement shall take effect on March 1, 2002 and continue in full force and effect until February 28, 2005, and from year to year thereafter unless written notice is given by either party of the other party on or before 60 days prior to any anniversary date requesting modification or cancellation.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

**CITIZENS COMMUNICATIONS COMPANY
SANTA CRUZ DISTRICT**

**INTERNATIONAL
BROTHERHOOD OF
ELECTRICAL WORKERS,
LOCAL UNION NO. 387**

By: _____
**Ernesto V. Ojeda
District Manger**

By: _____
**H. E. Hill
Business Manger**

EXHIBIT "A"
WAGE SCHEDULE
EFFECTIVE MARCH 1, 2002
HOURLY WAGE RATES

| | <u>03/01/2002</u> | <u>03/01/2003</u> | <u>03/01/2004</u> |
|-------------------------------|-------------------|-------------------|-------------------|
| Working Foreman – Electric | \$28.72 | \$29.66 | \$30.62 |
| Working Foreman - Plant | 21.97 | 22.69 | 23.42 |
| Working Foreman - Gas | 20.01 | 20.66 | 21.33 |
| Serviceman A | 26.74 | 27.61 | 28.51 |
| Instrument Electrician | 26.74 | 27.61 | 28.51 |
| Journeyman Meterman | 26.74 | 27.61 | 28.51 |
| Journeyman Lineman | 26.74 | 27.61 | 28.51 |
| Apprentice 1st 6 months (71%) | 18.99 | 19.60 | 20.24 |
| 2nd 6 months (73%) | 19.52 | 20.16 | 20.81 |
| 3rd 6 months (75%) | 20.06 | 20.71 | 21.39 |
| 4th 6 months (77%) | 20.59 | 21.26 | 21.95 |
| 5th 6 months (79%) | 21.12 | 21.81 | 22.52 |
| 6th 6 months (81%) | 21.66 | 22.37 | 23.09 |
| 7th 6 months (83%) | 22.20 | 22.92 | 23.67 |
| 8th 6 months (85%) | 22.74 | 23.47 | 24.24 |
| Mechanic A | 19.40 | 20.03 | 20.68 |
| Welder | 19.04 | 19.66 | 20.30 |

EXHIBIT 'A'
(Continued)

| | <u>03/01/2002</u> | <u>03/01/2003</u> | <u>03/01/2004</u> |
|---------------------------------|-------------------|-------------------|-------------------|
| Plant Operator | | | |
| 1st 4 months | \$17.39 | \$17.95 | 18.54 |
| 2nd 4 months | 17.91 | 18.50 | 19.10 |
| 3rd 4 months | 18.45 | 19.05 | 19.67 |
| 4th 4 months | 18.99 | 19.60 | 20.24 |
| 5th 4 months | 19.52 | 20.16 | 20.81 |
| 6th 4 months | 20.06 | 20.71 | 21.39 |
| 7th 4 months and after | 20.59 | 21.26 | 21.95 |
| Mechanic B | | | |
| 1st 6 months | 14.38 | 14.85 | 15.33 |
| 2nd 6 months | 15.04 | 15.53 | 16.04 |
| 3rd 6 months | 15.69 | 16.20 | 16.73 |
| 4th 6 months and after | 16.37 | 16.90 | 17.45 |
| Meter Tester/Repairman | | | |
| 1st 6 months | 12.34 | 12.74 | 13.15 |
| 2nd 6 months | 13.28 | 13.71 | 14.16 |
| 3rd 6 months | 14.25 | 14.71 | 15.19 |
| 4th 6 months | 15.24 | 15.73 | 16.25 |
| 5th 6 months and after | 16.20 | 16.73 | 17.27 |
| Customer Serviceman | | | |
| 1st 6 months | 12.34 | 12.74 | 13.15 |
| 2nd 6 months | 13.28 | 13.71 | 14.16 |
| 3rd 6 months | 14.25 | 14.71 | 15.19 |
| 4th 6 months | 15.24 | 15.73 | 16.25 |
| 5th 6 months and after | 16.20 | 16.73 | 17.27 |
| Utility Locator | | | |
| 1st 6 months | 12.34 | 12.74 | 13.15 |
| 2nd 6 months | 13.28 | 13.71 | 14.16 |
| 3rd 6 months | 14.25 | 14.71 | 15.19 |
| 4th 6 months | 15.24 | 15.73 | 16.25 |
| 5th 6 months and after | 16.20 | 16.73 | 17.27 |
| Heavy Equipment Operator | 16.14 | 16.66 | 17.20 |
| Pipefitter | 15.53 | 16.03 | 16.55 |

**EXHIBIT A
(Continued)**

| | <u>03/01/2002</u> | <u>03/01/2003</u> | <u>03/01/2004</u> |
|--------------------------------|-------------------|-------------------|-------------------|
| Groundman & Equipment Operator | \$15.45 | \$15.95 | \$16.47 |
| Meter Reader | | | |
| 1st 6 months | 11.42 | 11.79 | 12.17 |
| 2nd 6 months | 12.35 | 12.75 | 13.16 |
| 3rd 6 months | 13.24 | 13.67 | 14.11 |
| 4th 6 months | 14.15 | 14.60 | 15.08 |
| 5th 6 months and after | 15.04 | 15.53 | 16.04 |
| Groundman | 14.31 | 14.78 | 15.26 |
| Helper - Plant | 13.88 | 14.33 | 14.79 |
| Helper - Gas | 12.91 | 13.33 | 13.76 |
| Draftsman | | | |
| 1st 6 months | 11.43 | 11.80 | 12.18 |
| 2nd 6 months | 11.96 | 12.34 | 12.75 |
| 3rd 6 months and after | 12.47 | 12.88 | 13.30 |
| Customer Service Planner | | | |
| 1st 6 months | 12.53 | 12.94 | 13.36 |
| 2nd 6 months | 13.70 | 14.15 | 14.61 |
| 3rd 6 months | 14.87 | 15.35 | 15.85 |
| 4th 6 months | 16.00 | 16.52 | 17.06 |
| 5th 6 months | 17.17 | 17.73 | 18.30 |
| 6th 6 months and after | 18.35 | 18.94 | 19.56 |
| Accounting Specialist | | | |
| 1st 6 months | 11.08 | 11.44 | 11.81 |
| 2nd 6 months | 11.51 | 11.89 | 12.27 |
| 3rd 6 months | 11.88 | 12.27 | 12.67 |
| 4th 6 months | 12.28 | 12.68 | 13.09 |
| 5th 6 months and after | 12.65 | 13.06 | 13.48 |

EXHIBIT "A"
(Continued)

| | <u>03/01/2002</u> | <u>03/01/2003</u> | <u>03/01/2004</u> |
|--|-------------------|-------------------|-------------------|
| Customer Service Representative | | | |
| 1st 6 months | \$10.11 | \$10.44 | \$10.78 |
| 2nd 6 months | 10.47 | 10.81 | 11.16 |
| 3rd 6 months | 10.82 | 11.17 | 11.54 |
| 4th 6 months | 11.18 | 11.55 | 11.92 |
| 5th 6 months and after | 11.54 | 11.92 | 12.31 |
| Customer Service Representative (A) | 12.36 | 12.76 | 13.18 |
| Warehouseperson | | | |
| 1st 6 months | 9.94 | 10.27 | 10.60 |
| 2nd 6 months | 10.41 | 10.75 | 11.10 |
| 3rd 6 months | 10.88 | 11.24 | 11.60 |
| 4th 6 months | 11.32 | 11.68 | 12.06 |
| Next 12 months and after | 12.47 | 12.88 | 13.30 |
| Warehouseperson (A) | | | |
| 1st 6 months | 14.43 | 14.90 | 15.39 |
| 2nd 6 months and after | 18.49 | 19.09 | 19.71 |
| Laborer | 8.95 | 9.24 | 9.54 |

B

ARIZONA GAS CAPITAL CLASSIFICATIONS (X \$1000)

| | 2002 | 2003 | | | | |
|----------------|-------------------|-------------------|-------------------|-------------------|-------------------|---------------------|
| | <u>4th</u> | <u>1st</u> | <u>2nd</u> | <u>3rd</u> | <u>4th</u> | <u>Total</u> |
| Growth (Net) | 2,990 | 2,254 | 2,653 | 2,825 | 2,335 | 10,067 |
| Replacement | 89 | 467 | 568 | 485 | 183 | 1,703 |
| Infrastructure | 0 | 0 | 0 | 3,700 | 3,024 | 6,724 |
| TOTALS | 3,079 | 2,721 | 3,221 | 7,010 | 5,542 | 18,494 |

C

**SCHEDULE OF ENHANCED SEVERANCE BENEFIT PLAN PARTICIPANTS
ARIZONA GAS**

| <u>NAME</u> | <u>POSITION</u> | <u>LOCATION</u> | <u>SEVERANCE BENEFITS</u> | <u>Medical, Dental, Vision, and EAP</u> | <u>Outplacement</u> |
|----------------------|---------------------------|-----------------|---|---|------------------------|
| Gary A. Smith | VP & GM, AZ Gas | Flagstaff, AZ | 52 Weeks Severance Pay | 52 weeks company paid without employee contribution | Minimum of one seminar |
| Kevin P. Thomas, Sr. | Material Control Manager | Flagstaff, AZ | 39 Weeks Severance Pay | 39 weeks company paid without employee contribution | Minimum of one seminar |
| Michael T. Crabb | Material Control Analyst | Flagstaff, AZ | 26 Weeks Severance Pay | 26 weeks company paid without employee contribution | Minimum of one seminar |
| Craig W. Lipke | Material Control Analyst | Flagstaff, AZ | 26 Weeks Severance Pay | 26 weeks company paid without employee contribution | Minimum of one seminar |
| Sean R. Breen | Director, Energy Services | Flagstaff, AZ | 52 Weeks Severance Pay | 52 weeks company paid without employee contribution | Minimum of one seminar |
| J. Anthony Baca | Director, Human Resources | Flagstaff, AZ | 52 Weeks Severance Pay | 52 weeks company paid without employee contribution | Minimum of one seminar |
| Barbara A. Wytaske | Project Manager | Phoenix, AZ | \$50K completion bonus if position eliminated due to divestiture and no like position available within company in Phoenix, AZ | No special considerations | Minimum of one seminar |
| Thomas J. Ferry | VP & GM, AZ Electric | Kingman, AZ | 52 Weeks Severance Pay | 52 weeks company paid without employee contribution | Minimum of one seminar |

D

AZ Schedule of Ees with So Union Gas Priort Service.xls

| Last Name | Hire Date | Appndx | Date of Acquisition | Sector |
|----------------------|------------|--------|---------------------|--------|
| Adams, Robert L | 1988-01-27 | 1A | 12/4/90 | Gas |
| Anaya, Martin S | 1981-09-21 | 1A | 12/4/90 | Gas |
| Balderas, Clifford A | 1986-08-06 | 1A | 12/4/90 | Gas |
| Barranco, Brenda C | 1991-02-09 | 1A | 12/4/90 | Gas |
| Barret, Gary D | 1990-12-04 | 1A | 12/4/90 | Gas |
| Behne, Jerry D | 1984-08-26 | 1A | 12/4/90 | Gas |
| Black Jr., Annace L | 1986-09-21 | 1A | 12/4/90 | Gas |
| Borron, Philip D | 1987-11-16 | 1A | 12/4/90 | Gas |
| Broughton, Carol A | 1968-11-05 | 1A | 12/4/90 | Gas |
| Brown, Charles M | 1982-09-27 | 1A | 12/4/90 | Gas |
| Brown, Jeffrey W | 1981-04-12 | 1A | 12/4/90 | Gas |
| Brown, Thomas M | 12/4/90 | 1A | 12/4/90 | Gas |
| Broz, Diane L | 1988-03-19 | 1A | 12/4/90 | Gas |
| Cardy, David M | 1988-02-27 | 1A | 12/4/90 | Gas |
| Carreras, Richard | 1986-04-21 | 1A | 12/4/90 | Gas |
| Carroll, Richard G | 12/4/90 | 1A | 12/4/90 | Gas |
| Church, Ronald S | 12/4/90 | 1A | 12/4/90 | Gas |
| Dahl, Gary A | 1990-10-08 | 1A | 12/4/90 | Gas |
| Dannen, Barbara J | 1983-05-17 | 1A | 12/4/90 | Gas |
| Davis, Nancy R | 1969-04-28 | 1A | 12/4/90 | Gas |
| Dorman, Charles E | 1976-11-15 | 1A | 12/4/90 | Gas |
| Duey, Daniel J | 1977-08-15 | 1A | 12/4/90 | Gas |
| Duncan, Jimmy J | 1977-11-21 | 1A | 12/4/90 | Gas |
| Edwards, Lynn D | 1977-04-01 | 1A | 12/4/90 | Gas |
| Ely, Karl A | 1989-06-19 | 1A | 12/4/90 | Gas |
| Epperson, Jeffrey T | 1991-08-24 | 1A | 12/4/90 | Gas |
| Fanning, Monette M | 1984-06-04 | 1A | 12/4/90 | Gas |
| Fetterman, Marvin J | 1990-12-04 | 1A | 12/4/90 | Gas |
| Field, Jeffrey W | 1991-09-09 | 1A | 12/4/90 | Gas |
| Freeman, Irene M | 1984-06-11 | 1A | 12/4/90 | Gas |
| Gagnaire, Robert G | 1990-12-04 | 1A | 12/4/90 | Gas |
| Hammack, Marvin R | 1985-12-16 | 1A | 12/4/90 | Gas |
| Harp, George R | 1971-06-01 | 1A | 12/4/90 | Gas |

AZ Schedule of Ees with So Union Gas Prior Service.xls

| | | | | |
|-----------------------|------------|----|---------|-----|
| Henson, Rhonda G | 1986-02-24 | 1A | 12/4/90 | Gas |
| Hines, James W | 1960-03-21 | 1A | 12/4/90 | Gas |
| Holeyfield, Jeffrey G | 1980-09-08 | 1A | 12/4/90 | Gas |
| Holmes, Thais L | 1990-08-06 | 1A | 12/4/90 | Gas |
| Hughey, Glenn A | 1982-01-04 | 1A | 12/4/90 | Gas |
| Jeffs, Matthew A | 1989-10-02 | 1A | 12/4/90 | Gas |
| Jenkins, David G | 1962-10-01 | 1A | 12/4/90 | Gas |
| Justus, Robbie G | 1988-04-04 | 1A | 12/4/90 | Gas |
| Kuhns, Harvey L | 1974-04-01 | 1A | 12/4/90 | Gas |
| Lyon, Arthur W | 1979-10-08 | 1A | 12/4/90 | Gas |
| Martinez, Gilbert R | 1999-07-06 | 1A | | Gas |
| Mayorga, Robert R | 1979-07-09 | 1A | 12/4/90 | Gas |
| McKnight, Alvie W | 1971-04-12 | 1A | 12/4/90 | Gas |
| Miller, Charlotte T | 1991-09-09 | 1A | 12/4/90 | Gas |
| Miller, John P | 1987-10-04 | 1A | 12/4/90 | Gas |
| Moline, Shane L | 1991-09-09 | 1A | 12/4/90 | Gas |
| Molise, Alan B | 1979-07-31 | 1A | 12/4/90 | Gas |
| Morton, Jay P | 1988-10-15 | 1A | 12/4/90 | Gas |
| Moulton, Deborah Kay | 1992-07-12 | 1A | | Gas |
| Mundell, Constance R | 1987-03-16 | 1A | 12/4/90 | Gas |
| Navarro, Richard R | 1978-07-10 | 1A | 12/4/90 | Gas |
| Neumann Jr., Paul A | 1973-01-09 | 1A | 12/4/90 | Gas |
| Perea, Frank L | 1987-06-28 | 1A | 12/4/90 | Gas |
| Powers, Robert E | 1978-07-31 | 1A | 12/4/90 | Gas |
| Quintana, Rebecca S | 1986-01-27 | 1A | 12/4/90 | Gas |
| Reynolds, William R | 1990-12-04 | 1A | 12/4/90 | Gas |
| Rhodes, Kathryn Diana | 1990-09-24 | 1A | 12/4/90 | Gas |
| Roberts, Michael J | 1980-09-02 | 1A | 12/4/90 | Gas |
| Romero Jr., John F | 1989-02-18 | 1A | 12/4/90 | Gas |
| Ross, Stephen M | 1972-07-10 | 1A | 12/4/90 | Gas |
| Russell, Steven J | 1973-03-26 | 1A | 12/4/90 | Gas |
| Schoonmaker, Jack R | 1974-12-03 | 1A | 12/4/90 | Gas |
| Seutopka, Bennett | 1971-11-15 | 1A | 12/4/90 | Gas |
| Shelley, Nathan C | 1975-01-20 | 1A | 12/4/90 | Gas |
| Smith, John W | 12/4/90 | 1A | 12/4/90 | Gas |

AZ Schedule of Ees with So Union Gas Prior Service.xls

| | | | | |
|---------------------------------|------------|----|---------|----------|
| <i>Smith, Ronald C</i> | 1979-05-07 | 1A | 12/4/90 | Gas |
| <i>Stutz, Jacqueline A</i> | 1985-06-10 | 1A | 12/4/90 | Electric |
| <i>Tucker, Thomas L</i> | 1976-09-14 | 1A | 12/4/90 | Gas |
| <i>Urbina, Cecelia</i> | 1973-02-12 | 1A | 12/4/90 | Gas |
| <i>Westmoreland II, Logan C</i> | 1988-03-05 | 1A | 12/4/90 | Gas |

E

KUTAK ROCK LLP

SUITE 1000
1101 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20036-4374
202-828-2400
FACSIMILE 202-828-2488
www.kutakrock.com

ATLANTA
CHICAGO
DENVER
DES MOINES
FAYETTEVILLE
KANSAS CITY
LINCOLN
LITTLE ROCK
NEW YORK
NEWPORT BEACH
OKLAHOMA CITY
OMAHA
PASADENA
RICHMOND
SCOTTSDALE

October 29, 2002

Dean E. Criddle
Orrick, Herrington & Sutcliffe, LLP
Old Federal Reserve Bank Building
400 Sansome Street
San Francisco, CA 94111-3143

Dear Mr. Criddle:

Please find attached the final Exempt Facility Operating Protocols (the "Protocols") as required by Section 6.14(c) of the Asset Purchase Agreements. These Protocols, along with the hard-copy Appendices sent to you last week, constitute the necessary deliverable. Please transmit to UniSource as appropriate.

If you have any questions regarding this matter, please do not hesitate to call me at (202) 828-2467.

Very truly yours,



Christine M. Choi

October 29, 2002

\$2,100,000
The Industrial Development Authority
of the County of Coconino
Industrial Development Revenue Bonds
1993 Series
(Citizens Utilities Company Project)

Exempt Facility Operating Protocol
Relating to the
Coconino Gas Facility

The Gas facilities in Coconino County were financed in whole or in part with the proceeds of the above-referenced bonds (the "Project"). As of the date hereof, Kutak Rock LLP, bond counsel, has advised that there will be no adverse effect on the tax-exempt status of the above-referenced bonds (the "Bonds"), or the status of the Project as an exempt facility for the local furnishing of gas as described in the Internal Revenue Code (the "Code") of 1986, as amended (the "Code") §§ 142(a)(8) and 142(f)(1), so long as the Project is operated in a manner consistent with this Exempt Facility Operating Protocol (the "Protocol"). This Protocol describes the manner in which the Gas facilities in Coconino County are being operated as of the date hereof.

Operations

I. Points of Receipt From Gas Suppliers

The Project's major points of receipt from gas suppliers (also known as "City Gates") all shall be located within Coconino County. As of the date of this Protocol, the locations of the City Gates are in the vicinity of Flagstaff, Bellemont and Williams and are more specifically described in the listing at Appendix F and shown on the map at Appendix G. The Project also includes smaller points of receipt from gas suppliers (the "Farm Taps") at the locations described in the listing at Appendix H. The Project includes no other points of receipt from gas suppliers.

At the points of interconnection described in this section, the flow of gas shall be inbound from the suppliers to the Project. At every moment in time, there shall be no outbound flow of gas at the interconnection points. There shall be no points of interconnection between the Project and any interstate natural gas pipelines other than as currently described herein. There shall be no points of interconnection between the Project and any other company's gas system or the pipelines of any other gas utility.

II. Service Area

All gas received from the suppliers at the interconnect points of the City Gates and Farm Taps shall be transported via the Project owner's pipelines to customers within the certificated Arizona gas service territory within Coconino County as described in the Certificate of Convenience and Necessity¹ attached at Appendix N and as indicated on the map at Appendix J.

Customers to whom gas service is provided within the certificated service territory may include, without limitation, full service retail customers, customers for transportation of customer-secured natural gas (as described in the T-1 tariff attached hereto as Appendix K), and customers under the Negotiated Sales Program (as described in the Arizona Corporation Commission's Decision No. 60423 attached hereto as Appendix L).

The owner or operator of the Project shall not enter into any agreement or obligation to instruct its gas suppliers to divert, on a temporary basis (for emergency reasons or otherwise), to another gas utility, a certain amount of gas to which the owner or operator of the Project is entitled by contract.

¹ The Certificate of Convenience and Necessity was originally granted to Southern Union Gas Company, and was subsequently transferred to the Company under Arizona Corporation Commission Decision No. 57647.

October 29, 2002

\$22,960,000
The Industrial Development Authority
of the County of Mohave
Industrial Development Revenue Bonds
1993 Series
(Citizens Utilities Company Project)

\$10,000,000
The Industrial Development Authority
of the County of Mohave
Industrial Development Revenue Bonds
1993 Series B
(Citizens Utilities Company Project)

\$6,640,000
The Industrial Development Authority
of the County of Mohave
Industrial Development Revenue Bonds
1994 Series
(Citizens Utilities Company Project)

Exempt Facility Operating Protocol
Relating to the
Mohave Gas Facility

The Gas facilities in Mohave County were financed in whole or in part with the proceeds of the above-referenced bonds (the "Project"). As of the date hereof, Kutak Rock LLP, bond counsel, has advised that there will be no adverse effect on the tax-exempt status of the above-referenced bonds (the "Bonds"), or the status of the Project as an exempt facility for the local furnishing of gas as described in the Internal Revenue Code (the "Code") of 1986, as amended (the "Code") §§ 142(a)(8) and 142(f)(1), so long as the Project is operated in a manner consistent with this Exempt Facility Operating Protocol (the "Protocol"). This Protocol describes the manner in which the Gas facilities in Mohave County are being operated as of the date hereof.

Operations

I. Points of Receipt From Gas Suppliers

The Project's major points of receipt from gas suppliers (also known as "City Gates") all shall be located within Mohave County. As of the date of this Protocol, the locations of the City Gates are in the vicinity of Kingman, Griffith and Lake Havasu and are more specifically described in the listing at Appendix F and shown on the map at Appendix G. The Project also includes smaller points of receipt from gas suppliers (the "Farm Taps") at the locations described in the listing at Appendix H. The Project includes no other points of receipt from gas suppliers.

At the points of interconnection described in this section, the flow of gas shall be inbound from suppliers to the Project. At every moment in time, there shall be no outbound flow of gas at the interconnection points. There shall be no points of interconnection between the Project and any interstate natural gas pipelines other than as currently described herein. There shall be no points of interconnection between the Project and any other company's gas system or the pipelines of any other gas utility.

II. Service Area

All gas received from the suppliers at the interconnect points of the City Gates and Farm Taps shall be transported via the Project owner's pipelines to customers within the certificated Arizona gas service territory within Mohave County as described in the Certificate of Convenience and Necessity¹ attached at Appendix I and as indicated on the map at Appendix J. In addition, gas from the City Gate in Mohave County known as the "Bagdad Tap," shall be transported via a distribution pipeline from the origination point in Mohave County to one or more customers in Yavapai County, including the Cypress Bagdad Copper Mine, as shown on the map located at Appendix G.

Customers to whom gas service is provided within the certificated service territory may include, without limitation, full service retail customers, customers for transportation of customer-secured natural gas (as described in the T-1 tariff attached hereto as Appendix K), and customers under the Negotiated Sales Program (as described in the Arizona Corporation Commission's Decision No. 60423 attached hereto as Appendix L).

The owner or operator of the Project has not entered into any agreement or obligation to instruct its gas suppliers to divert, on a temporary basis (for emergency reasons or otherwise), to another gas utility, a certain amount of gas to which the owner or operator of the Project is entitled by contract.

¹ The Certificate of Convenience and Necessity was originally granted to Southern Union Gas Company, and was subsequently transferred to the Company under Arizona Corporation Commission Decision No. 57647.

October 29, 2002

\$4,500,000
The Industrial Development Authority
of the County of Navajo
Industrial Development Revenue Bonds
1993 Series
(Citizens Utilities Company Project)

\$12,380,000
The Industrial Development Authority
of the County of Navajo
Industrial Development Revenue Bonds
1997 Series B
(Citizens Utilities Company Project)

Exempt Facility Operating Protocol
Relating to the
Navajo Gas Facility

The Gas facilities in Navajo County were financed in whole or in part with the proceeds of the above-referenced bonds (the "Project"). As of the date hereof, Kutak Rock LLP, bond counsel, has advised that there will be no adverse effect on the tax-exempt status of the above-referenced bonds (the "Bonds"), or the status of the Project as an exempt facility for the local furnishing of gas as described in the Internal Revenue Code (the "Code") of 1986, as amended (the "Code") §§ 142(a)(8) and 142(f)(1), so long as the Project is operated in a manner consistent with this Exempt Facility Operating Protocol (the "Protocol"). This Protocol describes the manner in which the Gas facilities in Navajo County are being operated as of the date hereof.

Operations

I. Points of Receipt From Gas Suppliers

The Project's major points of receipt from gas suppliers (also known as "City Gates") all shall be located within Navajo County. As of the date of this Exempt Facility Operating Protocol, the locations of the City Gates are in the vicinity of Holbrook, Joseph City and Winslow and are more specifically described in the listing at Appendix F and shown on the map at Appendix G. The Project also includes smaller points of receipt from gas suppliers (the "Farm Taps") at the locations described in the listing at Appendix H. The Project includes no other points of receipt from gas suppliers.

October 29, 2002

Page 2

At the points of interconnection described in this section, the flow of gas shall be inbound from suppliers to the Project. At every moment in time, there shall be no outbound flow of gas at the interconnection points. There shall be no points of interconnection between the Project and any interstate natural gas pipelines other than as currently described herein. There shall be no points of interconnection between the Project and any other company's gas system or the pipelines of any other gas utility.

II. Service Area

All gas received from the suppliers at the interconnect points of the City Gates and Farm Taps shall be transported via the Project owner's pipelines to customers within the certificated Arizona gas service territory within Navajo County as described in the Certificate of Convenience and Necessity¹ attached at Appendix O and as indicated on the map at Appendix J.

Customers to whom gas service is provided within the certificated service territory may include, without limitation, full service retail customers, customers for transportation of customer-secured natural gas (as described in the T-1 tariff attached hereto as Appendix K), and customers under the Negotiated Sales Program (as described in the Arizona Corporation Commission's Decision No. 60423 attached hereto as Appendix L).

The owner or operator of the Projects shall not enter into any agreement or obligation to instruct its gas suppliers to divert, on a temporary basis (for emergency reasons or otherwise), to another gas utility, a certain amount of gas to which the owner or operator of the Project is entitled by contract.

¹ The Certificate of Convenience and Necessity was originally granted to Southern Union Gas Company, and was subsequently transferred to the Company under Arizona Corporation Commission Decision No. 57647.

EXHIBIT

JA-3

admitted

ASSET PURCHASE AGREEMENT

by and between
CITIZENS COMMUNICATION COMPANY, as SELLER
and
UNISOURCE ENERGY CORPORATION, as BUYER

Relating to the Purchase by Buyer of Seller's
Electric Utility Business in the State of Arizona

Signing Date: October 29, 2002

ASSET PURCHASE AGREEMENT

Table of Contents

| <u>Documents</u> | <u>Tab</u> |
|------------------------------------|------------|
| Asset Purchase Agreement..... | 1 |
| Exhibits | 2 |
| Schedules..... | 3 |
| Seller Deliveries at Signing | 4 |

1

ASSET PURCHASE AGREEMENT

by and between

CITIZENS COMMUNICATIONS COMPANY, as SELLER,

and

UNISOURCE ENERGY CORPORATION, as BUYER,

Dated October 29, 2002

*Relating to Purchase by Buyer of Seller's
Electric Utility Business in the State of Arizona*

TABLE OF CONTENTS

| | Page |
|--|------|
| ARTICLE I DEFINITIONS..... | 1 |
| 1.1 Definitions..... | 1 |
| 1.2 Certain Interpretive Matters..... | 14 |
| ARTICLE II PURCHASE AND SALE..... | 14 |
| 2.1 Transfer of Assets..... | 14 |
| 2.2 Excluded Assets..... | 15 |
| 2.3 Assumed Liabilities..... | 17 |
| 2.4 Excluded Liabilities..... | 19 |
| 2.5 Control of Litigation..... | 20 |
| ARTICLE III THE CLOSING..... | 21 |
| 3.1 Closing..... | 21 |
| 3.2 Closing Payment..... | 21 |
| 3.3 Adjustment to Base Purchase Price..... | 21 |
| 3.4 Prorations..... | 24 |
| 3.5 Deliveries by Seller..... | 24 |
| 3.6 Deliveries by Buyer..... | 26 |
| 3.7 Work in Progress..... | 26 |
| ARTICLE IV REPRESENTATIONS, WARRANTIES AND DISCLAIMERS OF SELLER..... | 27 |
| 4.1 Incorporation; Qualification..... | 27 |
| 4.2 Authority..... | 27 |
| 4.3 Consents and Approvals; No Violation..... | 27 |
| 4.4 Insurance..... | 28 |
| 4.5 Real Property Leases..... | 28 |
| 4.6 Environmental Matters..... | 28 |
| 4.7 Labor Matters..... | 29 |
| 4.8 Benefit Plans: ERISA..... | 29 |

TABLE OF CONTENTS

| | Page |
|--|-------------|
| 4.9 Real Property..... | 30 |
| 4.10 Condemnation | 30 |
| 4.11 Assigned Agreements..... | 30 |
| 4.12 Legal Proceedings..... | 31 |
| 4.13 Permits | 31 |
| 4.14 Taxes..... | 31 |
| 4.15 Intellectual Property..... | 32 |
| 4.16 Capital Expenditures..... | 32 |
| 4.17 Compliance With Laws..... | 32 |
| 4.18 Title | 32 |
| 4.19 DISCLAIMERS..... | 32 |
| 4.20 Financial Statements | 33 |
| 4.21 SEC Filings; Financial Statements..... | 33 |
| 4.22 Sufficiency of Assets..... | 34 |
| ARTICLE V REPRESENTATIONS AND WARRANTIES OF BUYER | 34 |
| 5.1 Organization..... | 34 |
| 5.2 Authority | 34 |
| 5.3 Consents and Approvals; No Violation..... | 34 |
| 5.4 Availability of Funds..... | 35 |
| 5.5 SEC Filings; Financial Statements..... | 35 |
| 5.6 Legal Proceedings..... | 36 |
| 5.7 No Knowledge of Seller's Breach..... | 36 |
| 5.8 Qualified Buyer..... | 36 |
| 5.9 Inspections..... | 36 |
| 5.10 WARN Act..... | 36 |
| ARTICLE VI COVENANTS OF THE PARTIES | 37 |
| 6.1 Conduct of Business and Operation of Assets..... | 37 |
| 6.2 Access to Information..... | 38 |

TABLE OF CONTENTS

| | Page |
|--|------|
| 6.3 Environmental Inspections and Information..... | 40 |
| 6.4 Confidentiality..... | 41 |
| 6.5 Public Statements..... | 42 |
| 6.6 Expenses..... | 42 |
| 6.7 Further Assurances..... | 42 |
| 6.8 Consents and Approvals..... | 43 |
| 6.9 Fees and Commissions..... | 44 |
| 6.10 Tax Matters..... | 45 |
| 6.11 Advice of Changes..... | 47 |
| 6.12 Seller Employees..... | 47 |
| 6.13 Risk of Loss..... | 52 |
| 6.14 Tax Exempt Financing..... | 53 |
| 6.15 Seller Guarantees and Surety Instruments..... | 58 |
| 6.16 Citizens Marks..... | 58 |
| 6.17 Title Commitments..... | 58 |
| 6.18 Joint Use Agreement re: Easements..... | 58 |
| 6.19 Leases..... | 59 |
| 6.20 Post-Execution Delivery of Schedules..... | 59 |
| ARTICLE VII CONDITIONS..... | 59 |
| 7.1 Conditions to Obligations of Buyer..... | 59 |
| 7.2 Conditions to Obligations of Seller..... | 60 |
| ARTICLE VIII INDEMNIFICATION..... | 61 |
| 8.1 Indemnification of Seller by Buyer..... | 61 |
| 8.2 Indemnification of Buyer by Seller..... | 62 |
| 8.3 Certain Limitations on Indemnification..... | 62 |
| 8.4 Defense of Claims..... | 65 |
| ARTICLE IX TERMINATION..... | 66 |
| 9.1 Termination..... | 66 |

TABLE OF CONTENTS

| | Page |
|--|------|
| 9.2 Procedure and Effect of Termination | 67 |
| 9.3 Liquidated Damages; Termination Fees | 68 |
| ARTICLE X MISCELLANEOUS PROVISIONS | 69 |
| 10.1 Amendment and Modification | 69 |
| 10.2 Waiver of Compliance; Consents..... | 69 |
| 10.3 [Intentionally Omitted] | 69 |
| 10.4 Notices..... | 69 |
| 10.5 Assignment..... | 71 |
| 10.6 Governing Law..... | 71 |
| 10.7 Counterparts | 71 |
| 10.8 Interpretation | 71 |
| 10.9 Schedules and Exhibits | 72 |
| 10.10 Entire Agreement | 72 |
| 10.11 U.S. Dollars..... | 72 |
| 10.12 Bulk Sales Laws | 72 |
| 10.13 Construction of Agreement | 72 |
| 10.14 Severability | 72 |
| 10.15 Third Party Beneficiary..... | 73 |

ASSET PURCHASE AGREEMENT

ASSET PURCHASE AGREEMENT, dated October 29, 2002 (this "Agreement"), by and among Citizens Communications Company, a Delaware corporation ("Seller") and UniSource Energy Corporation, an Arizona corporation ("Buyer"). Seller and Buyer are referred to, individually, as a "Party" and, together, as the "Parties."

WITNESSETH

WHEREAS, Seller owns all of the Assets (as defined below); and

WHEREAS, Buyer desires to purchase and assume, and Seller desires to sell and assign, the Assets, and certain associated liabilities, upon the terms and conditions hereinafter set forth in this Agreement.

NOW, THEREFORE, in consideration of the mutual covenants, representations, warranties and agreements hereinafter set forth, and intending to be legally bound hereby, the Parties agree as follows:

ARTICLE I DEFINITIONS

1.1 Definitions. As used in this Agreement, the following terms have the meanings specified in this Section 1.1.

"ACC" means the Arizona Corporation Commission and any successor agency thereto.

"ADEQ" means the Arizona Department of Environmental Quality and any successor agency thereto.

"Advances" has the meaning set forth in Section 3.3(e).

"Adverse Environmental Condition" has the meaning set forth in Section 6.3(c).

"Affiliate" of any Person means a Person that directly, or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, the Person specified.

"Agreement" means this Asset Purchase Agreement together with the Schedules and Exhibits attached hereto, as the same may be from time to time amended.

"Allocation" has the meaning set forth in Section 6.10(f).

"ALTA" has the meaning set forth in Section 6.17.

"Ancillary Agreements" means the agreements, contracts, documents, instruments and certificates provided for in this Agreement to be entered into by one or more of the Parties or any of their Affiliates in connection with the transactions contemplated by this Agreement.

"APBO" has the meaning set forth in Section 6.12(d)(iii)(D).

"Approved Capital Expenditures" means the Capital Expenditures that have been expressly approved by Buyer in writing and that are identified in said writing as Approved Capital Expenditures for purposes of this Agreement.

"Arizona Gas Purchase Agreement" has the meaning set forth in Section 7.1(j).

"Assets" has the meaning set forth in Section 2.1.

"Asset Material Adverse Effect" means any occurrence or condition, arising after the date hereof, that has or would reasonably be expected to have a material adverse effect with an aggregate economic impact, taking into account all relevant considerations, in excess of \$10,000,000 (except as provided otherwise in Sections 6.3(c), 6.13(b)(i) or 6.13(c)(ii)) on the condition of the Assets, taken as a whole, or on the business, operations, financial condition or results of operations of the Business, taken as a whole, other than any such occurrence or condition (a) arising from business, economic or financial market conditions, considered generally, (b) arising from the conditions in the electric utility industry, considered generally and not specifically as to the Business, (c) which is remedied, cured or otherwise reversed (including by the payment of money or application of insurance proceeds) before the Termination Date, or (d) arising from entering into this Agreement or the announcement of the transactions contemplated by this Agreement; it being understood that the occurrences and/or conditions which could, depending on the nature and extent thereof, be deemed to result in an Asset Material Adverse Effect shall include, without limitation, (x) the terms or conditions of a Final Order with respect to any Required Regulatory Approval, considered individually or together with any other such Final Order(s) with respect to any other Required Regulatory Approval(s), other than Regulatory Exceptions, and (y) facts or circumstances relating to the Assets and/or the Business which come to the attention of Buyer between the date of this Agreement and the Closing Date, whether as a result of Buyer's Inspection of the Assets or its examination of information and data relating to the Assets and/or the Business, as contemplated by Section 6.2 or 6.3, or otherwise.

"Assigned Agreements" means any contracts, agreements, software licenses and related contracts, Easements, Real Property Leases and personal property leases entered into by Seller or any of its Affiliates with respect to the ownership, operation or maintenance of the Assets or the Business, including those disclosed on Schedules 4.5 and 4.11(a) and excluding those disclosed on Schedule 2.2, including without limitation, the IBEW CBAs and the Power Service Contract.

"Assignment and Assumption Agreement" means the Assignment and Assumption Agreement between Seller and Buyer substantially in the form of Exhibit A attached hereto.

"Assumed Liabilities" has the meaning set forth in Section 2.3.

"Balance Sheet" has the meaning set forth in Section 4.20.

"Base Purchase Price" has the meaning set forth in Section 3.2.

"Benefit Plans" means each of Seller's deferred compensation and each bonus or other incentive compensation, stock purchase, stock option and other equity compensation plan, program, agreement or arrangement; each severance or termination pay, medical, surgical, hospitalization, life insurance and other "welfare" plan, fund or program (within the meaning of Section 3(1) of ERISA); each profit-sharing, stock bonus or other "pension" plan, fund or program (within the meaning of Section 3(2) of ERISA); each employment, termination or severance agreement; and each other employee benefit plan, fund, program, agreement or arrangement, in each case, that is sponsored, maintained or contributed to or required to be contributed to by such Party or by any ERISA Affiliate, in any case maintained for employees of Seller connected with the Business, or in which such employees participate.

"Bill of Sale" means the Bill of Sale, substantially in the form of Exhibit B attached hereto, to be delivered at the Closing by Seller with respect to the Tangible Personal Property included in the Assets transferred to Buyer.

"Bond Counsel" has the meaning set forth in Section 6.14(c)(i).

"Business" means, collectively, (a) the electricity generation, transmission and distribution business conducted by Seller within the State of Arizona; and (b) the provision of related services and products and the engagement in related activities by Seller within the State of Arizona.

"Business Day" means any day other than Saturday, Sunday and any day which is a day on which banking institutions in the States of Arizona and New York are authorized by law or other governmental action to remain closed.

"Buyer" has the meaning set forth in the Preamble.

"Buyer Indemnifiable Loss" has the meaning set forth in Section 8.2.

"Buyer Indemnitee" has the meaning set forth in Section 8.2.

"Buyer Material Adverse Effect" means a Material Adverse Effect with respect to Buyer.

"Buyer Required Regulatory Approvals" means the Required Regulatory Approvals set forth in Schedule 5.3(b).

"CERCLA" means the federal Comprehensive Environmental Response, Compensation, and Liability Act, 42 U.S.C. Section 9601 *et seq.*, as amended.

"Capital Expenditures" means capital additions to or replacements of property, plants and equipment included in the Assets or otherwise relating to the Business and other expenditures or repairs on property, plants and equipment included in the Assets or otherwise relating to the Business that would be capitalized by Seller in accordance with its normal accounting policies.

"Capital Expenditures Schedule" has the meaning set forth in Section 4.16.

"Citizens Marks" has the meaning set forth in Section 2.2(c).

"Closing" has the meaning set forth in Section 3.1.

"Closing Date" means one minute after 11:59 p.m. on the date which is five (5) Business Days following the date on which the last of the conditions precedent to the Closing set forth in Article VII of this Agreement have been either satisfied or waived by the Party for whose benefit such conditions precedent exist, subject to such extensions (not to exceed six (6) months) as may be required by Seller to repair or replace lost or damaged Assets in accordance with Section 6.13(c), or such other date as the Parties may mutually agree.

"COBRA" means the Consolidated Omnibus Budget Reconciliation Act of 1984.

"COBRA Continuation Coverage" means the requirements of Section 4980B(f) of the Code.

"Code" means the Internal Revenue Code of 1986, as amended.

"Commercially Reasonable Efforts" means efforts by a Party which are reasonably within the contemplation of the Parties at the time of executing this Agreement and which do not require the performing Party to expend any funds other than expenditures which are customary and reasonable in transactions of the kind and nature contemplated by this Agreement in order for the performing Party to satisfy its obligations hereunder.

"Current Retirees" has the meaning set forth in Section 6.12(d)(iii)(D).

"Direct Claim" has the meaning set forth in Section 8.4(c).

"Easements" means all easements, rights of way, permits, licenses, prescriptive rights and other ways of necessity, and other similar real property grants, whether or not of record, relating to real property.

"Encumbrances" means any mortgages, pledges, liens, security interests, conditional and installment sale agreements, activity and use limitations, conservation easements, deed restrictions, encumbrances and charges of any kind.

"Environmental Claim" means any and all pending and/or threatened administrative or judicial actions, suits, orders, claims, liens, notices, notices of violations, investigations, complaints, requests for information, proceedings, or other written communication, whether criminal or civil, pursuant to or relating to any applicable Environmental Law or pursuant to a common law theory, by any Person (including, but not limited to, any Governmental Authority, private person and citizens' group) based upon, alleging, asserting, or claiming any actual or potential (a) violation of, or liability under any Environmental Law, (b) violation of any Environmental Permit, or (c) liability for investigatory costs, cleanup costs, removal costs, remedial costs, response costs, natural resource damages, property damage, personal injury, fines, or penalties arising out of, based on, resulting from, or related to any Environmental Condition or any Release or threatened Release into the environment of any Regulated Substances at any location related to the Assets, including, but not limited to, any Off-Site Location to which Regulated Substances, or materials containing Regulated Substances, were sent for handling, storage, treatment, or disposal.

"Environmental Condition" means the presence or Release of a Regulated Substance (other than a naturally-occurring substance) on or in environmental media, or structures on Real Property, at an Off-Site Location or other property (including the presence in surface water, groundwater, soils or subsurface strata, or air), including the subsequent migration of any such Regulated Substance, regardless of when such presence or Release occurred or is discovered.

"Environmental Data" has the meaning set forth in Section 6.3(e).

"Environmental Laws" means all federal, state, local, provincial, foreign and international civil and criminal laws, regulations, rules, ordinances, codes, decrees, judgments, directives, or judicial or administrative orders relating to pollution or protection of the environment, natural resources or human health and safety, including, without limitation, laws relating to Releases or threatened Releases of Regulated Substances (including, without limitation, Releases to ambient air, surface water, groundwater, land, surface and subsurface strata) or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, Release, transport, disposal or handling of Regulated Substances. "Environmental Laws" include: (a) with respect to federal law, CERCLA, the Hazardous Materials Transportation Act (49 U.S.C. §§ 1801 *et seq.*), the Resource Conservation and Recovery Act (42 U.S.C. §§ 6901 *et seq.*), the Federal Water Pollution Control Act (33 U.S.C. §§ 1251 *et seq.*), the Clean Air Act (42 U.S.C. §§ 7401 *et seq.*), the Toxic Substances Control Act (15 U.S.C. §§ 2601 *et seq.*), the Oil Pollution Act (33 U.S.C. §§ 2701 *et seq.*), the Emergency Planning and Community Right-to-Know Act (42 U.S.C. §§ 11001 *et seq.*), the Occupational Safety and Health Act (29 U.S.C. §§ 651 *et seq.*), the Safe Drinking Water Act (42 U.S.C. § 300f *et seq.*), the Surface Mine Conservation and Reclamation Act (30 U.S.C. §§ 1251-1279), and regulations adopted pursuant thereto, and counterpart state and local laws, regulations adopted pursuant thereto; and (b) with respect to Arizona law, laws comparable to such federal statutes and regulations adopted pursuant thereto.

"Environmental Permits" means any permits, registrations, certificates, certifications, licenses and authorizations, consents and approvals of Governmental Authorities issued under Environmental Laws held by Seller with respect to the Assets.

"Environmental Price Adjustment" has the meaning set forth in Section 6.3(c).

"Environmental Reports" has the meaning set forth in Section 4.6.

"Environmental Threshold" has the meaning set forth in Section 6.3(c).

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended.

"ERISA Affiliate" means a trade or business, whether or not incorporated, that together with a Party would be deemed a "single employer" within the meaning of Section 4001(b) of ERISA.

"Estimated Adjustment" has the meaning set forth in Section 3.3(b).

"Estimated Closing Statement" has the meaning set forth in Section 3.3(b).

"Excluded Assets" has the meaning set forth in Section 2.2.

"Excluded Liabilities" has the meaning set forth in Section 2.4.

"Exempt Facilities" means those facilities listed in Exhibit A to each Loan Agreement included in the IDR Documents.

"FERC" means the Federal Energy Regulatory Commission or any successor agency thereto.

"Final Order" means an action by the relevant Governmental Authority that has not been reversed, stayed, enjoined, set aside, annulled or suspended and/or with respect to which any waiting period prescribed by law before the transactions contemplated hereby may be consummated has expired and the time period permitted by statute or regulation for filing any request for a stay, petition for rehearing, reconsideration or application for review of the action or for filing a court appeal has passed.

"Financial Statements" has the meaning set forth in Section 4.20.

"FIRPTA Affidavit" means the Foreign Investment in Real Property Tax Act Certification and Affidavit to be executed by Seller.

"GAAP" means U.S. generally accepted accounting principles.

"Good Utility Practices" means any practices, methods, standards, guides, or acts, as applicable, that (a) are generally accepted in the region during the relevant time period for use in the electricity generation, transmission and distribution industry, (b) are commonly used in prudent electricity generation, transmission and distribution

engineering, construction, project management and operations, and (c) would be expected if the Business is to be conducted at a reasonable cost in a manner consistent with laws, rules and regulations applicable to the Business and the objectives of reliability, safety, environmental protection, economy and expediency. Good Utility Practice is intended to be acceptable practices, methods, or acts generally accepted in the region, and is not intended to be limited to the optimum practices, methods, or acts to the exclusion of all others.

“Governmental Authority” means any foreign, federal, state, local or other governmental, regulatory or administrative agency, court, commission, department, board, or other governmental subdivision, legislature, rulemaking board, court, tribunal, arbitrating body or other governmental authority.

“Grandfathered Active Employees” has the meaning set forth in Section 6.12(d)(iii)(D).

“Grandfathered Individuals” has the meaning set forth in Section 6.12(d)(iii)(D).

“HSR Act” means the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.

“IBEW” means International Brotherhood of Electrical Workers.

“IBEW CBAs” has the meaning set forth in Section 6.12(a).

“IDRB Documents” has the meaning set forth in Section 6.14(m).

“IDRB Indebtedness” means the indebtedness of Seller owing to the issuers of the Revenue Bonds and arising under the Loan Agreements included among the IDRB Documents.

“Income Tax” means any federal, state, local or foreign Tax (a) based upon, measured by or calculated with respect to gross or net income, profits or receipts (including, without limitation, capital gains Taxes and minimum Taxes) or (b) based upon, measured by or calculated with respect to multiple bases (including, without limitation, corporate franchise taxes) if one or more of the bases on which such Tax may be based, measured by or calculated with respect to, is described in clause (a), in each case together with any interest, penalties, or additions to such Tax.

“Indemnifiable Loss” means any claim, demand, suit, loss, liability, damage, obligation, payment, cost or expense (including, without limitation, the cost and expense of any action, suit, proceeding, assessment, judgment, settlement or compromise relating thereto and reasonable attorneys’ fees and reasonable disbursements in connection therewith).

“Indemnifying Party” means a Party obligated to provide indemnification under this Agreement.

"Indemnitee" means a Person entitled to receive indemnification under this Agreement.

"Independent Accounting Firm" means such independent accounting firm of national reputation as is mutually appointed by the Buyer and Seller.

"Inspection" means all tests, reviews, examinations, inspections, investigations, interviews, verifications, samplings and similar activities conducted by Buyer or its Representatives prior to the Closing with respect to the Assets, including "Phase I" and/or "Phase II" environmental assessments.

"Intellectual Property" means patents and patent rights, trademarks and trademark rights, inventions, copyrights and copyright rights, and all pending applications for registrations of patents, trademarks, and copyrights.

"Inventories" means materials, spare parts, consumable supplies, fuel supplies and chemical inventories relating to the Assets or the operation of the Business.

"Knowledge" means the actual knowledge, as of the date hereof or, with respect to any certificate delivered pursuant to this Agreement, the date of delivery of such certificate, of the Persons identified on Schedule 1.1 and successors to each such Person's employment responsibilities.

"Material Adverse Effect" means any occurrence or condition, arising after the date hereof, that has or would reasonably be expected to have a material adverse effect with an aggregate adverse economic impact, taking into account all relevant considerations, in excess of \$10,000,000 on the business, operations, properties, financial condition or results of operations of any Party (including its Affiliates, taken as a whole) or on the ability of either Party to perform in all material respects its obligations under this Agreement and the Ancillary Agreements.

"Material Taking" has the meaning set forth in Section 6.13(b).

"Non-Union Employees" has the meaning set forth in Section 6.12(b).

"Off-Site Location" means any real property other than the Real Property.

"Order" means any award, decision, injunction, judgment, order, consent order, writ, decree, consent decree, ruling, subpoena, or verdict entered, issued, made or rendered by any court, administrative agency, other Governmental Authority, or by an arbitrator, each of which possesses competent jurisdiction.

"Party" has the meaning set forth in the Recitals.

"Permitted Encumbrances" means any of the following:

(a) mechanics', carriers', workers' and other similar liens arising in the ordinary course of business for charges that are not delinquent or that are being contested in good faith and have not proceeded to judgment;

(b) liens for current Taxes and assessments not yet due and payable;

(c) with respect to the Real Property, usual and customary nonmonetary Encumbrances, covenants, Easements, restrictions and other title matters (whether or not recorded) that do not and are not expected to materially interfere with the operation of that portion of the Business conducted on such Real Property or the Business as a whole;

(d) Encumbrances securing the payment or performance of any of the Assumed Liabilities;

(e) all applicable zoning ordinances and land use restrictions in effect as of the date of this Agreement and all changes to or new adoptions of zoning ordinances and land use restrictions prior to the Closing Date that do not and are not expected to materially interfere with the operation of that portion of the Business conducted on such Real Property or the Business as a whole;

(f) with respect to any Asset which consists of a leasehold or other possessory interests in real property, all Encumbrances, covenants, Easements, restrictions and other title matters (whether or not recorded) to which the underlying fee estate in such real property is subject that do not or will not interfere materially with the operation of that portion of the Business currently conducted on such property or the Business as a whole; and

(g) any other Encumbrances, obligations, defects or irregularities of any kind whatsoever affecting title to the Assets that will be terminated, released or waived on or before the Closing Date or that are not, individually or in the aggregate, reasonably likely to materially interfere with the present use of the Assets or to materially increase the cost of conducting the Business.

"Permits" means any permits, licenses, registrations, franchises and other authorizations, consents and approvals of Governmental Authorities held by Seller with respect to the Assets or the Business.

"Person" means any individual, partnership, limited liability company, joint venture, corporation, trust, unincorporated organization, or governmental entity or any department or agency thereof.

"Post-Closing Adjustment" has the meaning set forth in Section 3.3(d).

"Post-Retirement Welfare Benefits" has the meaning set forth in Section 6.12(d)(iii)(D).

"Power Service Agreement" means that certain Power Service Agreement, dated as of June 1, 2001, between Pinnacle West Capital Corporation and Seller.

"Proposed Post-Closing Adjustment" has the meaning set forth in Section 3.3(c).

"Proprietary Information" of a Party means all information about the Party or its Affiliates, including their respective properties or operations, furnished to the other Party or its Representatives by the Party or its Representatives, before or after the date hereof, regardless of the manner or medium in which it is furnished and all analyses, reports, tests or other information created or prepared by, or on behalf of, a Party during the performance of "Phase I" or "Phase II" environmental site assessments. Proprietary Information does not include information that: (a) is or becomes generally available to the public, other than as a result of a disclosure by the other Party or its Representatives; (b) was available to the other Party on a nonconfidential basis prior to its disclosure by the Party or its Representatives; (c) becomes available to the other Party on a nonconfidential basis from a person, other than the Party or its Representatives, who is not otherwise bound by a confidentiality agreement with the Party or its Representatives, or is not otherwise under any obligation to the Party or any of its Representatives not to transmit the information to the other Party or its Representatives; or (d) is independently developed by the other Party.

"Purchase Price" has the meaning set forth in Section 3.2.

"Qualifying Offer" means an offer to a Transferred Non-Union Employee of the same or similar job that is at least 100% of such employee's current total cash compensation at the time the offer was made (consisting of base salary and target incentive bonus), and does not require, as a condition of acceptance, a relocation of residence as described in Section 6.12(f).

"Real Property" has the meaning set forth in Section 2.1(a). Any reference to the Real Property includes, by definition, Seller's right, title and interest in and to the surface and subsurface elements, including the soils and groundwater present at the Real Property, and any reference to items "at the Real Property" includes all items "at, on, in, upon, over, across, under and within" the Real Property.

"Real Property Leases" has the meaning set forth in Section 4.5.

"Recovery Costs" has the meaning set forth in Section 8.4(d).

"Regulated Substances" means (a) any petrochemical or petroleum products, oil or coal ash, radioactive materials, radon gas, asbestos in any form that is or could become friable, urea formaldehyde foam insulation and dielectric fluid containing polychlorinated biphenyls; (b) any chemicals, materials or substances defined as or included in the definition of "hazardous substances," "hazardous wastes," "hazardous materials," "hazardous constituents," "restricted hazardous materials," "extremely hazardous substances," "toxic substances," "contaminants," "pollutants," "toxic pollutants" or words of similar meaning and regulatory effect under any applicable Environmental Law; and (c) any other chemical, material or substance, exposure to which or whose discharge,

emission, disposal or Release is prohibited, limited or regulated by any applicable Environmental Law.

"Regulations" has the meaning set forth in Section 6.14(a)(iii).

"Regulatory Exceptions" means any of the following:

(a) a refusal by the ACC or the FERC to authorize an increase in base rates for the Business, an imposition by the ACC or the FERC of a rate moratorium for the Business, or a requirement by the ACC or the FERC of the filing of a rate case for the Business;

(b) an imposition by the ACC requiring Buyer to provide service, or to improve service, to Persons located in any authorized service area of the Business, provided such requirement has a corresponding rate recovery opportunity;

(c) an imposition by the ACC of performance, safety or reliability standards for Buyer's operation of the Business that are substantially equivalent to those standards being met by Buyer or its Affiliates in their other utility operations in Arizona, provided (i) Buyer is given a reasonable period of time after Closing to meet such imposed standards and (ii) such imposed standards have a corresponding rate recovery opportunity; and

(d) terms and conditions imposed by any Governmental Authority that is required to issue a Required Regulatory Approval that are either (i) usual and customary; (ii) applicable to the Business or to Buyer or any Affiliate of Buyer as of the date of this Agreement; or (iii) contemplated by this Agreement, including the understandings of the Parties referenced in Section 6.8(c)(i).

"Regulatory Material Adverse Effect" means, with respect to any Party, a Material Adverse Effect resulting from the effect on such Party of the terms and conditions of a Final Order with respect to any Required Regulatory Approval other than Regulatory Exceptions.

"Release" means release, spill, leak, discharge, dispose of, pump, pour, emit, empty, inject, leach, dump or allow to escape into or through the environment.

"Remediation" means any action taken in the investigation, removal, confinement, cleanup, treatment, or monitoring of a Release or an Environmental Condition on Real Property or Off-Site Location, including, without limitation, (a) obtaining any Permits or Environmental Permits required for such remedial activities, and (b) implementation of any engineering controls and institutional controls. The term "Remediation" includes, without limitation, any action which constitutes "removal action" or "remedial action" as defined by Section 101 of CERCLA, Section 6901(23) and (24); or any action which constitutes "remediation" or "remedial action" as defined by Arizona Revised Statutes Sections 49-151(4), 49-171(8) and 49-282.02(C)(2).

"Representatives" of a Party means such Party's authorized representatives, including without limitation, its professional and financial advisors.

"Required Regulatory Approvals" means with respect to a Party, any consent or approval of, filing with, or notice to, any Governmental Authority that is necessary for the execution and delivery of this Agreement and the Ancillary Agreements by such Party or the consummation thereby of the transactions contemplated hereby, other than such consents, approvals, filings or notices (i) which are not required in the ordinary course to be obtained or made prior to the Closing and the transfer of the Assets, (ii) which, if not obtained or made, will not prevent such Party from performing its material obligations hereunder, or (iii) that relate to a Permit that is not material to the Business, taken as a whole.

"Revenue Bonds" has the meaning set forth in Section 6.14(a)(i).

"Savings Plan" has the meaning set forth in Section 6.12(d)(iii)(E).

"SEC" means the Securities and Exchange Commission and any successor agency thereto.

"Seller" has the meaning set forth in the Preamble.

"Seller Indemnifiable Loss" has the meaning set forth in Section 8.1.

"Seller Indemnitee" has the meaning set forth in Section 8.1.

"Seller Material Adverse Effect" means a Material Adverse Effect with respect to Seller.

"Seller Required Regulatory Approvals" means the Required Regulatory Approvals set forth in Schedule 4.3(b).

"Seller SEC Reports" has the meaning set forth in Section 4.21.

"Seller's Pension Plan" has the meaning set forth in Section 6.12(d)(iii)(C).

"Severance Cost" has the meaning set forth in Section 6.12(b).

"Special Warranty Deed" means a special warranty deed substantially in the form of Exhibit C attached hereto.

"Subsidiary" when used in reference to any Person means any entity of which outstanding securities having ordinary voting power to elect a majority of the Board of Directors or other Persons performing similar functions of such entity are owned directly or indirectly by such Person.

"Sufficient Notice" has the meaning set forth in Section 6.14(c)(ii).

"Taking" has the meaning set forth in Section 6.13(b).

"Tangible Personal Property" has the meaning set forth in Section 2.1(c).

"Taxes" means all taxes, charges, fees, levies, penalties or other assessments imposed by any federal, state, local or foreign taxing authority, including, but not limited to, income, excise, property, sales, transfer, franchise, payroll, withholding, social security, gross receipts, license, stamp, occupation, employment or other taxes, including any interest, penalties or additions attributable thereto.

"Tax Impact" has the meaning set forth in Section 6.14(a)(vi).

"Tax Return" means any return, report, information return, declaration, claim for refund or other document (including any schedule or related or supporting information) required to be supplied to any taxing authority with respect to Taxes including amendments thereto.

"Termination Date" has the meaning set forth in Section 9.1(b).

"Terminated Power Service Agreement" means that certain Power Service Agreement, dated as of January 5, 1995, between Arizona Public Service Company and Seller, as heretofore terminated.

"Third Party Claim" means any claim, action, or proceeding made or brought by any Person who is not (a) a Party to this Agreement, or (b) an Affiliate of a Party to this Agreement.

"Title Commitment" has the meaning set forth in Section 6.17.

"Title Company" has the meaning set forth in Section 6.17.

"Title Policies" has the meaning set forth in Section 6.17.

"Transfer Taxes" means any real property transfer or gains tax, sales tax, conveyance fee, use tax, stamp tax, stock transfer tax or other similar tax, including any related penalties, interest and additions to tax.

"Transferable Permits" means those Permits and Environmental Permits with respect to the Assets or the Business which may be transferred to Buyer with or without a filing with, notice to, consent of or approval of any Governmental Authority, and excluding those Permits and Environmental Permits with respect to the Assets or the Business which are non-transferable to Buyer and with respect to which Buyer must apply for and obtain replacements.

"Transferred Employees" means Transferred Non-Union Employees and Transferred Union Employees.

"Transferred Employee Records" means records related to Seller's employees who become employees of Buyer but only to the extent such records pertain to (A) skill and development training and biographies, (B) seniority histories, (C) salary and benefit

information, (D) Occupational, Safety and Health Administration reports, or (E) subject to the limitation of the Health Insurance Portability and Accountability Act of 1996 and any applicable state privacy legislation and regulations, active medical restriction forms.

"Transferred Non-Union Employees" has the meaning set forth in Section 6.12(b).

"Transferred Union Employees" has the meaning set forth in Section 6.12(a).

"Union Employees" has the meaning set forth in Section 6.12(a).

"UniSource" means UniSource Energy Corporation, an Arizona corporation and a direct or indirect parent corporation of Buyer.

"UniSource Designee" means a wholly-owned subsidiary, direct or indirect, of either UniSource or Tucson Electric Power Company, an Arizona corporation named in the approvals by the ACC and the FERC as an entity that may acquire the Assets.

"UniSource SEC Reports" has the meaning set forth in Section 5.5.

"WARN Act" means the Federal Worker Adjustment Retraining and Notification Act of 1988, as amended.

"1954 Code" has the meaning set forth in Section 6.14(a)(iii).

1.2 Certain Interpretive Matters. In this Agreement, unless the context otherwise requires, the singular shall include the plural, the masculine shall include the feminine and neuter, and vice versa. The term "includes" or "including" shall mean "including without limitation." The terms "hereof," "herein" and "herewith" and words of similar import shall, unless otherwise stated, be construed to refer to this Agreement as a whole (including all of the Schedules and Exhibits hereto) and not to any particular provision of this Agreement. References to a Section, Article, Exhibit or Schedule shall mean a Section, Article, Exhibit or Schedule of this Agreement, and reference to a given agreement or instrument shall be a reference to that agreement or instrument as modified, amended, supplemented or restated through the date as of which such reference is made.

ARTICLE II

PURCHASE AND SALE

2.1 Transfer of Assets. Upon the terms and subject to the satisfaction of the conditions contained in this Agreement, at the Closing, Seller will sell, assign, convey, transfer and deliver to Buyer or the UniSource Designee, and Buyer or such UniSource Designee will purchase, assume and acquire from Seller, free and clear of all Encumbrances (except for Permitted Encumbrances), all of Seller's right, title and interest in and to all the assets (except for Excluded Assets), real, personal or mixed, tangible, or intangible, used or held for use by Seller in or in connection with, or otherwise necessary for, the conduct of the Business, including,

without limitation, those assets described below, each as in existence on the Closing Date (such assets, collectively, the "Assets"):

(a) those certain parcels of real property owned by Seller together with all buildings, facilities, and other improvements thereon and all appurtenances thereto as described in Schedule 4.9 (the "Real Property");

(b) all accounts receivable and earned but unbilled revenues attributable to the Business, and all Inventories;

(c) all machinery (mobile or otherwise), equipment (including communications equipment and computers), vehicles, tools, furniture and furnishings and other personal property related to the Business, owned by Seller and located on the Real Property on the Closing Date, together with all the personal property of Seller used principally in the operation of the Business that are in the possession of Seller and whether or not located on the Real Property (collectively, the "Tangible Personal Property");

(d) subject to the provisions of Section 6.7(c), all Assigned Agreements, including the Power Service Agreement and any and all rights, claims or causes of action against Arizona Public Service Company or any other Person that Seller may have under the Terminated Power Service Agreement;

(e) subject to the provisions of Section 6.7(c), all Real Property Leases;

(f) all Transferable Permits;

(g) all books, customer lists and customer information databases, meter reading and service data, accounts payable and receivable data, operating and maintenance records, warranty information, operating, safety and maintenance manuals, engineering design plans, blueprints and as-built plans, specifications, procedures and similar items of Seller relating specifically to the Assets and necessary for the operation of the Assets and the Business (subject to the right of Seller to retain copies of same for its use) other than such items which are proprietary to third parties and accounting records;

(h) all unexpired, transferable warranties and guarantees from third parties with respect to any Asset as of the Closing Date;

(i) Seller prepaid expenses; and

(j) petty cash held locally for the benefit of the Business.

2.2 Excluded Assets. Notwithstanding anything to the contrary in this Agreement, nothing in this Agreement will constitute a transfer to Buyer or a UniSource Designee of, or be construed as conferring on Buyer or a UniSource Designee, and neither Buyer nor said UniSource Designee is acquiring, any right, title or interest in or to the following specific assets which are associated with the Assets or the Business, but which are hereby specifically excluded from the sale and the definition of Assets herein (the "Excluded Assets"):

- (j) all deferred tax assets or collectibles;
- (k) any insurance policy, bond, letter of credit or similar item, and any cash surrender value in regard thereto;
- (l) except as otherwise set forth in Section 6.12, assets attributable to or related to a Benefit Plan; and
- (m) all other assets listed in Schedule 2.2 hereto.

2.3 Assumed Liabilities. On the Closing Date, Buyer or the UniSource Designee acquiring the Assets shall deliver to Seller the Assignment and Assumption Agreement pursuant to which Buyer or such UniSource Designee shall assume and agree to discharge when due, without recourse to Seller, in accordance with the respective terms and subject to the respective conditions thereof, all of the Assumed Liabilities. All of the following liabilities and obligations of Seller or Buyer which relate to, or arise by virtue of Seller's or Buyer's ownership of the Assets or operation of the Business (other than Excluded Liabilities) are referred to collectively as the "Assumed Liabilities":

(a) all liabilities and obligations of Seller or Buyer arising on or after the Closing Date under the Assigned Agreements, the Real Property Leases, and the Transferable Permits in accordance with the terms thereof, including, without limitation, the Assigned Agreements entered into by Seller (i) prior to the date hereof and (ii) after the date hereof consistent with the terms of this Agreement, except in each case to the extent such liabilities and obligations, but for a breach or default by Seller, would have been paid, performed or otherwise discharged on or prior to the Closing Date and are not otherwise included among the items causing an adjustment to the Base Purchase Price contemplated in Section 3.3 or to the extent the same arise out of any such breach or default or out of any event which after the giving of notice or passage of time or both would constitute a default by Seller;

(b) all liabilities and obligations of Seller for accounts payable to the extent included among the items causing an adjustment to the Base Purchase Price contemplated in Section 3.3;

(c) all liabilities and obligations associated with the Assets or the Business in respect of Taxes for which Buyer is liable pursuant to Section 3.4 or 6.10(a) hereof;

(d) all liabilities and obligations of Seller or Buyer with respect to the Transferred Employees incurred on or after the Closing Date for which Buyer is responsible pursuant to Section 6.12;

(e) all liabilities, responsibilities and obligations of Seller or Buyer arising under Environmental Laws or relating to Environmental Conditions or Regulated Substances (including common law liabilities relating to Environmental Conditions and Regulated Substances), whether such liability, responsibility or obligation is known or unknown, contingent or accrued as of the Closing Date, including but not limited to: (i) costs of compliance (including capital, operating and other costs) relating to any violation or alleged violation of Environmental Laws occurring prior to, on or after the Closing Date, with respect to the

ownership of the Assets or operation of the Business; (ii) property damage or natural resource damage (whether such damages were manifested before or after the Closing Date) arising from Environmental Conditions or Releases of Regulated Substances at, on, in, under, adjacent to, or migrating from any Assets prior to, on or after the Closing Date; (iii) any Remediation (whether or not such Remediation commenced before the Closing Date or commences after the Closing Date) of Environmental Conditions or Regulated Substances that are present or have been Released prior to, on or after the Closing Date, at, on, in, adjacent to or migrating from the Assets; (iv) any violations or alleged violations of Environmental Laws occurring on or after the Closing Date with respect to the ownership of any Assets or operation of the Business; (v) any bodily injury or loss of life arising from Environmental Conditions or Releases of Regulated Substances at, on, in, under, adjacent to or migrating from any Asset on or after the Closing Date; (vi) any bodily injury, loss of life, property damage, or natural resource damage arising from the storage, transportation, treatment, disposal, discharge, recycling or Release, at any Off-Site Location, or arising from the arrangement for such activities, on or after the Closing Date, of Regulated Substances generated in connection with the ownership of the Assets or the operation of the Business; and (vii) any Remediation of any Environmental Condition or Release of Regulated Substances arising from the storage, transportation, treatment, disposal, discharge, recycling or Release, at any Off-Site Location, or arising from the arrangement for such activities, on or after the Closing Date, of Regulated Substances generated in connection with the ownership or operation of the Assets; provided, that nothing set forth in this Section 2.3 shall require Buyer to assume any liabilities, responsibilities or obligations that are expressly excluded in Section 2.4;

(f) any Tax that may be imposed by any federal, state or local government on the ownership, sale (except as otherwise provided in Section 3.4 or 6.10(a)), operation of the Business or use of the Assets on or after the Closing Date, except for any Income Taxes attributable to the income of Seller;

(g) all liabilities and obligations of Seller or Buyer arising on and after the Closing Date under those Orders specifically relating to the Assets or the Business issued by or entered into with any Governmental Authority and listed in Schedule 2.3(g) or imposed on Buyer in any Required Regulatory Approval;

(h) customer advances, customer deposits and construction advances, unperformed service obligations, Easement relocation obligations, and engineering and construction required to complete scheduled construction, construction work in progress, and other capital expenditure projects, in each case directly related to the Business and outstanding on or arising after the Closing Date; and

(i) actions and proceedings based on conduct, actions, circumstances or conditions arising or occurring on or after the Closing Date, actions and proceedings described in Schedule 2.3(i), actions and proceedings arising from or directly related to any other Assumed Liability, and generic or industry-wide actions and proceedings outstanding on or arising on or after the Closing Date that are applicable to the Business.

2.4 Excluded Liabilities. Notwithstanding anything to the contrary in this Agreement, Buyer shall not assume or be obligated to pay, perform or otherwise discharge the following liabilities or obligations of Seller (collectively, the "Excluded Liabilities"):

(a) any liabilities or obligations of Seller in respect of any Excluded Assets or other assets of Seller that are not Assets;

(b) any liabilities or obligations with respect to Taxes attributable to Seller's ownership, or use of the Assets or operation of the Business for taxable periods, or portions thereof, ending before the Closing Date, except for Taxes for which Buyer is liable pursuant to Section 3.4 or 6.10(a) hereof;

(c) any liabilities or obligations of Seller accruing under any of the Assigned Agreements prior to the Closing Date or any liability, other than an Assumed Liability, underlying a Permitted Encumbrance, in each case to the extent not included among the items causing an adjustment to the Base Purchase Price contemplated in Section 3.3;

(d) any and all asserted or unasserted liabilities or obligations to third parties (including employees) for injuries or damages, whether arising from tortious conduct or otherwise, or similar causes of action relating to the Assets or the Business arising during or attributable to the period prior to the Closing Date, other than such that relate to liabilities or obligations assumed by Buyer;

(e) any fines, penalties and associated costs for defending related enforcement actions, resulting from any violation or alleged violation of Environmental Laws with respect to the ownership of the Assets or the operation of the Business occurring prior to the Closing Date;

(f) any payment obligations of Seller pursuant to the Assigned Agreements for goods delivered or services rendered prior to the Closing Date, including, but not limited to, rental payments pursuant to the Real Property Leases, in each case to the extent not included among the items causing an adjustment to the Base Purchase Price contemplated in Section 3.3;

(g) any liabilities, responsibilities and obligations of Seller arising under Environmental Laws or relating to Environmental Conditions or Regulated Substances (including common law liabilities relating to Environmental Conditions and Regulated Substances), whether such liability, responsibility or obligation was known or unknown, contingent or accrued, which relates to (i) any bodily injury, loss of life, property damage or natural resource damage arising from the storage, transportation, treatment, disposal, discharge, recycling or Release of Regulated Substances generated in connection with the ownership of the Assets or the operation of the Business at any Off-Site Location, or arising from the arrangement for such activities, prior to the Closing Date; or (ii) any Remediation of any Environmental Condition or Regulated Substance at any Off-Site Location, arising from the storage, transportation, treatment, disposal, discharge, recycling or Release of Regulated Substances generated in connection with the ownership of the Assets or the operation of the Business at such Off-Site Location, or arising from the arrangement for such activities, prior to the Closing Date; provided, that for purposes of this paragraph, "Off-Site Location" does not include any location

to which Regulated Substances disposed of or Released at the site of any Asset may have migrated;

(h) any liability to third parties (including employees) for personal injury or loss of life, to the extent caused (or allegedly caused) by Environmental Conditions or the Release of Regulated Substances at, on, in, under, or adjacent to, or migrating from, the Assets prior to the Closing;

(i) subject to Section 6.12, any liabilities or obligations of Seller, any Seller Subsidiary or any ERISA Affiliate of Seller relating to any Benefit Plan including but not limited to any such liability (i) relating to benefits payable under any Benefit Plan; (ii) relating to the Pension Benefit Guaranty Corporation under Title IV of ERISA; (iii) relating to a multi-employer plan; (iv) with respect to non-compliance with the notice and benefit continuation requirements of COBRA; (v) with respect to any noncompliance with ERISA or any other applicable laws; or (vi) with respect to any suit, proceeding or claim which is brought against Seller, Buyer, any Benefit Plan, or any fiduciary or former fiduciary of any such Benefit Plan;

(j) subject to Section 6.12, any liabilities or obligations arising from facts or circumstances prior to the Closing Date relating to the employment or termination of employment, including discrimination, wrongful discharge, unfair labor practices, or constructive termination by Seller of any individual, attributable to any actions or inactions by Seller prior to the Closing Date other than actions or inactions taken at the written direction of Buyer (it being understood and agreed that Buyer shall have no liability for action taken by Seller pursuant to Section 6.12 except as expressly provided therein);

(k) subject to Section 6.12, any obligations of Seller for wages, overtime, employment taxes, severance pay, transition payments in respect of compensation or similar benefits accruing or arising prior to the Closing under any term or provision of any contract, plan, instrument or agreement relating to any of the employees of Seller;

(l) all obligations of Seller with respect to the Revenue Bonds and any other indebtedness for money borrowed by Seller (including items due to Seller's Affiliates) other than payment obligations arising on or after the Closing Date under any equipment lease of the kind listed in Schedule 4.11(a) or under any line extension contracts or similar construction arrangements, it being understood and agreed that such leases, contracts and similar arrangements do not create indebtedness for money borrowed; and

(m) any liability of Seller arising out of a breach by Seller or any of its Affiliates of any of their respective obligations under this Agreement or the Ancillary Agreements.

2.5 Control of Litigation.

(a) The Parties agree and acknowledge that, from and after the Closing Date, Seller shall be entitled exclusively to control, defend and settle any litigation, administrative or regulatory proceeding, and any investigation or Remediation activity (including without limitation any environmental mitigation or Remediation activities), arising out of or related to any Excluded Liabilities, and Buyer agrees to cooperate fully in connection therewith and in

connection therewith, shall comply with the provisions of Section 6.2, provided that, in no event shall Seller's exercise of its rights under this Section 2.5 (i) unreasonably interfere with Buyer's conduct or operation of the Business, (ii) place any environmental liens or deed restrictions on the Real Property, or (iii) cause Buyer to be responsible for maintaining any institutional or engineering controls that may be part of a Remediation activity.

(b) The Parties agree and acknowledge that, from and after the Closing Date, Buyer shall be entitled exclusively to control, defend and settle any litigation, administrative or regulatory proceeding, and any investigation or Remediation activity (including without limitation any environmental mitigation or Remediation activities), arising out of or related to any Assumed Liabilities, and Seller agrees to cooperate fully in connection therewith and in connection therewith, shall comply with the provisions of Section 6.2.

ARTICLE III

THE CLOSING

3.1 Closing. Upon the terms and subject to the satisfaction of the conditions in Article VII of this Agreement, each of (i) the sale, assignment, conveyance, transfer and delivery of the Assets to Buyer by Seller, (ii) the payment of the Purchase Price to Seller by Buyer, (iii) the assumption of the Assumed Liabilities by Buyer, and (iv) the consummation of the other respective obligations of the Parties contemplated by this Agreement to be consummated on the Closing Date shall take place at a closing (the "Closing"), to be held at the offices of Seller in Phoenix, Arizona, or another mutually acceptable location, at 9:00 a.m. local time on the Closing Date.

3.2 Closing Payment. Upon the terms and subject to the satisfaction of the conditions contained in this Agreement, in consideration of the aforesaid sale, assignment, assumption, conveyance, transfer and delivery of the Assets, Buyer will pay or cause to be paid to Seller at the Closing an aggregate amount in U.S. dollars of ninety-two million dollars (\$92,000,000) (the "Base Purchase Price") plus or minus any adjustments pursuant to the provisions of this Agreement (the "Purchase Price"), by wire transfer of immediately available funds denominated in U.S. dollars or by such other means as are agreed upon by Seller and Buyer.

3.3 Adjustment to Base Purchase Price.

(a) Subject to Section 3.3(b), at the Closing, the Base Purchase Price shall be adjusted to account for the items set forth in this Section 3.3(a):

(i) the Base Purchase Price shall be decreased by four million dollars (\$4,000,000) if the Closing occurs on or before July 28, 2003;

(ii) [intentionally omitted]

(iii) the Base Purchase Price shall be increased by two million dollars (\$2,000,000) in the event the Closing occurs after the first anniversary of the date hereof;

(iv) the Base Purchase Price shall be increased by the aggregate amount of all accounts receivable and earned but unbilled revenues (other than any amounts that are due from any of Seller's Affiliates or that otherwise are Excluded Assets) attributable to the Business as of day immediately preceding the Closing Date net of Seller's reserve for allowance for bad debt (as reflected in Seller's written policy for allowance for bad debt as of the date hereof);

(v) the Base Purchase Price shall be decreased by all accounts payable attributable to the Business as of the day immediately preceding the Closing Date (other than any liability that is an Excluded Liability);

(vi) the Base Purchase price shall be decreased by (A) the aggregate amount of customer advances for construction times 25% and (B) the aggregate amount of customer deposits, in each case to the extent relating to the Business outstanding as of the day immediately preceding the Closing Date (other than any amounts due to any of Seller's Affiliates or that otherwise is an Excluded Liability);

(vii) the Base Purchase Price shall increased by the aggregate amount of Inventories recorded on Seller's books and records as of day immediately preceding the Closing Date;

(viii) the Base Purchase Price shall be adjusted to account for the net balance payable to or by Seller, if any, for items prorated pursuant to Section 3.4, other than the items addressed in Section 3.4(a);

(ix) the Base Purchase Price shall be increased or decreased if and to the extent required by Sections 6.3(c), 6.12(b), 6.12(d)(iii)(D) and 6.13; and

(x) the Base Purchase Price will be increased by the aggregate amount of all (i) Approved Capital Expenditures that are accrued by Seller between the date of this Agreement and the Closing Date (including expenditures recorded in the Construction Work in Progress account of the Business as of the day immediately preceding the Closing Date and relating to the Approved Capital Expenditures), (ii) without duplication, expenditures to purchase materials, supplies and other capital items that are dedicated to, but as of Closing have not been used in, the construction or improvement of the property, plant or equipment and relating to the Approved Capital Expenditures) and (iii) without duplication, other expenditures recorded as an asset of the Business as of the day immediately preceding the Closing Date and relating to such Approved Capital Expenditures.

(b) At least ten (10), but no more than thirty (30) days prior to the Closing Date, Seller shall prepare and deliver to Buyer an estimated closing statement (the "Estimated Closing Statement") that shall set forth Seller's best estimate of the estimated adjustments to the Base Purchase Price required by Section 3.3(a) (regardless of whether notice of such Base Purchase Price adjustments have been previously delivered to Buyer) (the "Estimated Adjustment"). Within five (5) days following the delivery of an Estimated Closing Statement to Buyer, Buyer may object in good faith to such Estimated Closing Payment in writing. In the

event of any such objection, the Parties shall attempt to resolve their differences by negotiation. If the Parties are unable to do so before three (3) days prior to the Closing Date, then (i) the full amount of the Estimated Adjustment shall be made at the Closing if the amount in dispute is less than \$1,000,000, or (ii) the undisputed portion of the Estimated Adjustment shall be made at the Closing if the amount in dispute is \$1,000,000 or more. The disputed portions shall be paid as a Post-Closing Adjustment if and to the extent required by Section 3.3(d).

(c) Within sixty (60) days following the Closing Date, Seller shall prepare and deliver to Buyer a final closing statement setting forth the final adjustments to the Base Purchase Price required by Section 3.3(a) (the "Proposed Post-Closing Adjustment"). All calculations of the Proposed Post-Closing Adjustments shall be prepared using the same accounting principles, policies and methods as Seller has historically used in connection with the calculation of the items reflected on such Proposed Post-Closing Adjustments.

(d) Within thirty (30) days following the delivery of a Proposed Post-Closing Adjustment to Buyer, Buyer may object to such Proposed Post-Closing Adjustment in writing. Seller agrees to cooperate with Buyer to provide Buyer and Buyer's Representatives information used to prepare the Proposed Post-Closing Adjustments and information relating thereto. If Buyer objects to a Proposed Post-Closing Adjustment, the Parties shall attempt to resolve such dispute by negotiation. If such Parties are unable to resolve such dispute within thirty (30) days of any such objection by Buyer, the Parties shall appoint an Independent Accounting Firm. The fees and expenses of such Independent Accounting Firm shall be allocated between Buyer and Seller so that Seller's share of such fees and expenses shall be in the same proportion that the aggregate amount of such remaining disputed amounts so submitted by Buyer to such auditor that is successfully disputed by Buyer (as finally determined by such auditor) bears to the total amount of such remaining disputed amounts so submitted by Buyer to such auditor. The Independent Accounting Firm shall review such Proposed Post-Closing Adjustment and determine the appropriate adjustment to the Base Purchase Price, if any, within thirty (30) days of such appointment. The Parties agree to cooperate with the Independent Accounting Firm and provide it with such information as it reasonably requests to enable it to make such determination. The finding of such Independent Accounting Firm shall be binding on the Parties hereto. Upon determination by agreement of the Parties or by binding determination of the Independent Accounting Firm of the appropriate adjustment to the Base Purchase Price (in either case, the "Post-Closing Adjustment"), if such Post-Closing Adjustment results in a change to the Base Purchase Price, the Party owing the difference shall deliver such difference to the Party owed such amount no later than two (2) Business Days after the determination of such Post Closing Adjustment, in immediately available funds or in any other manner as reasonably requested by the Party owed such amount, plus interest at 6.0% per annum on such determined amount from the Closing Date to (but not including) the date of payment.

(e) If at any time following the Closing Date Buyer actually returns to customers greater than thirty-five percent (35%) of the aggregate customer advances for construction directly relating to the Business and outstanding as of the Closing Date ("Advances"), Seller shall reimburse Buyer for all amounts returned to customers to the extent said returns exceed twenty-five percent (25%) of Advances. Buyer may, at any time within seven (7) years from the Closing Date, provide notice to Seller of a reimbursement claim under this Section 3.3(e), which notice shall include reasonable documentary substantiation of returns

to customers of Advances. In the event Seller agrees with said determination, it shall promptly pay such reimbursement to Buyer. In the event Seller disputes said determination, it shall initiate the dispute resolution procedures with regard to the Post-Closing Adjustment, as provided in Section 3.3(d), which shall be binding on the Parties.

3.4 Prorations. Buyer and Seller agree that all of the items normally prorated, including those listed below (but not including Income Taxes), relating to the Business and operation of the Assets shall be prorated as of the Closing Date, with Seller liable for such items to the extent such items relate to any time period prior to the Closing Date, and Buyer liable for such items to the extent such items relate to periods commencing with the Closing Date (measured in the same units used to compute the item in question, otherwise measured by calendar days). The Base Purchase Price shall be increased to the extent Buyer will benefit financially due to Seller's payment prior to the Closing Date of the portion of any such item allocable to Buyer, and (except with respect to the items addressed in clause (a) below) shall be decreased to the extent Seller will benefit financially due to Buyer's payment on or after the Closing Date of the portion of any such item allocable to Seller. The items subject to proration include the following:

(a) Subject to Section 6.10(b), personal property, real estate and occupancy Taxes, assessments and other charges, if any, on or with respect to the Business and operation of the Assets;

(b) rent, Taxes (other than Income Taxes) and all other items (including prepaid services or goods not included in Inventories) payable by or to Seller under any of the Assigned Agreements to the extent not included in the account payables of the Business outstanding as of the day immediately preceding the Closing Date;

(c) any permit, license, registration, compliance assurance fees or other fees with respect to any Transferable Permit or other Asset;

(d) sewer rents and charges for water, telephone, electricity and other utilities with respect to the Assets;

(e) rent and Taxes payable by or to Seller under the Real Property Leases assigned to Buyer to the extent not included in the account payables of the Business outstanding as of the day immediately preceding the Closing Date;

(f) deposits made by Seller to the extent transferred to Buyer;

(g) prepaid expenses paid by Seller to the extent transferred to Buyer; and

(h) petty cash held locally for the benefit of the Business to the extent transferred to Buyer.

3.5 Deliveries by Seller. At the Closing, Seller will deliver, or cause to be delivered, the following to Buyer:

(a) The Bill of Sale, duly executed by Seller;

- (b) Copies of any and all consents, waivers or approvals obtained or required to be obtained by Seller from Government Authorities or non-governmental Persons with respect to the transfer of the Assets, or the consummation of the transactions contemplated by this Agreement;
- (c) One or more Special Warranty Deeds conveying title to the Real Property to Buyer, duly executed and acknowledged by Seller and in recordable form;
- (d) An opinion from Seller's general counsel, dated the Closing Date, substantially in the form of Exhibit D attached hereto, and opinions from Seller's Bond Counsel, dated the Closing Date, substantially in the form of Exhibit E attached hereto;
- (e) The Assignment and Assumption Agreement, duly executed by Seller;
- (f) A FIRPTA Affidavit, duly executed by Seller;
- (g) Copies, certified by the Secretary or Assistant Secretary of Seller, of corporate resolutions authorizing the execution and delivery of this Agreement and all of the agreements and instruments to be executed and delivered by Seller in connection herewith, and the consummation of the transactions contemplated hereby;
- (h) A certificate of the Secretary or Assistant Secretary of Seller identifying the name and title and bearing the signatures of the officers of Seller authorized to execute and deliver this Agreement and the other agreements and instruments contemplated hereby;
- (i) Certificate of Good Standing with respect to Seller, issued by the Secretary of State of the State of Delaware;
- (j) To the extent available, originals of all Assigned Agreements, Real Property Leases and Transferable Permits and, if not available, true and correct copies thereof (delivery of the foregoing documents will be deemed made in the case of any such documents then located at any of the offices included in the Assets, but only to the extent that Seller delivers to Buyer a schedule generally identifying each such office and the general categories of documents located in each such office);
- (k) All such other instruments of assignment, transfer or conveyance as shall, in the reasonable opinion of Buyer and its counsel, be necessary to transfer the Assets to Buyer, in accordance with this Agreement and where necessary or desirable in recordable form;
- (l) Such other agreements, documents, instruments and writings as are required to be delivered by Seller at or prior to the Closing Date pursuant to this Agreement or otherwise reasonably requested by Buyer in connection herewith; and
- (m) A certificate dated the Closing Date executed by Seller's President, Public Services Sector, to the effect that, to such officer's Knowledge, the conditions set forth in Sections 7.1(e) and (f) have been satisfied by Seller.

3.6 Deliveries by Buyer. At the Closing, Buyer will deliver, or cause to be delivered, the following:

(a) The Purchase Price, as adjusted pursuant to Section 3.3, by wire transfer of immediately available funds denominated in U.S. dollars in accordance with Seller's instructions or by such other means as are agreed upon by Seller and Buyer;

(b) The Assignment and Assumption Agreement, duly executed by Buyer;

(c) All such other instruments of transfer or assumption as shall, in the reasonable opinion of Seller and its counsel, be necessary for the sale, conveyance, assignment and transfer of the Assets to, or the assumption of the Assumed Liabilities by, Buyer in accordance with this Agreement;

(d) Copies, certified by the Secretary or Assistant Secretary of Buyer, of resolutions authorizing the execution and delivery of this Agreement and all of the agreements and instruments to be executed and delivered by the Buyer in connection herewith, and the consummation of the transactions contemplated hereby;

(e) A certificate of the Secretary or Assistant Secretary of Buyer, identifying the name and title and bearing the signatures of the officers of Buyer authorized to execute and deliver this Agreement and the other agreements and instruments contemplated hereby;

(f) An opinion from Buyer's general counsel, dated the Closing Date, substantially in the form of Exhibit F attached hereto;

(g) Certified copies of any and all consents, waivers or approvals obtained or required to be obtained by Buyer from Government Authorities or non-governmental Persons with respect to the transfer of the Assets or the consummation of the transactions contemplated by this Agreement;

(h) Such other agreements, documents, instruments and writings as are required to be delivered by Buyer at or prior to the Closing Date pursuant to this Agreement or otherwise reasonably requested by Seller in connection herewith;

(i) Certificate of Good Standing with respect to Buyer, issued by the Secretary of State of Arizona; and

(j) A certificate dated the Closing Date executed by Buyer's Chief Financial Officer to the effect that, to such officer's knowledge, the conditions set forth in Sections 7.2(e), (f) and (g) have been satisfied by Buyer.

3.7 Work in Progress. The Parties agree to work together before the Closing Date to effect on the Closing Date an orderly transition with respect to work in progress.

ARTICLE IV

REPRESENTATIONS, WARRANTIES AND DISCLAIMERS OF SELLER

Seller hereby represents and warrants to Buyer as follows:

4.1 Incorporation; Qualification. Seller is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware and has all requisite corporate power and authority to own, lease, and operate its material assets and properties and to carry on its business as is now being conducted. Seller is duly qualified to do business as a foreign corporation and is in good standing under the laws of each jurisdiction in which its business, as now being conducted, shall require it to be so qualified, except where the failure to be so qualified would not have a Seller Material Adverse Effect.

4.2 Authority. Seller has full corporate power and authority to execute and deliver this Agreement and each of the Ancillary Agreements to which Seller is a signatory and to consummate the transactions contemplated hereby or thereby. The execution and delivery by Seller of this Agreement and each of the Ancillary Agreements to which Seller is a signatory and the consummation by Seller of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action required on the part of Seller and this Agreement has been duly and validly executed and delivered by Seller. Each of this Agreement and the Ancillary Agreements to which Seller is a signatory constitutes the legal, valid and binding agreement of Seller, enforceable against Seller in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally and general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity).

4.3 Consents and Approvals; No Violation.

(a) Except as set forth in Schedule 4.3(a), neither the execution, delivery and performance of this Agreement nor the execution, delivery and performance of the Ancillary Agreements by Seller will (i) conflict with or result in any breach of any provision of the Certificate of Incorporation or Bylaws of Seller, (ii) result in a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which Seller is a party or by which it, or any of the Assets may be bound, except for such defaults (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or that would not, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect; or (iii) subject to obtaining the Seller Required Regulatory Approvals, constitute violations of any law, regulation, order, judgment or decree applicable to Seller, which violations, individually or in the aggregate, would result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

(b) Except as set forth in Schedule 4.3(b) (the filings and approvals referred to in Schedule 4.3(b) are collectively referred to as the "Seller Required Regulatory Approvals"), no consent or approval of, filing with, or notice to, any Governmental Authority is necessary for

the execution and delivery of this Agreement and the Ancillary Agreements by Seller or the consummation by Seller of the transactions contemplated hereby and thereby, other than those the failure to obtain which would not result in a Seller Material Adverse Effect or an Asset Material Adverse Effect and would not otherwise result in a material violation of law by Buyer.

4.4 Insurance. Schedule 4.4 lists, as of the date of this Agreement, all material policies of fire, liability, workers' compensation and other forms of insurance (if any) owned or held by, or on behalf of, Seller with respect to the Assets and the Business. Except as set forth in such Schedule, all such policies are in full force and effect, all premiums with respect thereto covering all periods up to and including the date hereof have been paid (other than retroactive premiums which may be payable with respect to auto, general liability and workers' compensation insurance policies), and no notice of cancellation or termination has been received with respect to any such policy which was not replaced on substantially similar terms prior to the date of such cancellation. Except as described in Schedule 4.4, within the thirty-six (36) months preceding the date of this Agreement, Seller has not been refused any insurance with respect to the Assets or the Business nor has its coverage been limited by any insurance carrier to which it has applied for any such insurance or with which it has carried insurance during the last twelve (12) months.

4.5 Real Property Leases. Schedule 4.5 lists, as of the date of this Agreement, all material real property leases under which Seller is a lessee or lessor and which relate to the Assets, including a separate listing of all leases of office space used by Seller in the conduct of the Business (the "Real Property Leases"). Seller will deliver to Buyer true, correct and complete copies of each of the Real Property Leases in accordance with Section 6.20.

4.6 Environmental Matters. Seller has heretofore delivered to Buyer all environmental reports and all environmental site assessments relating to the Assets that have been identified by Seller after diligent inquiry, which reports have been identified in schedules delivered to Buyer on or prior to the date hereof ("Environmental Reports"). Except as disclosed in Schedule 4.6 or in the Environmental Reports:

(a) Seller holds, and is in substantial compliance with, all Environmental Permits that are required for Seller to conduct the Business and operate the Assets, and Seller is otherwise in compliance with applicable Environmental Laws with respect to the Business and operation of the Assets, except for such failures to hold or comply with required Environmental Permits, or such failures to be in compliance with applicable Environmental Laws, as would not, individually or in the aggregate, result in an Asset Material Adverse Effect;

(b) Seller has not received (i) any written request for information, or been notified that it is a potentially responsible party, under CERCLA or any similar state law with respect to any of the Real Property, or (ii) any written notification from a Governmental Authority with respect to pending or ongoing investigations or enforcement actions related to alleged or potential violations of any applicable Environmental Law with respect to any of the Real Property;

(c) Seller has not entered into or agreed to any consent decree or order relating to the Assets, and is not subject to any outstanding judgment, decree, or judicial order

relating to compliance with any Environmental Law or to Remediation of Regulated Substances under any Environmental Law relating to the Assets; and

(d) To Seller's Knowledge, no Release of Regulated Substances has occurred at, from, in, on, or under the Real Property, and, except as legally permitted, no Regulated Substances are present in, on, about or migrating from the Real Property, in each case that would give rise to an Environmental Claim related to the Assets for which Remediation would reasonably be required, except in any such case to the extent that any such Release or Environmental Claim would not, individually or in the aggregate, result in an Environmental Claim in excess of \$500,000.

4.7 Labor Matters. Schedule 4.7 sets forth the collective bargaining agreements, and amendments thereto, to which Seller is a party in connection with the Business. Seller has previously delivered to Buyer true and correct copies of all such collective bargaining agreements and amendments thereto. With respect to the Assets and the Business, except to the extent set forth in Schedule 4.7 and except for such matters as would not, individually or in the aggregate, result in an Asset Material Adverse Effect, (a) Seller is in compliance with all applicable laws respecting employment and employment practices, occupational safety and health, plant closing, mass layoffs, terms and conditions of employment and wages and hours; (b) Seller has not received any written notice of any unfair labor practice complaint against Seller pending before the National Labor Relations Board; (c) no arbitration proceeding arising out of or under any collective bargaining agreement is pending against Seller; and (d) Seller has not experienced any work stoppage within the three-year period prior to the date hereof and to Seller's Knowledge none is currently threatened.

4.8 Benefit Plans: ERISA.

(a) Schedule 4.8 lists all material Benefit Plans. True and complete copies of all such Benefit Plans have been made available to the Buyer.

(b) No liability under Title IV or Section 302 of ERISA has been incurred by Seller or any ERISA Affiliate of Seller that has not been satisfied in full, and no condition exists that presents a material risk to Seller or any ERISA Affiliate of Seller of incurring any such liability, other than liability for premiums due to the Pension Benefit Guaranty Corporation (which premiums have been paid when due). Insofar as the representation made in this Section 4.8 applies to Sections 4064, 4069 or 4204 of Title IV of ERISA, it is made with respect to any employee benefit plan, program, agreement or arrangement subject to Title IV of ERISA to which Seller or any ERISA Affiliate of Seller made, or was required to make, contributions during the five (5)-year period ending on the last day of the most recent plan year ended prior to the Closing Date.

(c) Except as expressly provided in this Agreement, the consummation of the transactions contemplated by this Agreement will not, either alone or in combination with another event, (i) entitle any current or former employee or officer of Seller or any ERISA Affiliate of Seller to severance pay, unemployment compensation or any other payment, or (ii) accelerate the time of payment or vesting, or increase the amount of compensation due any such employee or officer.

(d) There has been no material failure of any of the Benefit Plans that is a group health plan (as defined in Section 5000(b)(1) of the Code) to meet the requirements of Section 4980B(f) of the Code with respect to a qualified beneficiary (as defined in Section 4980B(g) of the Code). Neither the Seller nor any ERISA Affiliate of Seller has contributed to a nonconforming group health plan (as defined in Section 5000(c) of the Code) and no ERISA Affiliate of Seller has incurred a tax under Section 5000(e) of the Code that is or could become a liability of Buyer.

(e) There are no pending, or to Seller's Knowledge, threatened claims by or on behalf of any Benefit Plans, by any employee or beneficiary covered under any such Benefit Plans, or otherwise involving any such Benefit Plans (other than routine claims for benefits).

4.9 Real Property. Schedule 4.9 contains a description of the Real Property included in the Assets. True and correct copies of any current surveys, abstracts, title commitments and title opinions identified by Seller after diligent inquiry to be in Seller's possession and all policies of title insurance currently in force and identified by Seller after diligent inquiry to be in the possession of Seller with respect to the Real Property have heretofore been made available to Buyer.

4.10 Condemnation. Except as set forth in Schedule 4.10, Seller has not received any written notices of and otherwise has no Knowledge of any pending or threatened proceedings or actions by any Governmental Authority to condemn or take by power of eminent domain all or any part of the Assets.

4.11 Assigned Agreements.

(a) Schedule 4.11(a) lists each Assigned Agreement (other than Real Property Leases, line extension agreements and similar construction arrangements, railroad crossing agreements and similar arrangements, and Easements held by Seller) which is material to the Business, other than those (i) that are listed or described on another Schedule, (ii) that provide for annual payments by Seller after the date hereof of less than \$100,000 or (iii) that, when aggregated with all other Assigned Agreements not listed on Schedule 4.5 or 4.11(a), provide for payments by Seller after the date hereof of less than \$500,000 in the aggregate. Schedule 4.11(a) also lists each agreement that is material to the Assets or the Business that may expire or that Seller expects to terminate prior to the Closing Date other than any agreement that is an Excluded Asset.

(b) Except as disclosed in Schedule 4.11(b), each Assigned Agreement listed on Schedule 4.5 or 4.11(a) constitutes a legal, valid and binding obligation of Seller and, to Seller's Knowledge, constitutes a valid and binding obligation of the other parties thereto, and may be transferred to the Buyer as contemplated by this Agreement without the consent of the other parties thereto and will continue in full force and effect thereafter, unless in such case the impact of such lack of legality, validity or binding nature, or inability to transfer, would not, individually or in the aggregate, result in an Asset Material Adverse Effect.

(c) Except as set forth in Schedule 4.11(c), there is not, under the Assigned Agreements listed on Schedule 4.5 or 4.11(a), any default or event which, with notice or lapse of

time or both, would constitute a default on the part of the Seller or to Seller's Knowledge, any of the other parties thereto, except such events of default and other events which would not, individually or in the aggregate, result in an Asset Material Adverse Effect.

4.12 Legal Proceedings. Except as set forth in Schedule 4.12, there is no action or proceeding pending or, to Seller's Knowledge, threatened against Seller before any court, arbitrator or Governmental Authority, which would, individually or in the aggregate, reasonably be expected to result in a Seller Material Adverse Effect or an Asset Material Adverse Effect. Except as set forth in Schedule 4.12 Seller is not subject to any outstanding Order that would, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

4.13 Permits. Seller has all Permits (other than Environmental Permits, which are addressed in Section 4.6 hereof) necessary to own and operate the Assets except where the failure to have such Permits would not, individually or in the aggregate, create a Seller Material Adverse Effect or an Asset Material Adverse Effect. Except as disclosed on Schedule 4.13, Seller has not received any written notification that it is in violation of any such Permits, except notifications of violations which would not, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect. Seller is in compliance with all Permits except where such non-compliance would not, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

4.14 Taxes.

(a) Seller has filed or caused to be filed all Tax Returns that are required to be filed by it with respect to any Tax relating to the Assets, and has paid or caused to be paid all Taxes that have become due as indicated thereon, except where such Tax is being contested in good faith by appropriate proceedings, or where the failure to so file or pay would not result in a Seller Material Adverse Effect or an Asset Material Adverse Effect. Seller has complied in all material respects with all applicable laws, rules and regulations relating to withholding Taxes relating to Transferred Employees. All Tax Returns relating to the Assets are true, correct and complete in all material respects. There are no liens for Taxes upon the Assets except for liens for Taxes not yet due and Permitted Encumbrances.

(b) Except as set forth in Schedule 4.14, no notice of deficiency or assessment has been received from any taxing authority with respect to liabilities for Taxes of Seller in respect of the Assets, which have not been fully paid or finally settled, and any such deficiency shown in Schedule 4.14 is being contested in good faith through appropriate proceedings.

(c) Except as set forth in Schedule 4.14, there are no outstanding agreements or waivers extending the applicable statutory periods of limitation for Taxes associated with the Assets that will be binding upon Buyer after the Closing.

(d) Except as set forth on Schedule 4.14, none of the Assets is property that is required to be treated as being owned by any other person pursuant to the so-called safe harbor lease provisions of former Section 168(f) of the Code, and none of the Assets is "tax-exempt use" property within the meaning of Section 168(h) of the Code.

(e) Schedule 4.14 sets forth the taxing jurisdictions in which Seller owns assets or conducts business that require a notification to a taxing authority of the transactions contemplated by this Agreement, if the failure to make such notification, or obtain Tax clearance certificates in connection therewith, would either require Buyer to withhold any portion of the consideration or subject Buyer to any liability for any Taxes of Seller.

4.15 Intellectual Property. The Citizens Marks and the software licenses and related contracts described in Schedules 2.2 and 4.11(a) constitute all of the material Intellectual Property necessary for the operation and maintenance of the Assets or the conduct of the Business, each of which Seller either has all right, title and interest in or valid and binding rights under contract to use in connection with the operation of the Assets and the Business. Except as disclosed in Schedule 4.15, (a) Seller is not, nor has it received any notice that it is, in default (or with the giving of notice or lapse of time or both, would be in default), under any contract to use such Intellectual Property, and (b) to Seller's Knowledge, such Intellectual Property is not being infringed by any other Person. Except as disclosed in Schedule 4.15, Seller has not received notice that it is infringing any Intellectual Property of any other Person in connection with the Assets or the Business, and Seller, to its Knowledge, is not infringing any Intellectual Property of any other Person which, individually or in the aggregate, would have an Asset Material Adverse Effect.

4.16 Capital Expenditures. Seller has heretofore delivered to Buyer a schedule of all Capital Expenditures that, as of the date of this Agreement, are planned by Seller from the date hereof through December 31, 2003 (the "Capital Expenditures Schedule").

4.17 Compliance With Laws. Seller is in compliance with all applicable laws, rules and regulations with respect to its ownership of the Assets and operation of the Business except where the failure to be in compliance would not, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

4.18 Title. Seller has, and will have as of the Closing Date, good, valid and indefeasible title to the Real Property and the other Assets purported to be owned by Seller, free and clear of all Encumbrances except Permitted Encumbrances.

4.19 DISCLAIMERS.

(a) EXCEPT FOR THE REPRESENTATIONS AND WARRANTIES SET FORTH IN THIS ARTICLE IV, THE ASSETS ARE TRANSFERRED "AS IS, WHERE IS", AND SELLER EXPRESSLY DISCLAIMS ANY REPRESENTATIONS OR WARRANTIES OF ANY KIND OR NATURE, EXPRESS OR IMPLIED, AS TO LIABILITIES, OPERATIONS OF THE ASSETS, CONDITION, VALUE OR QUALITY OF THE ASSETS OR THE PROSPECTS (FINANCIAL AND OTHERWISE), RISKS AND OTHER INCIDENTS OF THE ASSETS AND SELLER SPECIFICALLY DISCLAIMS ANY REPRESENTATION OR WARRANTY OF MERCHANTABILITY, USAGE, SUITABILITY OR FITNESS FOR ANY PARTICULAR PURPOSE WITH RESPECT TO THE ASSETS, OR ANY PART THEREOF, OR AS TO THE WORKMANSHIP THEREOF, OR THE ABSENCE OF ANY DEFECTS THEREIN, WHETHER LATENT OR PATENT, OR COMPLIANCE WITH ENVIRONMENTAL REQUIREMENTS, OR THE APPLICABILITY OF ANY

GOVERNMENTAL REQUIREMENTS, INCLUDING BUT NOT LIMITED TO ANY ENVIRONMENTAL LAWS, OR WHETHER SELLER POSSESSES SUFFICIENT REAL PROPERTY OR PERSONAL PROPERTY TO OPERATE THE ASSETS. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED HEREIN, SELLER FURTHER SPECIFICALLY DISCLAIMS ANY REPRESENTATION OR WARRANTY REGARDING THE ABSENCE OF HAZARDOUS SUBSTANCES OR LIABILITY OR POTENTIAL LIABILITY ARISING UNDER ENVIRONMENTAL LAWS WITH RESPECT TO THE ASSETS.

(b) It is understood that Seller makes no representation or warranty with respect to the assigned rights in respect of the Terminated Power Service Agreement contemplated in Section 2.1(d).

4.20 Financial Statements. Schedule 4.20 sets forth the unaudited balance sheet for the Business as of December 31, 2001 (the "Balance Sheet") and the unaudited statement of income of the Business for the twelve-month period ended December 31, 2001 (collectively, the "Financial Statements"). Except as set forth in Schedule 4.20, the Financial Statements have been prepared on a pre-tax basis in accordance, in all material respects, with GAAP applied on a basis consistent with prior periods except for the omission of full footnotes to such Financial Statements. Except as set forth in Schedule 4.20, the Balance Sheet presents fairly in all material respects the financial condition of the Business as of its date and the income statement included in the Financial Statements presents fairly in all material respects the results of operations of the Business for the periods covered thereby. The books and records of Seller from which the Financial Statements were derived were complete and accurate in all material respects at the time of such preparation.

4.21 SEC Filings; Financial Statements.

(a) Seller has filed, or caused to be filed, all forms, reports and documents required to be filed by Seller with the SEC since January 1, 2001, and has heretofore delivered or made available to Buyer in the form filed with the SEC, together with any amendments thereto, its (i) Annual Reports on Form 10-K for the fiscal year ended December 31, 2000 and 2001, (ii) Quarterly Reports on Form 10-Q for the fiscal quarter ended March 31 and June 30, 2002, and (iii) all other reports or registration statements filed by Seller with the SEC since January 1, 2001 (collectively, the "Seller SEC Reports"). The Seller SEC Reports were prepared substantially in accordance with the requirements of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, as the case may be, and the rules and regulations promulgated under each of such respective acts, and did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) The financial statements, including all related notes and schedules, contained in the Seller SEC Reports (or incorporated by reference therein) fairly present the consolidated financial position of Seller as at the respective dates thereof and the consolidated results of operations and cash flows of Seller for the periods indicated in accordance with GAAP applied on a consistent basis throughout the periods involved (except for changes in accounting

principles disclosed in the notes thereto) and subject in the case of interim financial statements to normal year-end adjustments.

4.22 Sufficiency of Assets. The Assets and the Excluded Assets are the only assets owned, used, or held for use by Seller in, or in connection with, or otherwise necessary for, the conduct of the Business as presently conducted, except for such assets the failure to own, use, or hold for use, as would not have an Asset Material Adverse Effect or a Material Adverse Effect for Buyer.

ARTICLE V

REPRESENTATIONS AND WARRANTIES OF BUYER

Buyer represents and warrants to Seller as follows:

5.1 Organization. Buyer is an Arizona corporation, duly organized, validly existing and in good standing under the laws of the state of its organization and has all requisite corporate power and authority to own, lease and operate its properties and to carry on its business as is now being conducted.

5.2 Authority. Buyer has full corporate power and authority to execute and deliver this Agreement and each of the Ancillary Agreements to which Buyer is a signatory and to consummate the transactions contemplated hereby and thereby. The execution and delivery by Buyer of this Agreement and the Ancillary Agreements to which Buyer is a signatory and the consummation by Buyer of the transactions contemplated hereby and thereby have been duly and validly authorized by all necessary corporate action required on the part of Buyer and this Agreement and the Ancillary Agreements have been duly and validly executed and delivered by Buyer. Each of this Agreement and the Ancillary Agreements to which Buyer is a signatory, constitute the legal, valid and binding agreement of Buyer, enforceable against Buyer in accordance with its terms, except as may be limited by applicable bankruptcy, insolvency, reorganization, fraudulent conveyance, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally and general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity).

5.3 Consents and Approvals; No Violation.

(a) Except as set forth in Schedule 5.3(a), neither the execution, delivery and performance of this Agreement by Buyer nor the execution, delivery and performance of the Ancillary Agreements by Buyer or any of its Affiliates nor the consummation by Buyer of the transactions contemplated hereby and thereby will (i) conflict with or result in any breach of any provision of the Articles of Incorporation or Bylaws (or other similar governing documents) of Buyer, or any of its Affiliates, or (ii) result in a default (or give rise to any right of termination, cancellation or acceleration) under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which Buyer or any of its Affiliates is a party or by which any of their respective assets may be bound, except for such defaults (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or which would not, individually or in the aggregate, have a

Buyer Material Adverse Effect or (iii) subject to obtaining the Buyer Required Regulatory Approvals, constitute violations of any law, regulation, order, judgment or decree applicable to Buyer, which violations, individually or in the aggregate, would result in a Buyer Material Adverse Effect.

(b) Except as set forth in Schedule 5.3(b) (the filings and approvals referred to in such Schedule are collectively referred to as the "Buyer Required Regulatory Approvals"), no consent or approval of, filing with, or notice to, any Governmental Authority is necessary for Buyer's execution and delivery of this Agreement and the Ancillary Agreements or the consummation by Buyer of the transactions contemplated hereby and thereby, other than such consents, approvals, filings or notices, which, if not obtained or made, will not (i) prevent Buyer from performing its obligations under this Agreement and the Ancillary Agreements or (ii) result in a Buyer Material Adverse Effect.

5.4 Availability of Funds. Buyer acknowledges and agrees that on the Closing Date, it will have sufficient funds to pay the Purchase Price under this Agreement and the Arizona Gas Purchase Agreement (including sufficient cash to fund the equity portions thereof) and to timely perform all of its obligations under this Agreement, the Ancillary Agreements, and Arizona Gas Purchase Agreement. Tucson Electric Power Company has the ability to contribute cash as equity to a wholly-owned subsidiary which constitutes a "Utility" or "Public Utility" subject to the receipt of required approvals under Title 14, Chapter 2, Article 8 (Public Utility Holding Companies and Affiliated Interests) of the Arizona Administrative Code. As of September 30, 2002, Tucson Electric Power Company held cash in the amount of approximately \$65,000,000.

5.5 SEC Filings; Financial Statements.

(a) UniSource has filed, or caused to be filed, all forms, reports and documents required to be filed by UniSource with the SEC since January 1, 2001, and has heretofore delivered or made available to Seller in the form filed with the SEC, together with any amendments thereto, its (i) Annual Reports on Form 10-K for the fiscal year ended December 31, 2000 and 2001, (ii) Quarterly Reports on Form 10-Q for the fiscal quarter ended March 31 and June 30, 2002, and (iii) all other reports or registration statements filed by UniSource with the SEC since January 1, 2001 (collectively, the "UniSource SEC Reports"). The UniSource SEC Reports were prepared substantially in accordance with the requirements of the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, as the case may be, and the rules and regulations promulgated under each of such respective acts, and did not at the time they were filed contain any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading.

(b) The financial statements, including all related notes and schedules, contained in the UniSource SEC Reports (or incorporated by reference therein) fairly present the consolidated financial position of UniSource as at the respective dates thereof and the consolidated results of operations and cash flows of UniSource for the periods indicated in accordance with GAAP applied on a consistent basis throughout the periods involved (except for changes in accounting principles disclosed in the notes thereto) and subject in the case of interim financial statements to normal year-end adjustments.

5.6 Legal Proceedings. Except as set forth in Schedule 5.6, (a) there are no actions or proceedings pending or, to Buyer's knowledge threatened against Buyer or any of its Affiliates before any court or arbitrator or Governmental Authority, which, individually or in the aggregate, would result in a Buyer Material Adverse Effect, and (b) neither Buyer nor any of its Affiliates is subject to any outstanding Orders, which would, individually or in the aggregate, result in a Buyer Material Adverse Effect.

5.7 No Knowledge of Seller's Breach. Buyer has no knowledge of any breach by Seller of any representation or warranty of Seller or of any other condition or circumstance that would excuse Buyer from its timely performance of its obligations hereunder. Buyer shall notify promptly Seller if any such information comes to Buyer's attention prior to the Closing.

5.8 Qualified Buyer. Buyer is qualified to obtain any Permits and Environmental Permits necessary for Buyer to own and operate the Assets as of the Closing.

5.9 Inspections. Buyer is knowledgeable about the Business as engaged in by Seller and of the usual and customary practices of companies engaged in businesses similar to the Business and has had access to the Assets, the officers and employees of Seller, and the books, records and files of Seller relating to the Business and the Assets. Buyer acknowledges and agrees that it has, prior to its execution of this Agreement, (i) reviewed the Environmental Reports and (ii) had an opportunity to conduct Inspections of the Assets, including the Real Property. Subject to Sections 6.2, 6.3 and 7.1(g), and without waiving Seller's representations and warranties in Section 4.6, Buyer acknowledges that it is satisfied with such review and Inspections to date and (ii) Buyer acknowledges and agrees that past, present, and future physical characteristics and Environmental Conditions may not have been revealed by its Inspections and the investigations of the Assets contained in the Environmental Reports. In making its decision to execute this Agreement, and to purchase the Assets, Buyer has relied on and will continue to rely upon the results of its Inspections, the Environmental Reports and Seller's representations and warranties in Section 4.6. Buyer acknowledges and agrees that the representations and warranties set forth in Article IV of this Agreement constitute the sole and exclusive representations and warranties of Seller to Buyer in connection with the transactions contemplated hereby and by the Ancillary Agreements, and there are no representations, warranties, covenants, understandings or agreements, oral or written, in relation thereto between the Parties other than those incorporated herein, including Section 6.3, and therein. Except for the representations and warranties expressly set forth in Article IV of this Agreement, Buyer disclaims reliance on any representations or warranties, either express or implied, by or on behalf of Seller or its Affiliates or Representatives. Without limiting the generality of the foregoing, Buyer acknowledges and agrees that, except as provided in Section 4.6, there are no representations or warranties of Seller with respect to the Environmental Condition of the Assets, compliance with Environmental Laws and Environmental Permits of the presence or Releases of hazardous material in the fixtures, soils, groundwater, surface water or air on, under or about or emanating from any of the Assets.

5.10 WARN Act. Buyer does not intend to engage in a "Plant Closing" or "Mass Layoff" as such terms are defined in the WARN Act within sixty days of the Closing Date.

ARTICLE VI

COVENANTS OF THE PARTIES

6.1 Conduct of Business and Operation of Assets.

(a) Except as described in Schedule 6.1(a), as required by an applicable law or by any Governmental Authority, as expressly contemplated by this Agreement or to the extent Buyer otherwise consents in writing (such consent not to be unreasonably withheld), during the period from the date of this Agreement to the Closing Date, Seller shall (i) operate the Assets in the ordinary course of business consistent with its past practices and Good Utility Practices, (ii) use all Commercially Reasonable Efforts to preserve intact the Assets in all material respects, and endeavor to preserve the goodwill and relationships with customers, suppliers and others having business dealings with it, (iii) maintain insurance described in Section 4.4 (or replacements thereto providing for substantially the same coverage), and (iv) comply with all applicable laws relating to the Assets, including without limitation, all Environmental Laws, except where the failure to so comply would not result in an Asset Material Adverse Effect. Seller agrees to incur Capital Expenditures in the ordinary course in respect of (A) growth of the customer base (see, e.g., items under the heading "Growth" in the Capital Expenditures Schedule) and (B) maintenance of the Assets and replacement activities (see, e.g., items under the heading "Replacement" in the Capital Expenditures Schedule). Buyer agrees that Seller's deferral of Capital Expenditures in respect of network growth (see, e.g., items under the heading "Infrastructure" in the Capital Expenditures Schedule) shall not be deemed to be inconsistent with or to violate Good Utility Practices.

(b) Without limiting the generality of Section 6.1(a) and, except as contemplated in this Agreement or as described in Schedule 6.1(a), or as required under applicable law or by any Governmental Authority, prior to the Closing Date, without the prior written consent of Buyer (such consent not to be unreasonably withheld), Seller shall not:

(i) Make any material change in the levels of Inventories customarily maintained by Seller with respect to the Business, other than changes which are consistent with Good Utility Practices;

(ii) Sell, lease (as lessor), encumber, pledge, transfer or otherwise dispose of, any Asset (except for Inventories used, consumed or replaced in the ordinary course of business consistent with past practices of Seller or with Good Utility Practices) other than to encumber any such Asset with Permitted Encumbrances;

(iii) Modify, amend or voluntarily terminate, prior to the respective expiration date of any of the Assigned Agreements or Real Property Leases or any of the Permits or Environmental Permits with respect to such Assets in any material respect, other than (A) in the ordinary course of business, to the extent consistent with the past practices of Seller or Good Utility Practices, (B) with cause, to the extent consistent with past practices of Seller or Good Utility Practices, or (C) as may be required in connection with transferring Seller's rights or obligations thereunder to Buyer pursuant to this Agreement;

(iv) Except as otherwise provided herein, enter into any commitment for the purchase, sale, or transportation of fuel for the Business having a term greater than six months and not terminable on or before the Closing Date either (A) automatically, or (B) by option of Seller (or, after the Closing, by Buyer) in its sole discretion, if the aggregate payment under such commitment for fuel and all other outstanding commitments for fuel for the Business not previously approved by Buyer would exceed \$1,000,000;

(v) Except as otherwise provided herein, enter into any contract, agreement, commitment or arrangement for the Business that individually exceeds \$250,000 or in the aggregate exceeds \$1,000,000 unless it is terminable by Seller (or, after the Closing Date, by Buyer) without penalty or premium upon no more than sixty (60) days notice;

(vi) Except as otherwise required by the terms of the applicable IBEW CBA or as otherwise provided in Section 6.12, (A) hire, or transfer any employees of or for the Business prior to the Closing, other than to fill vacancies in existing positions in the reasonable discretion of Seller, (B) materially increase salaries or wages of employees employed in connection with such Asset prior to the Closing, (C) take any action prior to the Closing to affect a material change in the IBEW CBA(s) or (D) take any action prior to the Closing to materially increase the aggregate benefits payable to the employees (considered as a group) employed in connection with the Business; and

(vii) Except as otherwise provided herein, enter into any written or oral contract, agreement, commitment or arrangement with respect to any of the proscribed transactions set forth in the foregoing paragraphs (i) through (vi).

6.2 Access to Information.

(a) Between the date of this Agreement and the Closing Date, Seller will, at reasonable times and upon reasonable notice, provide Buyer and its Representatives:

(i) reasonable access to their respective managerial personnel, to all books, records, plans, equipment, offices and other facilities and properties constituting part of the Assets;

(ii) such historical financial and operating data and other information with respect to the Assets as Buyer may from time to time reasonably request, to the extent reasonably available;

(iii) upon request, a copy of each material report, schedule or other document, if any, filed by Seller with respect to the Assets with the SEC, FERC, ACC, ADEQ or any other Governmental Authority;

(iv) access to all Assets for Inspection by Buyer and its Representatives at reasonable times during regular business hours scheduled for such Inspections, and shall provide qualified management, engineering, operations and maintenance and other personnel to make presentations as required, to escort such Persons and to assist in all

aspects of conducting the Inspections, provided that each of Buyer and Seller shall bear their own costs of participating in the Inspections; and

(v) access to all such other information in the possession or control of Seller as shall be reasonably necessary to enable Buyer or its Representatives to verify the accuracy of the representations and warranties of Seller contained in this Agreement; provided, however, that any such Inspections shall be conducted in such a manner as not to interfere unreasonably with the operation of the Assets. In the event that Seller's provision of information under this Section 6.2 would (A) constitute a waiver of any legal privilege, including the attorney-client privilege or work product privilege, or (B) violate any legal or contractual obligation of Seller to a third party, then Seller shall first notify Buyer with respect to the existence and general nature of the restricted information. If the restricted information relates to the Assets, the Parties shall thereupon mutually agree upon a reasonable procedure in order to provide Buyer with access to the information while protecting the legitimate interests of Seller thereto. The mutually agreed procedure may include, without limitation, a limited waiver by Seller of the relevant privilege, Buyer's agreement to maintain the information in strict confidence, limited review or inspection of the information by specified individuals, or any combination of the foregoing.

Notwithstanding anything in this Section 6.2(a) to the contrary, with respect to employee records Seller will only furnish or provide such access to Transferred Employee Records and will not furnish or provide access to other employee personnel records or medical information unless required by law or specifically authorized by the affected employee.

(b) The Parties shall cooperate to schedule Buyer's Inspections of the Assets so that, to the extent reasonably feasible, any interference with the operation of the Business is minimized, and Buyer may complete its Inspections of the Assets within ninety (90) working days of commencement of Inspections and within six (6) months after the execution of this Agreement.

(c) Until the conclusion of Buyer's next rate case for the Business (or such longer period as may be required by applicable law), each Party and its Representatives shall have reasonable access to all of the books and records relating to the Assets and the Business (for the Seller, only to the extent relating to periods prior to the Closing Date), including all Transferred Employee Records in the possession of Buyer or Seller to the extent that such access may reasonably be required in connection with the Assumed Liabilities or the Excluded Liabilities, or other matters relating to or affected by the operation of the Assets. Such access shall be afforded by the Party in possession of any such books and records upon receipt of reasonable advance notice and during normal business hours. The Party exercising this right of access shall be solely responsible for any costs or expenses incurred by it or the holder of the information with respect to such access pursuant to this Section 6.2(c). If the Party in possession of such books and records shall desire to dispose of any books and records upon or prior to the expiration of such above-stated period (or any such longer period), such Party shall, prior to such disposition, give the other Party a reasonable opportunity, at the latter's expense, to segregate and remove such books and records as it may select.

(d) Buyer agrees that, prior to the Closing Date, neither it nor its Representatives will contact any vendors, suppliers, employees, or other contracting parties of Seller or its Affiliates with respect to any aspect of the Assets or the transactions contemplated hereby, without the prior written consent of Seller, which consent shall not be unreasonably withheld.

6.3 Environmental Inspections and Information.

(a) Buyer may rely on certain Environmental Reports. Seller shall cause the consultants listed on Schedule 6.3, who were responsible for such Environmental Reports, to deliver written confirmation to Buyer prior to the Closing Date that Buyer may rely on such Environmental Reports.

(b) Buyer has conducted various environmental assessment activities with respect to the Assets, including reviewing existing environmental reports, correspondence, permits and related materials regarding the Assets and certain other "Phase I" and "Phase II" activities as set forth in the ASTM protocol regarding "Phase I" and "Phase II" environmental assessments. Seller acknowledges that, between the date of this Agreement and the Closing Date, Buyer will continue to conduct Inspections with respect to environmental matters, including "Phase I" and "Phase II" environmental assessments to the extent Buyer reasonably concludes that such assessments are warranted by the Environmental Reports or the findings of Buyer's assessments prior to the date of this Agreement. Any such Inspections shall be conducted as provided in Section 6.2.

(c) If any environmental inspection conducted by Buyer or Seller before or after the date of this Agreement and before the Closing Date results in the discovery of one or more Environmental Conditions that are reasonably likely to give rise to one or more Environmental Claims related to the Assets, for which Remediation would reasonably be required (an "Adverse Environmental Condition"), and if the Adverse Environmental Condition, aggregated with all other Adverse Environmental Conditions identified by Buyer or Seller prior to the Closing Date, is reasonably likely to give rise to Remediation expenses of Buyer after Closing in excess of \$1,500,000 in the aggregate (the "Environmental Threshold"), then either (i) the Base Purchase Price shall be reduced, to the extent such Adverse Environmental Condition is not Remediated prior to the Closing Date, by a mutually agreed amount, which amount shall be equal to the excess of (A) the estimated out-of-pocket costs and expenses which Buyer reasonably can be expected to incur to Remediate, in accordance with Good Utility Practices, such Adverse Environmental Condition after the Closing over (B) the Environmental Threshold (the "Environmental Price Adjustment") or (ii) if the Parties are not able to mutually agree on an Environmental Price Adjustment, Seller shall reimburse Buyer for all actual out-of-pocket costs and expenses that Buyer reasonably incurs after Closing to Remediate such Adverse Environmental Condition in excess of the Environmental Threshold. Any Adverse Environmental Condition which has or is reasonably expected to have an aggregate economic impact on Buyer, taking into consideration all relevant circumstances, in excess of \$25,000,000, shall be conclusively deemed to be an Asset Material Asset Effect. Notwithstanding the foregoing, any single Adverse Environmental Condition which is reasonably expected to give rise to Remediation expenses of less than \$25,000 shall not be counted toward the Environmental Threshold and shall not result in an Environmental Price Adjustment.

(d) Buyer either has provided or shall provide to Seller, promptly following Buyer's receipt thereof, copies of all audits, reports, studies, assessments and other information composed or compiled, or to be composed or compiled, by Buyer or Buyer's Representatives in connection with environmental assessment activities. Buyer shall treat all such information delivered to, or composed or compiled by, Buyer or Buyer's Representative as Environmental Data in accordance with the procedures of Section 6.3(e).

(e) All audits, reports, studies and assessments delivered to or prepared by Buyer and all other information collected and generated as a result of Buyer's environmental due diligence ("Environmental Data") will be subject to the terms and conditions of the Confidentiality Agreement, dated June 3, 2002, between Seller and Buyer, except as otherwise expressly provided in this Section 6.3(e). Neither Buyer nor its Representatives shall disclose or release any Environmental Data without the prior written consent of Seller and all such information shall be kept strictly confidential. To the extent reasonably practicable, the Environmental Data shall be prepared at the request of counsel to Buyer and, to the fullest extent permitted by law, shall be the work product of such counsel and constitute confidential attorney/client communications. The Environmental Data shall be transferred among Buyer and its Representatives in a manner that will preserve, to the extent reasonably practicable, such privileges. Buyer expressly agrees that until the Closing, it will not distribute the Environmental Data to any third party without Seller's prior written consent (such consent not to be unreasonably withheld). After the Closing, Buyer agrees that it will not distribute the Environmental Data to any third party without Seller's prior written consent, except as required by law or by express provisions of Buyer's corporate compliance program if Seller is provided written notice at least ten (10) days prior to such distribution; provided, however, that Buyer may distribute the Environmental Data to any potential purchaser of any of the Assets or an ownership interest therein (either directly or through the purchase of an ownership interest in an entity holding any of the Assets) only after first notifying the Seller.

6.4 Confidentiality.

(a) Each Party shall, and shall use its reasonable best efforts to cause its Representatives to, (i) keep all Proprietary Information of any other Party confidential and not to disclose or reveal any such Proprietary Information to any person other than such Party's Representatives and (ii) not use such Proprietary Information other than in connection with the consummation of the transactions contemplated hereby. After the Closing Date and except as provided in Section 6.3(e), any Proprietary Information, to the extent related to the Assets acquired by Buyer, shall no longer be subject to the restrictions set forth herein. The obligations of the Parties under this Section 6.4(a) shall be in full force and effect for three (3) years from the date hereof and will survive the termination of this Agreement, the discharge of all other obligations owed by the Parties to each other and the Closing Date.

(b) Notwithstanding the terms of Section 6.4(a) above, the Parties agree that prior to the Closing, Buyer may reveal or disclose Proprietary Information to any other Persons in connection with (i) the financing of Buyer's purchase of the Assets or any equity participation in Buyer's purchase of the Assets and (ii) obtaining insurance for the Assets; provided that such Persons agree in writing to maintain the confidentiality of the Proprietary Information in accordance with this Agreement.

(c) Upon the other Party's prior written approval (which shall not be unreasonably withheld), any of the Parties may provide Proprietary Information of the other Parties to the SEC, FERC, ACC, ADEQ or any other Governmental Authority with jurisdiction or any securities exchange, as may be necessary to obtain Required Regulatory Approvals or to comply generally with any relevant law or regulation. The disclosing Party will seek confidential treatment for the Proprietary Information provided to any Governmental Authority and the disclosing Party will notify the other Party as far in advance as is practicable of its intention to release to any Governmental Authority any Proprietary Information.

6.5 Public Statements. Subject to the requirements imposed by law, any Governmental Authority or securities exchange, prior to the Closing Date, no press release or other public announcement or public statement or comment in response to any inquiry relating to the transactions contemplated by this Agreement shall be issued or made by any Party without the prior approval of the other Party (which approval shall not be unreasonably withheld). The Parties agree to cooperate in preparing any such announcements.

6.6 Expenses. Except to the extent specifically provided herein, whether or not the transactions contemplated hereby are consummated, all costs and expenses incurred in connection with this Agreement and the transactions contemplated hereby shall be borne by the Party incurring such costs and expenses. Notwithstanding anything to the contrary herein, Buyer will be responsible for all filing fees under the HSR Act relating to the Assets it would acquire hereunder.

6.7 Further Assurances.

(a) Subject to the terms and conditions of this Agreement, each Party shall use its Commercially Reasonable Efforts to take, or cause to be taken, all actions, and to do, or cause to be done, all things necessary, proper or advisable under applicable laws and regulations to consummate and make effective the purchase, sale, transfer and delivery of the Assets and the assumption of the Assumed Liabilities pursuant to this Agreement. Such actions shall include, without limitation, each Party using its Commercially Reasonable Efforts to ensure satisfaction of the conditions precedent to its obligations hereunder, including obtaining all necessary consents, approvals, and authorizations of third parties and Governmental Authorities required to be obtained in order to consummate the transactions hereunder, and to effectuate a transfer of the Transferable Permits to Buyer. Seller shall cooperate with Buyer in its efforts to obtain all other Permits and Environmental Permits necessary for Buyer to operate the Assets. None of the Parties hereto shall, without prior written consent of the other Party, take or fail to take any action, which might reasonably be expected to prevent or materially impede, interfere with or delay the transactions contemplated by this Agreement.

(b) In the event that any Asset shall not have been assigned, conveyed, transferred and delivered hereunder to Buyer at the Closing, Seller shall, subject to Section 6.7(c), use Commercially Reasonable Efforts to assign, convey, transfer and deliver such Assets to Buyer as promptly as is practicable after the Closing.

(c) (i) To the extent that Seller's rights under any Assigned Agreement or Real Property Lease may not be assigned without the consent of another Person which consent

has not been obtained by the Closing Date, this Agreement shall not constitute an agreement to assign the same, if an attempted assignment would constitute a breach thereof or be unlawful.

(ii) Seller agrees that if any consent to an assignment of any Assigned Agreement or Real Property Lease shall not be obtained or if any attempted assignment would be ineffective or would impair the Buyer's rights and obligations under the Assigned Agreement or Real Property Lease in question, so that Buyer would not in effect acquire the benefit of all such rights and obligations, Seller, at the Buyer's option and to the maximum extent permitted by law and such Assigned Agreement or Real Property Lease, shall, after the Closing Date, appoint Buyer to be Seller's agent with respect to such Assigned Agreement or Real Property Lease, or, to the maximum extent permitted by law and such Assigned Agreement or Real Property Lease, enter into such reasonable arrangements with Buyer or take such other actions as are necessary to provide Buyer with the same or substantially similar rights and obligations of such Assigned Agreement or Real Property Lease as Buyer may reasonably request. Seller shall cooperate and shall use Commercially Reasonable Efforts prior to and after the Closing Date to obtain an assignment to Buyer of each Assigned Agreement or Real Property Lease.

(iii) To the extent that any fuel supply contract or power purchase agreement is not assignable or the contracting party withholds consent to assignment, then Seller agrees to continue to purchase fuel and/or power pursuant to such contract(s) and to resell it to Buyer at the purchase price for the remainder of the term of such contract(s), provided that the term of such contract(s) shall not be extended. Buyer shall make payment to Seller in this circumstance on an as-incurred basis.

(d) To the extent that Seller's rights under any warranty or guaranty described in Section 2.1(h) may not be assigned without the consent of another Person, which consent has not been obtained by the Closing Date, this Agreement shall not constitute an agreement to assign the same, if an attempted assignment would constitute a breach thereof, or be unlawful. Seller agrees that if any consent to an assignment of any such warranty or guaranty shall not be obtained, or if any attempted assignment would be ineffective or would impair Buyer's rights and obligations under the warranty or guaranty in question, so that Buyer would not in effect acquire the benefit of all such rights and obligations, Seller, at Buyer's option and expense, shall use Commercially Reasonable Efforts, to the extent permitted by law and by such warranty or guaranty, to enforce such warranty or guaranty for the benefit of Buyer so as to provide Buyer to the maximum extent possible with the benefits and obligations of such warranty or guaranty.

6.8 Consents and Approvals.

(a) As promptly as advisable after the execution of this Agreement, Buyer and Seller shall each file or cause to be filed with the Federal Trade Commission and the United States Department of Justice any notifications required to be filed under the HSR Act and the rules and regulations promulgated thereunder with respect to the transactions contemplated hereby. Each Party shall file any HSR Act notifications with respect to this Agreement and with respect to the Arizona Gas Purchase Agreement simultaneously and in the same filing. Buyer and Seller shall use their respective reasonable best efforts to respond promptly to any requests for additional information made by either of such agencies, and to cause the waiting periods under the HSR Act to terminate or expire at the earliest possible date after the date of filing of

such notification. Buyer will pay all filing fees under the HSR Act relating to the Assets, but each of Seller and Buyer will bear its own costs of the preparation of any such filing.

(b) The Parties shall cooperate and use all Commercially Reasonable Efforts to promptly prepare and file all necessary documentation, to effect all necessary applications, notices, petitions, filings and other documents, and to obtain all necessary permits, consents, approvals and authorizations of all Governmental Authorities necessary or advisable to consummate the transactions contemplated by this Agreement, including, without limitation, the Required Regulatory Approvals. Buyer shall have the right to review and approve in advance all the information relating to Buyer, on the one hand, and Seller shall have the right to review and approve in advance all the information relating to Seller, on the other hand, in either case, which appear in any filing made in connection with the transactions contemplated by this Agreement. Buyer and Seller agree that they will consult and cooperate with each other with respect to the obtaining of all such necessary permits, consents, approvals and authorizations of Governmental Authorities.

(c) In connection with applications and other filings for the Required Regulatory Approvals, and the prosecution of any pending regulatory proceedings material to the Business Buyer and Seller shall jointly, and on an equal basis, coordinate the overall development of the positions to be taken and the regulatory actions to be requested in such applications and filings for approval of the sale by the Seller and the purchase by the Buyer of the Assets and the Business, of all other matters contemplated by this Agreement which require regulatory approval and of all other regulatory matters incidental thereto which are to be addressed in such applications and filings. Efforts to obtain any necessary approvals (including from the ACC and the FERC) shall be prosecuted by counsel mutually agreed upon by the Parties, and acting as joint counsel to the Parties, it being understood, however, that (i) all positions taken in the filings with such Governmental Authorities shall be consistent with the mutual understandings of the Parties and (ii) any SEC approvals required by Buyer shall be prosecuted by Buyer's counsel.

(d) Seller and Buyer shall cooperate with each other and promptly prepare and file notifications with, and request Tax clearances from, state and local taxing authorities in any jurisdictions in which a portion of the Purchase Price may be required to be withheld or in which Buyer would otherwise be liable for any Tax liabilities of Seller pursuant to such state and local Tax law.

(e) Seller shall have primary responsibility for securing the transfer of the Transferable Permits, effective as of the Closing Date. Buyer shall have the primary responsibility for securing the transfer, reissuance or procurement of the Permits and Environmental Permits (other than Transferable Permits) effective as of the Closing Date. Seller shall cooperate with Buyer's efforts in this regard and assist in any transfer or reissuance of a Permit or Environmental Permit held by Seller, or the procurement of any other Permit or Environmental Permit when so requested by Buyer.

6.9 Fees and Commissions. Each of Seller and Buyer represent and warrant to the other that, except for Morgan Stanley & Co. Incorporated, which is acting for and at the expense of Seller, and Credit Suisse First Boston Corporation, which is acting for and at the expense of

Buyer, no broker, finder or other Person is entitled to any brokerage fees, commissions or finder's fees in connection with the transactions contemplated hereby by reason of any action taken by the Party making such representation. Each of Seller and Buyer will pay to the others or otherwise discharge, and will indemnify and hold the others harmless from and against, any and all claims or liabilities for all brokerage fees, commissions and finder's fees (other than the fees, commissions and finder's fees payable to the party listed above) incurred by reason of any action taken by the indemnifying party. Buyer has a preexisting business relationship with New Harbor, Incorporated and agrees to be responsible for any brokerage fees, commissions or finder's fees of New Harbor, Incorporated, if any, arising from the transactions contemplated by this Agreement.

6.10 Tax Matters.

(a) All Transfer Taxes incurred in connection with this Agreement and the transactions contemplated hereby, including, without limitation, (A) Arizona sales tax; (B) the Arizona transfer tax, conveyance fees or conveyances of interests in real and/or personal property; and (C) Arizona sales tax and transfer tax on deeds shall be borne as follows: fifty percent (50%) by the Buyer and fifty percent (50%) by the Seller. Seller shall file, to the extent required by, or permissible under, applicable law, all necessary Tax Returns and other documentation with respect to all such Transfer Taxes, and, if required by applicable law, Buyer shall join in the execution of any such Tax Returns and other documentation. Prior to the Closing Date, to the extent applicable, Buyer shall provide to Seller appropriate certificates of Tax exemption from each applicable taxing authority.

(b) With respect to Taxes to be prorated in accordance with Section 3.4 of this Agreement, Buyer shall prepare and timely file all Tax Returns required to be filed after the Closing Date with respect to the Assets, if any, and shall duly and timely pay all such Taxes shown to be due on such Tax Returns. Buyer's preparation of any such Tax Returns shall be subject to Seller's approval, which approval shall not be unreasonably withheld. Buyer shall make such Tax Returns available for Seller's review and approval no later than fifteen (15) Business Days prior to the due date for filing each such Tax Return. Upon receipt by Buyer of the tax bill, invoice or other statement regarding such real and personal property Taxes, Buyer shall calculate the *pro rata* share of such tax bill, invoice or other statement attributable to Buyer and Seller. Buyer shall then forward, as soon as possible, to Seller a copy of such tax bill, invoice or statement along with the supporting documentation relating to the calculation of the *pro rata* share to Seller and Seller will promptly pay to Buyer Seller's *pro rata* share of such tax bill, invoice or statement. In the event Seller first receives a tax bill, invoice or statement relating to the Assets from a taxing authority, Seller shall promptly forward such tax bill, invoice or statement to Buyer.

(c) Buyer and Seller shall provide the other with such assistance as may reasonably be requested by the other Party in connection with the preparation of any Tax Return, any audit or other examination by any taxing authority, or any judicial or administrative proceedings relating to liability for Taxes, and each shall retain and provide the requesting Party with any records or information which may be relevant to such return, audit, examination or proceedings. Any information obtained pursuant to this Section 6.10(c) or pursuant to any other

Section hereof providing for the sharing of information or review of any Tax Return or other instrument relating to Taxes shall be kept confidential by the Parties hereto.

(d) In the event that a dispute arises between Buyer and Seller, with respect to Taxes in Sections 6.10(a) and 6.10(b), or concerning any amount due under this Section 6.10, the Parties shall attempt in good faith to resolve such dispute and any agreed upon amount shall be paid to the appropriate Party. If such dispute is not resolved within thirty (30) days, the Parties to such dispute shall submit the dispute to the Independent Accounting Firm for resolution, which resolution shall be final, conclusive and binding on such Parties. Notwithstanding anything in this Agreement to the contrary, the fees and expenses of such Independent Accounting Firm shall be allocated between the Parties so that the non-disputing Party's share of such fees and expenses shall be in the same proportion that the aggregate amount of such remaining disputed amounts so submitted by the disputing Party to such auditor that is successfully disputed by the disputing Party (as finally determined by such auditor) bears to the total amount of such remaining disputed amount so submitted by the disputing Party to such auditor. Any payment required to be made as a result of the resolution of the dispute by the Independent Accounting Firm shall be made within ten days after such resolution, together with any interest determined by the Independent Accounting Firm to be appropriate.

(e) Buyer agrees that Seller may, at Seller's election prior to the Closing Date, direct that all or a portion of the Purchase Price be delivered to a "qualified intermediary" (as defined in Treasury Regulation Section 1.1031(k) - (g)(4)) as to enable Seller's relinquishment of the Assets to qualify as part of a like-kind exchange of property covered by Section 1031 of the Code. If Seller so elects, Buyer shall cooperate with Seller (but without being required to incur any out-of-pocket costs in the course thereof) in connection with Seller's efforts to effect such like-kind exchange, which cooperation shall include, without limitation, taking such actions as Seller requests in order to enable Seller to qualify such transfer as part of a like-kind exchange of property covered by Section 1031 of the Code (including any actions required to facilitate the use of a "qualified intermediary"), and Buyer agrees that Seller may assign all or part of its rights and delegate all or part of its obligations under this Agreement to a person or entity acting as a qualified intermediary to qualify the transfer of the Assets as part of like-kind exchange of property covered by Section 1031 of the Code. Buyer and Seller agree in good faith to use reasonable efforts to coordinate the transactions contemplated by this Agreement with any other transactions engaged in by either Buyer or Seller; provided that such efforts are not required to include an unreasonable delay in the consummation of the transactions contemplated by this Agreement.

(f) Prior to the Closing Date, Buyer and Seller shall use their good faith efforts to agree upon the allocation (the "Allocation") of the Purchase Price, the Assumed Liabilities and other relevant items (including, for example, adjustments to the Base Purchase Price) to the individual assets or classes of assets within the meaning of Section 1060 of the Code. If Buyer and Seller agree to such Allocation prior to Closing, Buyer and Seller covenant and agree that (i) the values assigned to the assets by the Parties' mutual agreement shall be conclusive and final for all purposes, and (ii) neither Buyer nor Seller will take any position before any Governmental Authority or in any Proceeding that is in any way inconsistent with such Allocation. Notwithstanding the foregoing, if Buyer and Seller cannot agree to an Allocation, Buyer and Seller covenant and agree to file, and to cause their respective Affiliates to

file, all Tax Returns and schedules thereto (including, for example, amended returns, claims for refund, and those returns and forms required under Section 1060 of the Code and any Treasury regulations promulgated thereunder) consistent with each of such Party's good faith Allocations, unless otherwise required because of a change in any applicable law.

6.11 Advice of Changes. Prior to the Closing, each Party will timely advise the other in writing with respect to any matter arising after execution of this Agreement which becomes known to that Party and which, if existing or occurring at the date of this Agreement, would have been required to be set forth in this Agreement, including any of the Schedules or Exhibits hereto. Any such written notice will not be deemed to have amended this Agreement, including the appropriate Schedule or Exhibit, or to have qualified any representation or warranty contained in this Agreement, or to have cured any misrepresentation or breach of warranty that otherwise might have existed hereunder by reason of the development.

6.12 Seller Employees.

(a) Buyer shall give Qualifying Offers of employment to all employees of Seller who are covered by the IBEW Local Unions Nos. 387 and 769 collective bargaining agreements with Seller (the "IBEW CBA(s)") and are employed in positions relating to the Business (collectively, "Union Employees"). Each such person who becomes employed by Buyer pursuant to this section shall be referred to herein as a "Transferred Union Employee".

(b) Buyer shall give Qualifying Offers of employment to substantially all of the salaried employees of Seller who are employed in positions relating to the Business (collectively, "Non-Union Employees"). Each such person who becomes employed by Buyer pursuant to this section shall be referred to herein as a "Transferred Non-Union Employee." Buyer shall reimburse Seller for 50 percent of the aggregate Severance Cost (as defined below) relating to those Non-Union Employees whose employment is terminated by Seller prior to or as of the Closing Date. "Severance Cost" means the sum of the following costs incurred by Seller resulting from a Non-Union Employee's termination of employment with Seller: (i) all cash severance benefits payable pursuant to Seller's severance policy, (ii) the cost of outplacement services provided pursuant to Seller's severance policy, (iii) Seller's subsidized portion of COBRA Continuation Coverage provided by Seller's health plan in accordance with Seller's severance policy, (iv) the additional severance benefits payable pursuant to arrangements with the specific individuals identified in a schedule delivered to Buyer prior to the date hereof; and (v) any retention bonuses paid by Seller to Non-Union Employees who do not receive Qualifying Offers of employment and who are deemed in Seller's discretion to be critical to the ongoing operation of the Business. With respect to the Severance Cost components described in clauses (i), (ii), (iv) and (v) of the preceding sentence, Buyer shall pay such reimbursement to Seller at the later of Closing or five days after receipt of a list of such terminated Non-Union Employees and the amount of such Severance Cost components with respect to such employees. With respect to the Severance Cost component described in clause (iii), Seller shall provide Buyer during the COBRA Continuation Coverage period with a monthly schedule setting forth the cumulative amount of such cost component for the preceding month, and Buyer shall pay such reimbursement to Seller within five days after receipt of each such schedule.

(c) All offers of employment made by Buyer pursuant to Sections 6.12(a) and (b) shall be made in accordance with all applicable laws and regulations, and for Union Employees, in accordance with the applicable IBEW CBA and shall remain open for a period of ten (10) working days. Any such offer which is accepted within such ten (10) working day period shall thereafter be irrevocable, except for good cause, until the earlier of the Closing Date or the termination of this Agreement pursuant to its terms. Additionally, such offers shall be contingent upon the Non-Union Employee's or Union Employee's successful completion of drug testing pursuant to Buyer's policies and in compliance with the applicable IBEW CBA. Following acceptance of such offers, Buyer shall provide written notice thereof to Seller and Seller shall provide Buyer with access to the files and records of employees accepting such offers, to the extent permitted by contract, the applicable IBEW CBA and/or applicable law.

(d) The following shall be applicable with respect to Transferred Employees:

(i) From and after the Closing Date, Transferred Employees shall accrue no additional benefits under any employee benefit plan, policy, program or arrangement of Seller or its Affiliates.

(ii) For such Transferred Union Employees, Buyer shall recognize the IBEW as the exclusive collective bargaining representative and shall assume the terms and conditions of the applicable IBEW CBA, to the extent applicable to such Transferred Union Employees, until the expiration of said agreement, and will further comply with all applicable legal obligations with respect to collective bargaining under federal labor law thereafter.

(iii) As of the Closing Date, Buyer shall cause Transferred Non-Union Employees to be covered by the Buyer benefit plans listed on Schedule 6.12(d)(iii), and shall cause Transferred Union Employees to be provided with benefits that are consistent with the terms of the applicable IBEW CBA or are otherwise acceptable to the applicable union. The commitments under this paragraph shall require the following:

(A) With respect to health care plans, Buyer agrees to waive or to cause the waiver of all limitations as to pre-existing conditions and actively-at-work exclusions and waiting periods for such employees, except that Buyer may require the employee or his/her dependents who, on the Closing Date, is then in the process of satisfying any similar exclusion or waiting period under the Seller health care plans to satisfy fully the balance of the applicable time period for such exclusion or waiting period under the applicable Buyer plan. With respect to the calendar year in which the Closing Date occurs, all health care expenses incurred by any such employees and/or any eligible dependent thereof, including without limitation any alternate recipient pursuant to qualified medical child support orders, in the portion of the calendar year preceding the Closing Date that were qualified to be taken into account for purposes of satisfying any deductible or out-of-pocket limit under any Seller health care plans shall be taken into account for purposes of satisfying any deductible or out-of-pocket limit under the health care plan of Buyer for such calendar year.

(B) With respect to service and seniority, Buyer shall recognize each such employee's service and seniority with Seller and any affiliate of Seller for all non-pension purposes, including the determination of eligibility and extent of service or seniority-related welfare benefits such as vacation and sick pay benefits. Seller agrees to pay each such employee for all vacation benefits banked, accrued, and unused, as of the Closing Date, or otherwise according to Seller's policies and applicable law. For purposes of this Section 6.12(d)(iii)(B), Transferred Employees who have prior service with Southern Union Company, and who are identified on a schedule delivered to Buyer prior to the date hereof, shall be treated as service with Seller.

(C) The Citizens Pension Plan ("Seller's Pension Plan") shall retain all liabilities and assets for pension benefits accrued by Transferred Employees through the day immediately preceding the Closing Date, and Seller shall cause all such accrued benefits to become fully vested as of the Closing Date. Seller shall, within 90 days following the Closing Date, notify Transferred Employees who are entitled to deferred vested benefits under Seller's Pension Plan of the amount of such benefits. Buyer shall take all actions necessary to cause the Buyer's qualified pension plan listed on Schedule 6.12(d)(iii) in which Transferred Employees are eligible to participate pursuant to Section 6.12(d)(iii) to provide benefits no less valuable than those provided in Seller's Pension Plan and to recognize the service that the Transferred Employees had under Seller's Pension Plan for purposes of such Transferred Employees' eligibility to participate, vesting, attainment of retirement dates, subsidized benefits, entitlement to optional forms of payment, and benefit accrual; provided, however that a Transferred Employee's benefit under Buyer's Pension Plan shall be offset by his or her accrued benefit under Seller's Pension Plan. The offset referred to in the preceding sentence shall be based on the benefit that would have been available with respect to such Transferred Employee under the terms of Seller's Pension Plan had such Seller's Pension Plan benefit commenced on the Transferred Employee's annuity starting date under Buyer's Pension Plan and been paid in the same form as the benefit paid under Buyer's Pension Plan. Notwithstanding the preceding sentence, in the event that a Transferred Employee is ineligible to commence receipt of his or her accrued benefit under Seller's Pension Plan on his or her annuity starting date under Buyer's Pension Plan or in the form elected under the Buyer's Pension Plan, the offset shall be based on the hypothetical benefit that is the actuarial equivalent (as determined using the then current actuarial assumptions of Seller's Pension Plan) of the Transferred Employee's accrued benefit under Seller's Pension Plan, such hypothetical benefit being assumed to be payable in the same form and with the same annuity starting date as the Transferred Employee's benefit under Buyer's Pension Plan. At Buyer's request, Seller shall provide Buyer with the benefit calculations applicable to a Transferred Employee under Seller's Pension Plan.

(D) Buyer shall assume all liabilities, obligations and responsibilities with respect to providing post-retirement health and life insurance benefits ("Post-Retirement Welfare Benefits") to (i) retirees of the Business as of

the Closing Date (the "Current Retirees") and (ii) Transferred Employees who have satisfied the age and service eligibility requirements for Post-Retirement Welfare Benefits under the applicable Seller plans (the "Grandfathered Active Employees" and, together with the Current Retirees, the "Grandfathered Individuals"). The Grandfathered Individuals are listed in Schedule 6.12(d)(iii)(D). Buyer shall continue to provide to the Current Retirees Post-Retirement Welfare Benefits that are comparable to those Post-Retirement Welfare Benefits provided to such Current Retirees immediately prior to the Closing Date, under cost-sharing structures that are at least as favorable as the cost-sharing structures in effect for and available to the Current Retirees immediately prior to the Closing Date. Buyer shall provide to the Grandfathered Active Employees Post-Retirement Welfare Benefits that are comparable to those Post-Retirement Welfare Benefits provided to such Grandfathered Active Employees immediately prior to the Closing Date, commencing at the time such Grandfathered Active Employees retire. The Base Purchase Price shall be decreased by the amount by which the APBO (as hereinafter defined) exceeds two million dollars (\$2,000,000). The "APBO" means the accumulated post-retirement benefit obligation (within the meaning of the Statement on Financial Accounting Standards No. 106) of the Grandfathered Individuals receiving or eligible for the Post-Retirement Welfare Benefits to the extent Buyer has committed to provide such Post-Retirement Welfare Benefits pursuant to this Section 6.12(d)(iii)(D), determined using a discount rate of 6.75% and the remaining assumptions disclosed in the January 1, 2001 Actuarial Valuation Report dated September 17, 2002, as set forth on Schedule 6.12(d)(iii)(D).

(E) With respect to the Seller's 401(k) Savings Plan (the "Savings Plan"), Seller shall vest Transferred Employees in their Savings Plan account balances as of the Closing Date. Seller hereby represents to Buyer that the Savings Plan is intended to be qualified within the meaning of Section 401 of the Code. Buyer shall take all actions necessary to cause the Buyer's qualified 401(k) plan listed on Schedule 6.12(d)(iii) in which Transferred Employees are eligible to participate pursuant to Section 6.12(d)(iii) (x) to recognize the service that the Transferred Employees had in the Savings Plan for purposes of determining such Transferred Employees' eligibility to participate, vesting, attainment of retirement dates, contribution levels, and, if applicable, eligibility for optional forms of benefit payments, and (y) to accept direct-rollover transfers of Transferred Employees' account balances in the Savings Plan, including transfers of loan balances and related promissory notes, provided that such loans would not be treated as taxable distributions at any time prior to such transfer.

(F) Within sixty (60) days after the Closing Date, Seller shall transfer to Buyer's flexible benefits plan any balances standing to the credit of Transferred Employees under Seller's flexible benefits plan as of the day immediately preceding the Closing Date. As soon as practicable after the Closing Date, Seller shall provide to Buyer a list of those Transferred Employees that have participated in the health or dependent care reimbursement accounts of Seller, together with their elections made prior to the Closing Date with respect to such

account, and balances standing to their credit as of the day immediately preceding the Closing Date.

(e) With respect to severance benefits, Buyer shall provide to any Transferred Non-Union Employee who is terminated by Buyer (other than for cause) prior to the date which is one year following the Closing Date, severance benefits at the level set forth in a schedule provided to Seller prior to the date hereof. Any employee provided severance benefits under this section may be required to execute a release of claims against Seller and Buyer, in such form as Buyer shall prescribe, as a condition for the receipt of such benefits.

(f) Each Transferred Non-Union Employee who is initially assigned, or assigned within twelve (12) months of the Closing Date, by Buyer to a principal place of work that requires such employee to relocate his residence will be reimbursed by Buyer for all relocation expenses in accordance with the relocation benefits plans set forth in a schedule provided to Seller prior to the date hereof. For purposes of the foregoing a required relocation of residence shall include a change in the principal place of work that is more than 30 miles farther from such employee's principal place of work immediately prior to the Closing Date and requires an average commute from his current residence of at least one hour in each direction.

(g) Seller shall be responsible, with respect to the Business, for performing and discharging all requirements under the WARN Act and under applicable state and local laws and regulations for the notification of its employees of any "employment loss" within the meaning of the WARN Act which occurs on or prior to the Closing Date.

(h) Buyer shall not be responsible for, but Seller shall be responsible for, extending COBRA Continuation Coverage to any employees and former employees of Seller, or to any qualified beneficiaries of such employees and former employees, who become or became entitled to COBRA Continuation Coverage on or before the Closing Date, including those for whom the Closing Date occurs during their COBRA election period.

(i) Seller or its Affiliates shall pay or cause to be paid to all Transferred Employees, all compensation (including vacation pay), workers' compensation or other employment benefits to which they are entitled under the terms of the applicable compensation or Seller benefit plans or programs as of the Closing Date. Buyer shall pay to each Transferred Employee all unpaid salary or other compensation or employment benefits which have accrued to such employees following the Closing Date, at such times as provided under the terms of the applicable compensation or benefit programs. Notwithstanding the foregoing, if the Closing Date is on or after July 1 of any calendar year, Seller and Buyer shall pro-rate the obligation to pay any bonuses declared by Seller on or after the Closing Date (but prior to March 1 of the calendar year following the year in which the Closing Date occurs) that would have been payable to the Transferred Employees had the Transferred Employees remained employed by Seller or its Affiliates throughout the calendar year in which the Closing Date occurs, in accordance with the provisions of any policy, plan, practice or arrangement of Seller under which such bonus would have been paid. Buyer shall be obligated to pay that portion of each such bonus determined by multiplying the amount of such bonus by a fraction, the numerator of which is the number of days from and after the Closing Date through the end of the calendar year in which the Closing Date occurs, and the denominator of which is 365.

(j) Seller shall be responsible for maintaining workers' compensation coverage for all Union Employees and Non-Union Employees for claims relating to occurrences prior to the Closing Date.

(k) Individuals who are otherwise Union Employees or Non-Union Employees but who on any date are not actively at work due to a leave of absence covered by the Family and Medical Leave Act (FMLA), or due to any other authorized leave of absence, including, without limitation, short-term disability, or who are on long-term disability, shall nevertheless be treated as "Union Employees" or as "Non-Union Employees", as the case may be, on such date if they are able (i) to return to work within the protected period under the FMLA or such other leave (which in any event shall not extend more than twelve (12) weeks after the Closing Date), whichever is applicable, and (ii) to perform the essential functions of their job, with or without a reasonable accommodation.

(l) Buyer shall be responsible, with respect to the Business, for performing and discharging all requirements under the WARN Act and under applicable state and local laws and regulations for the notification of its employees of any "employment loss" within the meaning of the WARN Act which occurs following the Closing Date.

(m) Buyer is responsible for extending and continuing to extend COBRA Continuation Coverage to all Transferred Employees, and qualified beneficiaries of such employees who become entitled to such COBRA Continuation Coverage following the Closing Date.

(n) The provisions of this Section 6.12 shall not be construed as being for the benefit for any person other than the Parties hereto, and shall not be enforceable by persons other than such Parties (including, without limitations, the Transferred Employees).

6.13 Risk of Loss.

(a) From the date hereof through the Closing Date, all risk of loss or damage to the assets included in the Assets shall be borne by Seller, other than loss or damage caused by the acts or negligence of Buyer or any Buyer Representative, which loss or damage shall be the responsibility of Buyer.

(b) If, before the Closing Date, all or any portion of the Assets are taken by eminent domain, municipalization or condemnation or are the subject of a pending taking which has not been consummated, (such event being called, in either case, a "Taking"), then Seller shall notify Buyer promptly in writing of such Taking.

(i) If such Taking relates to Assets of Seller having an aggregate net book value in excess of \$50,000,000, then such Taking shall be a "Material Taking." Upon a Material Taking, Seller and Buyer shall negotiate to settle the loss, if any, resulting from such Material Taking (and such negotiation shall include, without limitation, the negotiation of a fair and equitable reduction in the Base Purchase Price to offset such loss, if any, based on consideration of all relevant circumstances). If Seller and Buyer shall fail to agree to settle the loss, if any, resulting from said Material Taking, said Material Taking shall be conclusively deemed to be an Asset Material Adverse

Effect. Any Taking relating to any Assets of Seller's Santa Cruz division shall not be deemed to be a Material Taking.

(ii) If such Taking is not a Material Taking, then (A) Buyer may elect to, in the name of Seller, negotiate for, claim, contest and receive the portion of the award properly allocable to those Assets that are the subject of the Taking, (B) to the extent the Taking shall have been consummated prior to the Closing, Seller shall be relieved of its obligation to convey to Buyer those Assets that were the subject of the Taking, (C) at the Closing, Seller will assign to Buyer all of its rights to damages payable as a result of the Taking, and will pay to Buyer all damages previously paid to it in connection with the Taking, in each case to the extent properly allocable to those Assets that are the subject of the Taking, and (D) following the Closing, Seller will give to Buyer any further assurances of such rights and assignment with respect to the Taking as Buyer reasonably may request from time to time.

(c) (i) If any casualty loss or damage to the Assets shall occur before the Closing Date, then the Base Purchase Price shall be reduced, to the extent such loss or damage is not remedied prior to the Closing Date, by an amount mutually acceptable to the Parties, which amount shall be equal to the estimated out-of-pocket costs and expenses which Buyer reasonably can be expected to incur to repair or replace, in accordance with Good Utility Practices, such lost or damaged Assets after Closing. If the actual out-of-pocket costs and expenses which Buyer reasonably incurred to repair or replace, in accordance with Good Utility Practices, such lost or damaged Assets exceeds such estimated amount, Seller shall reimburse Buyer for such excess costs. If the Parties do not agree to an adjustment to the Base Purchase Price in respect of the casualty loss, then the Closing shall be postponed for such period of time (not to exceed six (6) months), and Seller shall repair or replace the lost or damaged Assets in accordance with Good Utility Practices and Buyer or its Representatives will have the right to inspect and observe and approve, all repairs or replacements made by Seller to remedy such casualty loss.

(ii) Notwithstanding anything to the contrary in Section 6.13(c)(i) above, if Seller shall have failed to remedy, cure or otherwise reverse by the Closing Date any casualty loss or damage to the Assets such that the estimated out-of-pocket costs and expenses that Buyer reasonably can be expected to incur to repair or replace such lost or damaged Assets exceeds \$25,000,000, such loss or damage shall be conclusively deemed to be an Asset Material Adverse Effect.

6.14 Tax Exempt Financing

(a) Seller represents that:

(i) The Exempt Facilities have been financed, and refinanced, in whole or in part, with the proceeds of the issuance and sale by various governmental authorities of industrial development revenue bonds or private activity bonds the interest on which, with certain exceptions, is excluded from gross income for purposes of Federal

income taxation (such bonds, as currently outstanding, the "Revenue Bonds"); and Seller is the economic obligor in respect of such Revenue Bonds;

(ii) The Revenue Bonds are described in Schedule 6.14(a);

(iii) The basis for the exclusion of interest on the Revenue Bonds from gross income for Federal income tax purposes is the use of the Exempt Facilities for (A) "the local furnishing of electric energy or gas" under Sections 142(a)(8) and 142(f) of the Code or, if applicable, Section 103(b)(4)(E) of the Internal Revenue Code of 1954, as amended (the "1954 Code"), and in either case the applicable Treasury Regulations (the "Regulations") thereunder, or (B) "the furnishing of water" or "sewage facilities" under Sections 142(a)(4) and 142(a)(5) of the Code or, if applicable, Sections 103(b)(4)(G) or 103(b)(4)(E) of the 1954 Code, and in either case the applicable Regulations. Seller acknowledges and agrees that Buyer has and shall have no responsibility or obligation hereunder for the Exempt Facilities described in clause (B);

(iv) The use of the Exempt Facilities for a purpose other than a qualifying purpose indicated in subsection (iii) above could impair (A) such exclusion from gross income of the interest on the Revenue Bonds, possibly with retroactive effect, unless appropriate remedial action were taken (which could include prompt defeasance or redemption of the Revenue Bonds) and/or (B) the deductibility of payments by Seller or Buyer of interest based on the restrictions in Section 150(b) of the Code;

(v) After August 20, 1996, at least the following bonds exempt from tax under Section 103 of the Code and in whole or in part described in Section 142(a)(8) of the Code have been issued with respect to facilities of Seller for the "local furnishing of electric energy or gas": The Industrial Development Authority of the County of Navajo, Industrial Development Revenue Bonds (Citizens Utilities Company Project) 1997 Series B (\$12,380,000), and The Industrial Development Authority of the County of Yavapai, Industrial Development Revenue Bonds (Citizens Utilities Company Project) 1998 Series (\$20,000,000); and

(vi) Any breach by Buyer of its obligations under this Section 6.14 could result in the incurrence by Seller of additional costs and expenses with respect to the Revenue Bonds, including, without limitation, increased interest costs, loss of the interest deduction for tax purposes and transaction costs relating to any refinancing, redemption and/or defeasance of all or part of the Revenue Bonds (cumulatively, the "Tax Impact").

(b) Buyer agrees that Buyer will indemnify Seller for costs incurred by Seller in respect of any Tax Impact that would not have arisen but for Buyer's breach of its obligations under Section 6.14(c) (except as excused elsewhere in this Section 6.14), provided that Buyer's agreements and representations as set out in this Section 6.14 shall be limited to and apply solely to those Exempt Facilities described by Section 6.14(a)(iii)(A).

(c) After August 20, 1996, at least the following bonds exempt from tax under Section 103 of the Code and described in whole or in part in Section 142(a)(8) of the Code have

been issued with respect to facilities of Buyer for the "local furnishing of electric energy": The Industrial Development Authority of the County of Pima, Industrial Development Revenue Bonds (Tucson Electric Power Company Project) 1997 Series A, B and C (\$247,460,000), and The Industrial Development Authority of the County of Apache, Pollution Control Revenue Bonds (Tucson Electric Power Company Project) 1998 Series A, B and C (\$200,000,000). So long as any Revenue Bonds remain outstanding with respect to electric Exempt Facilities in any county, Buyer agrees that it shall not use, or take any deliberate act to permit the use of, or fail to take any act within its control that would prevent the use of, the electric Exempt Facilities within that county for any purpose or in any manner other than as shall be consistent with the Exempt Facility Operating Protocols (as such Exempt Facility Operating Protocols may have been updated, amended or corrected by Seller for the purpose of their accuracy on or before the Closing Date; provided that such changes do not materially impact Buyer's operation of the Assets) delivered by Seller to Buyer on or before the date of this Agreement, unless Buyer:

(i) has obtained at its own expense an opinion addressed to Seller of nationally recognized bond counsel reasonably acceptable to Seller ("Bond Counsel") that such use will not impair (x) the exclusion from gross income of the interest on any issue of Revenue Bonds for Federal income tax purposes and (y) the deductibility of Seller's payments of interest based on the restrictions in Section 150(b) of the Code; or

(ii) has provided written notice to Seller of any act or failure to act either (x) not later than 45 days after the effective date of such action, or (y) if any of such affected Revenue Bonds are not then eligible for optional or mandatory redemption by the terms thereof, sufficiently in advance of such act or failure to act to permit Seller to request from the IRS a private letter ruling to the effect that such action does not constitute an event that would adversely affect the exclusion of the interest on such Revenue Bonds from gross income for Federal income tax purposes, to receive a final ruling to such effect from the IRS, and to dispose of the Revenue Bonds in a manner not inconsistent with such ruling ("Sufficient Notice"). (Reference is made to Schedule 6.14(a) for a listing of the respective optional redemption dates of the Revenue Bonds.)

(d) Notwithstanding any other provision of this Agreement, it is expressly understood and agreed that the provisions of Section 6.14(c) shall not prohibit Buyer from (and Buyer shall incur no liability to Seller for or in connection with Buyer) suspending the operation of the Exempt Facilities (in whole or in part) on a temporary basis, or from terminating the operation of the Exempt Facilities (in whole or in part) on a permanent basis and shutting down, retiring, abandoning and/or decommissioning the Exempt Facilities (in whole or in part); provided, however, that if the Exempt Facilities, in whole or in part, are dismantled and sold, including any sale for scrap, at any time when any Revenue Bonds remain outstanding, then the proceeds of such sale of Exempt Facilities shall within six months from the date of sale be expended to acquire replacement property to be used as described in the related Exempt Facility Operating Protocol, unless (I) Buyer has obtained at its own expense an opinion addressed to Seller of Bond Counsel that the failure to take this action will not impair (x) the exclusion from gross income of the interest on any issue of Revenue Bonds for Federal income tax purposes and (y) the deductibility of Seller's payments of interest based on the restrictions in Section 150(b) of

the Code; (II) the proceeds of such sales are less than \$50,000 in a calendar year; or (III) Buyer has provided Sufficient Notice of such action to Seller.

(e) Buyer agrees that it shall not issue, or have issued on its behalf, any tax-exempt bonds to finance or refinance its acquisition of the Exempt Facilities, provided that it is expressly understood and agreed that this clause (e) shall not prohibit Buyer's use of tax-exempt bonds to finance or refinance any improvement to the Exempt Facilities made after the date of acquisition or to any assets other than the Exempt Facilities.

(f) Buyer agrees to provide prompt written notice to Seller of any condemnation of, or casualty loss with respect to, the Exempt Facilities, in whole or in substantial part, to cooperate in good faith with Seller in Seller's efforts to ascertain the consequences of any such eminent domain proceeding or casualty loss for the (A) exclusion of interest on the Revenue Bonds from gross income for Federal income tax purposes and (B) the deductibility of Seller's payments of interest based on the restrictions in Section 150(b) of the Code.

(g) Seller agrees that the Revenue Bonds shall be redeemed no later than the earlier of (I) their respective stated maturity dates, and (II) their respective first optional redemption dates on or after the Closing Date. Seller also agrees that none of the Revenue Bonds shall be refunded.

(h) Seller hereby represents that it has performed all duties and obligations of "Company" under the documents relating to the Revenue Bonds, that the representations and warranties under the documents relating to the Revenue Bonds remain true and correct, and that there has been no breach of any covenant or agreement by Seller under the documents relating to the Revenue Bonds. Seller hereby covenants that, until all of the Revenue Bonds have been redeemed, Seller will perform all duties and obligations of "Company" under the documents relating to the Revenue Bonds, that Seller's representations and warranties under such documents will remain true and correct and that Seller will not breach any covenant or agreement of Seller under such documents; provided that Seller's covenant in this sentence shall not extend to any such duties, obligations, representations, warranties, covenants or agreements the necessary predicate for which is Seller's actual ownership, possession or control of the Exempt Facilities from and after the Closing Date. Seller acknowledges and agrees that although Seller from and after the Closing Date will not own, possess or control the Exempt Facilities, Seller shall remain primarily obligated under the documents relating to the Revenue Bonds and, as between itself and each issuer of the Revenue Bonds, shall remain subject to each of Seller's representations, warranties, covenants and agreements thereunder. Buyer shall have no liability under this Section 6.14 unless interest on the Revenue Bonds would be excluded from gross income for Federal income tax purposes absent an act or failure to act by Buyer in contravention of the terms of Section 6.14(c).

(i) In any case where Buyer has provided notice to Seller under this Section 6.14, Buyer agrees that it will join and cooperate with Seller with respect to any request by Seller to the Internal Revenue Service to obtain a private letter ruling regarding any Tax Impacts of the act or failure to act by Buyer that prompted such notice. Seller will join and cooperate with Buyer with respect to any request by Buyer to the Internal Revenue Service to

obtain a private letter ruling regarding any Tax Impacts. The Party seeking the private letter ruling shall bear all costs of the filing, legal and related out-of-pocket expenses incurred in the course of such request.

(j) Seller agrees that it has sole responsibility to make any required payments of principal and interest on the Revenue Bonds and that Buyer has no responsibility to make such payments. Seller agrees that it will indemnify, protect, defend and hold harmless Buyer from and against any claim that Buyer owes any payment of principal or interest on the Revenue Bonds. Seller agrees that Buyer shall retain any payments with respect to any casualty event or any condemnation of the Exempt Facilities and that, except as Buyer has otherwise agreed under Section 6.14(c), Buyer shall not be restricted in its use of any such proceeds.

(k) If Buyer shall sell, exchange, transfer or otherwise dispose of the Exempt Facilities in whole or substantial part (aggregate price of \$500,000 or more in a calendar year) to one or more third parties, Buyer shall cause to be included in the documentation relating to such transaction covenants and agreements on the part of such third party substantially identical to those on the part of Buyer contained in this Section 6.14.

(l) The covenants and agreements on the part of Buyer and Seller contained in this Section 6.14 shall continue in effect so long as any of the Revenue Bonds shall remain outstanding. Seller shall notify Buyer promptly when there shall be no Revenue Bonds outstanding.

(m) Buyer acknowledges and agrees that Seller's bond counsel may rely on Buyer's representations, warranties and covenants as hereinabove provided for the purpose of rendering legal opinions, as required by the Indentures of Trust, the Loan Agreements and the Tax Regulatory Agreements relating to the Revenue Bonds ("IDRB Documents") as a precondition to the sale by Seller of such Exempt Facilities, to the effect that the sale of such Exempt Facilities will not result in (I) the inclusion of the interest on the Revenue Bonds in the gross income of the recipient for purposes of Federal income taxation, and (II) disallowance of interest expense to Seller under Section 150(b) of the Code. Seller acknowledges and agrees that Buyer shall be an addressee of the above-described opinion letters of Seller's bond counsel or shall receive a reliance letter from Seller's bond counsel authorizing Buyer to rely on such opinion letters.

(n) Nothing in this Agreement is intended to nor shall it be interpreted as (i) an assignment to, and assumption by, Buyer of any of the IDRB Documents, or (ii) as an undertaking or agreement by Buyer to assume, guarantee or pay any of Seller's loan or other payment obligations pursuant to the IDRB Documents. Other than as stated in this Section 6.14, Buyer shall have no liability in respect of the Revenue Bonds.

(o) Each of Buyer and Seller shall use its Commercially Reasonable Efforts, and shall cooperate with the other Party in the other Party's efforts, to obtain all Consents, bond counsel opinions and IRS rulings as may be required under the IDRB Documents and the Code to enable Seller to defease, prepay, redeem or retain until the first possible redemption date the IDRB Indebtedness and to sell the Assets to Buyer without the result that the interest on the Revenue Bonds will be included in the gross income of the recipient for purposes of Federal

income taxation; provided, however, that Buyer shall have no obligation in respect of its ownership or operation of the Exempt Facilities (including but not limited to rates imposed by Buyer in respect of utility service provided by the Exempt Facilities or by any other facilities of Buyer or affiliates of Buyer) other than to comply with the Exempt Facility Operating Protocols.

6.15 Seller Guarantees and Surety Instruments. Buyer shall use Commercially Reasonable Efforts to assist Seller in obtaining full and complete releases of the guarantees, letters of credit, bonds and other surety instruments listed in Schedule 6.15. In this connection, Buyer agrees to provide a guaranty, letter of credit, bond or other surety instrument at Closing to replace those listed in Schedule 6.15.

6.16 Citizens Marks. Buyer acknowledges and agrees with Seller that Seller has the absolute and exclusive proprietary right to the Citizens Marks, all rights to which and the goodwill represented thereby and pertaining thereto are being retained by Seller. Within ninety (90) days after the Closing Date, Buyer shall cease using any Citizens Mark and shall remove from the Assets any and all Citizens Marks. Thereafter, Buyer shall not use any Citizens Mark in connection with the sale of any products or services or otherwise in the conduct of the businesses. In the event that Buyer breaches this Section 6.16, Seller shall be entitled to specific performance and to injunctive relief against further violations, as well as any other remedies at law or in equity available to Seller.

6.17 Title Commitments. Prior to Closing, Seller shall cooperate with Buyer and use Commercially Reasonable Efforts to assist Buyer if Buyer desires to obtain American Land Title Association ("ALTA") title insurance commitments (collectively, the "Title Commitments," and each a "Title Commitment"), in final form, from one or more title insurance companies (collectively, the "Title Company"), committing the Title Company (subject only to the satisfaction of any industry standard requirements contained in the Title Commitment) to issue ALTA (or its local equivalent) form of title insurance policies in an amount acceptable to the Buyer and the Title Company insuring good, valid, indefeasible fee simple title to the Real Property in Buyer, in all cases, at Buyer's sole expense and in the respective amounts that Buyer requests prior to Closing, subject to no Encumbrances or other exceptions to title other than Permitted Encumbrances (collectively the "Title Policies"). On or prior to the Closing Date, Seller shall execute and deliver, or cause to be executed and delivered, to the Title Company, at no cost to Seller, any customary affidavits, standard gap indemnities, evidence of corporate existence and authority, and similar documents reasonably requested by the Title Company in connection with the issuance of the Title Commitments or the Title Policies; provided that such efforts and Buyer's request for Title Policies or Title Commitments shall, in no event, result in any delay in the consummation of the transactions contemplated by this Agreement, except to the extent caused by or resulting from Seller's breach of this Agreement; and provided further, that nothing in this Section 6.17 shall obligate Seller to execute or deliver any document that affects, in a manner adverse to Seller, Seller's liability to Buyer as expressed herein and in the Special Warranty Deed.

6.18 Joint Use Agreement re: Easements. To the extent reasonably requested by either Party, at least sixty (60) days before Closing, Buyer and Seller (or its appropriate Affiliate) will commence good faith negotiations of a joint use agreement, to be fully executed and delivered by the Parties at Closing, regarding the shared Easements to be partially assigned to Buyer at

Closing as contemplated in Schedule 2.2. Such joint use agreement will be partially assignable by Seller to any purchaser of Seller's or its Affiliate's other utility plant permitted to be located on the real property that is the subject of any such shared Easements.

6.19 Leases. If requested by Buyer at least sixty (60) days before Closing, Buyer and Seller (or its appropriate Affiliate) will commence good faith negotiations regarding Buyer's short-term lease (not to exceed one hundred eighty (180) days from the Closing Date) of space at the business office at 1760 McCulloch Boulevard, Lake Havasu City, Arizona, a portion of which is used by Seller in connection with the Business, on commercially reasonable terms acceptable to Buyer and Seller.

6.20 Post-Execution Delivery of Schedules. Within one hundred eighty days (180) following the date of execution of this Agreement, Seller shall deliver to Buyer a schedule, to be identified as Schedule 6.20, which sets forth all of the following identified by Seller after reasonable investigation (i) all Permits, (ii) all material items of Tangible Personal Property (other than Inventories), (iii) quantities of Inventories recorded in Seller's books and records for the Business as of the last day of the month preceding the date of this Agreement, together with the net book values of such Inventories as of such date, (iv) all Easements held by Seller in connection with the Business, (v) all line extension agreements and similar construction arrangements, railroad crossing agreements and similar arrangements, and (vi) all Real Property Leases. Schedule 6.20 will also designate those Permits that require the consent of the respective Governmental Authority to transfer and those that purport to be non-transferable.

ARTICLE VII

CONDITIONS

7.1 Conditions to Obligations of Buyer. The obligation of Buyer to effect purchase of the Assets and the other transactions contemplated by this Agreement shall be subject to the fulfillment of the following conditions, or waiver thereof, by Buyer at or prior to the Closing Date:

(a) The waiting period under the HSR Act applicable to the consummation of the sale of the Assets contemplated hereby shall have expired or been terminated;

(b) No preliminary or permanent injunction or other order or decree by any Governmental Authority which prevents the consummation of the sale of the Assets contemplated herein shall have been issued and remain in effect (each Party agreeing to use its reasonable best efforts to have any such injunction, order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority prohibiting the consummation of the sale of the Assets;

(c) Buyer shall have received all of Buyer's Required Regulatory Approvals by Final Order, and such Required Regulatory Approvals shall not contain terms and conditions that would result in a Regulatory Material Adverse Effect for Buyer or an Asset Material Adverse Effect;

(d) Seller shall have received all of Seller's Required Regulatory Approvals by Final Order, and such Required Regulatory Approvals shall not contain terms and conditions that would result in a Regulatory Material Adverse Effect for Buyer or an Asset Material Adverse Effect;

(e) Seller shall have performed and complied with each of its covenants and agreements contained in this Agreement which are required to be performed and complied with by Seller on or prior to the Closing Date except where the failure to so perform or comply, when taken in the aggregate, would not have a Buyer Material Adverse Effect or an Asset Material Adverse Effect;

(f) The representations and warranties of Seller set forth in this Agreement shall be true and correct as of the Closing Date as though made at and as of the Closing Date, except (i) subject to Section 6.11, to the extent due to changes expressly permitted by this Agreement or otherwise in writing by Buyer, (ii) that representations and warranties made as of, or in respect of, only a specified date or period shall be true and correct as of, or in respect of, such date or period and (iii) to the extent that any failure of such representations and warranties to be true and correct as aforesaid when taken in the aggregate would not have a Buyer Material Adverse Effect or an Asset Material Adverse Effect (it being understood and agreed that the economic impact of any Adverse Environmental Condition shall not be considered in the determination of an Asset Material Adverse Effect except as otherwise provided in Section 6.3);

(g) No Asset Material Adverse Effect shall have occurred and be continuing;

(h) Seller shall have delivered, caused to be delivered, or be standing ready to deliver, to Buyer at the Closing, Seller's closing deliveries described in Section 3.5;

(i) Buyer shall have received any consents of third parties required for the assignment to Buyer of any of the Assigned Agreements other than consents that, if not obtained, would not have an Asset Material Adverse Effect or a Buyer Material Adverse Effect, in form and substance reasonably acceptable to Buyer; and

(j) Buyer shall be reasonably satisfied that the consummation of the asset purchase and sale transaction contemplated by the Asset Purchase Agreement, dated as of the date hereof, between Seller and Buyer relating to purchase by Buyer of Seller's gas utility business in the State of Arizona (the "Arizona Gas Purchase Agreement"), will occur concurrently with the Closing.

7.2 Conditions to Obligations of Seller. The obligations of Seller to effect the sale of the Assets and the other transactions contemplated by this Agreement shall be subject to the fulfillment of the following conditions, or the waiver thereof, by Seller at or prior to the Closing Date:

(a) The waiting period under the HSR Act applicable to the consummation of the sale of the Assets contemplated hereby shall have expired or been terminated;

(b) No preliminary or permanent injunction or other order or decree by any Governmental Authority which prevents the consummation of the sale of the Assets

contemplated herein shall have been issued and remain in effect (each of Seller and Buyer agreeing to use its reasonable best efforts to have any such injunction, order or decree lifted) and no statute, rule or regulation shall have been enacted by any state or federal government or Governmental Authority in the United States prohibiting the consummation of the sale of the Assets;

(c) Seller shall have received all of Seller's Required Regulatory Approvals by Final Order, and such Required Regulatory Approvals shall not contain terms and conditions that would have an Asset Material Adverse Effect or a Seller Material Adverse Effect;

(d) Seller shall have received any consents of third parties required for the assignment to Buyer of any of the Assigned Agreements other than consents that, if not obtained, would not have a Seller Material Adverse Effect;

(e) Buyer shall have performed and complied with each of its covenants and agreements contained in this Agreement which are required to be performed and complied with by Buyer on or prior to the Closing Date except where the failure to so perform or comply, when taken in the aggregate, would not have a Seller Material Adverse Effect;

(f) The representations and warranties of Buyer set forth in this Agreement shall be true and correct as of the Closing Date as though made at and as of the Closing Date, except (i) subject to Section 6.11, to the extent due to changes expressly permitted by this Agreement or otherwise in writing by Seller, (ii) that representations and warranties made as of, or in respect of, only a specified date or period shall be true and correct as of, or in respect of, such date or period and (iii) to the extent that any failure of such representations and warranties to be true and correct as aforesaid when taken in the aggregate would not have a Seller Material Adverse Effect;

(g) Buyer shall have assumed, as set forth in and subject to Section 6.12, all of the applicable obligations under the IBEW CBA(s);

(h) Buyer shall have delivered, caused to be delivered or standing ready to deliver, to Seller at the Closing, Buyer's closing deliveries described in Section 3.6;

(i) Seller shall be reasonably satisfied that the consummation of the Arizona Gas Purchase Agreement will occur concurrently with the Closing; and

(j) Seller shall have received opinions from Seller's Bond Counsel, dated the Closing Date, substantially in the form attached hereto as Exhibit E.

ARTICLE VIII

INDEMNIFICATION

8.1 Indemnification of Seller by Buyer. Subject to Section 8.3, Buyer shall indemnify, defend and hold harmless Seller, its officers, directors, employees, shareholders, Affiliates and agents (each, a "Seller Indemnitee") from and against any and all Indemnifiable Losses asserted against or suffered by any Seller Indemnitee (each, a "Seller Indemnifiable");

Loss”) in any way relating to, resulting from or arising out of or in connection with (i) any breach by Buyer of any covenant or agreement of Buyer contained in this Agreement or any failure or inaccuracy of any representation or warranty of Buyer contained in this Agreement, (ii) the Assumed Liabilities, (iii) any loss or damages resulting from or arising solely out of any Inspection of the Assets, and (iv) any Third Party Claims against a Seller Indemnitee to the extent arising out of or in connection with Buyer’s ownership or operation of the Assets on or after the Closing Date.

8.2 Indemnification of Buyer by Seller.

(a) Subject to Section 8.3, Seller shall indemnify, defend and hold harmless Buyer, its officers, directors, employees, shareholders, Affiliates and agents (each, a “Buyer Indemnitee”) from and against any and all Indemnifiable Losses asserted against or suffered by any Buyer Indemnitee (each, a “Buyer Indemnifiable Loss”) in any way relating to, resulting from or arising out of or in connection with (i) any breach by Seller of any covenant or agreement of Seller contained in this Agreement or failure or inaccuracy of any representation or warranty of Seller contained in this Agreement, (ii) the Excluded Liabilities, (iii) noncompliance by Seller with any bulk sales or transfer laws as provided in Section 10.12, and (iv) any Third Party Claims against a Buyer Indemnitee arising out of or in connection with Seller’s ownership or operation of the Excluded Assets on or after the Closing Date.

(b) Subject to Sections 8.3(a), (e), (f) and (g) and to the other provisions of this Section 8.2(b) and so long as Buyer complies with the Exempt Facilities Operating Protocols relating to an issue of outstanding Revenue Bonds, Seller agrees to indemnify, defend and hold harmless the Buyer Indemnitees from and against Buyer’s Tax Losses (as defined below) upon a final decree or judgment of any federal court or a final action by the IRS (a “Final Determination”) that the related Exempt Facilities are “tax-exempt bond financed property” under Section 168(g)(5) of the Code by reason of such issue of Revenue Bonds remaining outstanding from and after the Closing Date. No such decree or action shall be considered to be a Final Determination unless Seller has been given written notice and, if it is so desired and is legally allowed, has been afforded the opportunity to contest the same either directly or in the name of Buyer, and until conclusion of any appellate review, if sought. The maximum aggregate amount of Buyer’s Tax Losses for which Seller shall be obligated to indemnify the Buyer Indemnitees both (i) under this Section 8.2(b) and (ii) under the corresponding Section 8.2(b) of the Arizona Gas Purchase Agreement shall be \$1,500,000. “Buyer’s Tax Losses” shall mean the amount equal to the present value (calculated using a discount rate of 10 percent per annum) of the difference (multiplied by the applicable combined federal and State of Arizona corporate tax rate of Buyer Indemnitee) for each affected tax year between the respective dollar amounts of (x) depreciation of the related Exempt Facilities allowed under Section 168(g) of the Code, and (y) the depreciation of such Exempt Facilities that would be allowable under Section 168 of the Code if the Exempt Facilities were not “tax-exempt bond financed property.” The indemnity granted by Seller in this Section 8.2(b) shall terminate at 5:00 p.m., local time in New York, New York, on the seventh anniversary of the Closing Date, provided that such termination shall not affect Seller’s obligations under this Section 8.2(b) if Buyer provided Seller with proper notice of the claim or event for which indemnification is sought prior to such termination.

8.3 Certain Limitations on Indemnification.

(a) Notwithstanding anything to the contrary contained herein:

(i) any Indemnitee shall use Commercially Reasonable Efforts to mitigate all losses, damages and the like relating to a claim under these indemnification provisions, including availing itself of any defenses, limitations, rights of contribution, claims against third persons and other rights at law or equity. The Indemnitee's Commercially Reasonable Efforts shall include the reasonable expenditure of money to mitigate or otherwise reduce or eliminate any loss or expenses for which indemnification would otherwise be due, and the Indemnifying Party shall reimburse the Indemnitee for the Indemnitee's reasonable expenditures in undertaking the mitigation; and

(ii) any Indemnifiable Loss shall be net of the dollar amount of any insurance or other proceeds actually received by the Indemnitee or any of its Affiliates with respect to the Indemnifiable Loss. Any Party seeking indemnity hereunder shall use Commercially Reasonable Efforts to seek coverage (including both costs of defense and indemnity) under applicable insurance policies with respect to any such Indemnifiable Loss.

(b) Except as otherwise provided in this Section 8.3(b), the representations, warranties, covenants and agreements of the Parties set forth in this Agreement shall survive the Closing Date for a period of eighteen (18) months, and all representations, warranties, covenants and agreements of the Parties under this Agreement and the related indemnities granted in this Article VIII shall terminate at 5:00 p.m., local time in New York City, New York, on the day that is eighteen (18) months after the Closing Date. The expiration, termination or extinguishment of any covenant or agreement shall not affect the Parties' obligations under Section 8.1 or 8.2 hereof if the Indemnitee provided the Indemnifying Party with proper notice of the claim or event for which indemnification is sought prior to such expiration, termination or extinguishment. Notwithstanding the foregoing provisions of this Section 8.3(b), the representations, warranties, covenants and agreements contained in Sections 3.3(e), 6.2(c), 6.3(c), 6.3(e), 6.4(a), 6.10, 6.12, 6.14, 6.16, and in Articles VIII and X, will survive the Closing in accordance with their terms.

(c) Notwithstanding anything to contrary in this Agreement, in no event shall Buyer indemnify Seller Indemnitees or Seller indemnify Buyer Indemnitees, or otherwise be liable in any way whatsoever to said Indemnitees, for any Losses otherwise subject to indemnification by the Indemnifying Party (determined after giving effect to the other provisions of this Section 8.3) until the Buyer Indemnitees or the Seller Indemnitees, as the case may be, have incurred otherwise indemnifiable Losses that in the aggregate exceed a threshold amount equal to one percent (1%) of the Purchase Price, after which Buyer or Seller, as the case may be, shall then be liable for all Losses incurred by the Seller Indemnitees or the Buyer Indemnitees, as applicable. The limitations on indemnification set forth in this Section 8.3(c) shall not apply to any losses asserted against or suffered by an Indemnitee in any way relating to, resulting from or arising out of or in connection with the failure of (i) the appropriate Party to make the payment required to be made by it in accordance with Section 3.3(d), (ii) Buyer to discharge Assumed Liabilities other than those specified in Sections 2.3(e) and 2.3(i), (iii) Seller to discharge Excluded Liabilities other than those specified in Sections 2.4(d), 2.4(g), 2.4(h), 2.4(j) and 2.4(n), (iv) Seller to make any payment to Buyer if and to the extent required by Section 3.3(e),

6.3(c), 6.10(b), 6.13(c) or 8.2(b), and (v) Buyer to make any payment to Seller if and to the extent required by Section 6.12(b). Any such losses also shall be disregarded when determining whether the threshold set forth in this Section 8.3(c) has been exceeded.

(d) Notwithstanding anything to the contrary in this Agreement, in no event shall Seller indemnify the Buyer Indemnitees or Buyer indemnify Seller Indemnitees, or be otherwise liable in any way whatsoever to said Indemnitees, for any Losses otherwise subject to indemnification by the Indemnifying Party (determined after giving effect to the other provisions of this Section 8.3) that in the aggregate exceed an amount equal to fifty percent (50%) of the Purchase Price.

(e) Except to the extent otherwise provided in Section 3.3 (relating to adjustments to the Base Purchase Price), Section 6.3(c) (relating to post-Closing reimbursement of excess environmental Remediation costs), Section 6.10(b) (relating to post-Closing reimbursements for Taxes), Section 6.12(b) (relating to post-Closing reimbursements for Severance Costs), Section 6.13(c) (relating to post-Closing reimbursement of excess costs and expenses of repairing lost or damaged Assets), and Section 6.16 (relating to specific performance and injunctive relief with respect to Citizens Marks), the rights and remedies of Seller and Buyer under this Article VIII are exclusive and in lieu of any and all other rights and remedies which each of Seller and Buyer may have under this Agreement or otherwise for monetary relief, with respect to (i) all post-Closing claims relating to this Agreement, the events giving rise to this Agreement and the transactions provided for herein or contemplated hereby or thereby, or (ii) the Assumed Liabilities or the Excluded Liabilities, as the case may be. Notwithstanding any language contained in any Ancillary Agreement (including the Special Warranty Deed), the representations and warranties of Seller set forth in this Agreement will not be merged into any such Ancillary Agreement and the indemnification obligations of Seller, and the limitations on such obligations, set forth in this Agreement shall control. No provision set forth in any such Ancillary Agreement shall be deemed to enlarge, alter or amend the terms or provisions of this Agreement.

(f) Notwithstanding anything to the contrary contained herein, no Party (including an Indemnitee) shall be entitled to recover from any other Party (including an Indemnifying Party) for any liabilities, damages, obligations, payments, losses, costs, or expenses under this Agreement any amount in excess of the actual compensatory damages, court costs and reasonable attorney's and other advisor fees suffered by such Party. Each of Buyer and Seller waive any right to recover punitive, incidental, special, exemplary and consequential damages arising in connection with or with respect to this Agreement. The provisions of this Section 8.3(d) shall not apply to indemnification for a Third Party Claim.

(g) The limitations set forth in this Section 8.3 do not apply to fraud or willful misconduct of a Party.

(h) No amount shall be recovered from a Party for the breach or untruth of any of such Party's representations, warranties, covenants or agreements, or for any other matter, to the extent that the other such Party had knowledge of such breach, untruth or other matter at or prior to the Closing, nor shall the other Party be entitled to rescission with respect to any such matter.

8.4 Defense of Claims.

(a) If any Indemnitee receives notice of the assertion or commencement of any Third Party Claim made or brought by any Person who is not a Party to this Agreement or any Affiliate of a Party to this Agreement with respect to which indemnification is to be sought from an Indemnifying Party, the Indemnitee shall give such Indemnifying Party reasonably prompt written notice thereof, but in any event such notice shall not be given later than ten (10) calendar days after the Indemnitee's receipt of notice of such Third Party Claim. Such notice shall describe the nature of the Third Party Claim in reasonable detail and shall indicate the estimated amount, if practicable, of the Indemnifiable Loss that has been or may be sustained by the Indemnitee. The Indemnifying Party will have the right to participate in or, by giving written notice to the Indemnitee, to elect to assume the defense of any Third Party Claim at such Indemnifying Party's expense and by such Indemnifying Party's own counsel, provided that the counsel for the Indemnifying Party who shall conduct the defense of such Third Party Claim shall be reasonably satisfactory to the Indemnitee. The Indemnitee shall cooperate in good faith in such defense at such Indemnitee's own expense. If an Indemnifying Party elects not to assume or to participate in the defense of any Third Party Claim, the Indemnitee may compromise or settle such Third Party Claim over the objection of the Indemnifying Party, which settlement or compromise shall conclusively establish the loss for which the Indemnified Party may seek indemnification from the Indemnifying Party pursuant to this Agreement.

(b) (i) If, within ten (10) calendar days after an Indemnitee provides written notice to the Indemnifying Party of any Third Party Claims, the Indemnitee receives written notice from the Indemnifying Party that such Indemnifying Party has elected to assume the defense of such Third Party Claim as provided in Section 8.4(a), the Indemnifying Party will not be liable for any legal expenses subsequently incurred by the Indemnitee in connection with the defense thereof; provided, however, that if the Indemnifying Party shall fail to take reasonable steps necessary to defend diligently such Third Party Claim within twenty (20) calendar days after receiving notice from the Indemnitee that the Indemnitee believes the Indemnifying Party has failed to take such steps, the Indemnitee may assume its own defense and the Indemnifying Party shall be liable for all reasonable expenses thereof.

(ii) Without the prior written consent of the Indemnitee, the Indemnifying Party shall not enter into any settlement of any Third Party Claim which would lead to liability or create any financial or other obligation on the part of the Indemnitee for which the Indemnitee is not entitled to indemnification hereunder. If a firm offer is made to settle a Third Party Claim without leading to liability or the creation of a financial or other obligation on the part of the Indemnitee for which the Indemnitee is not entitled to indemnification hereunder and the Indemnifying Party desires to accept and agree to such offer, the Indemnifying Party shall give written notice to the Indemnitee to that effect. If the Indemnitee fails to consent to such firm offer within ten (10) calendar days after its receipt of such notice, the Indemnifying Party shall be relieved of its obligations to defend such Third Party Claim and the Indemnitee may contest or defend such Third Party Claim at its own expense. In such event, the maximum liability of the Indemnifying Party as to such Third Party Claim will be the amount of such settlement offer plus reasonable costs and expenses paid or incurred by Indemnitee up to the date of said notice.

(c) Any claim by an Indemnitee on account of an Indemnifiable Loss which does not result from a Third Party Claim (a "Direct Claim") shall be asserted by giving the Indemnifying Party reasonably prompt written notice thereof, stating the nature of such claim in reasonable detail and indicating the estimated amount, if practicable, but in any event such notice shall not be given later than ten (10) calendar days after the Indemnitee becomes aware of such Direct Claim, and the Indemnifying Party shall have a period of thirty (30) calendar days within which to respond to such Direct Claim. If the Indemnifying Party does not respond within such thirty (30) calendar day period, the Indemnifying Party shall be deemed to have accepted such claim. If the Indemnifying Party rejects such claim, the Indemnitee will be free to seek enforcement of its right to indemnification under this Agreement.

(d) If the amount of any Indemnifiable Loss, at any time subsequent to the making of an indemnity payment in respect thereof, is reduced by recovery, settlement or otherwise under or pursuant to any insurance coverage or pursuant to any claim, recovery, settlement or payment by, from or against any other entity, the amount of such reduction (less any out-of-pocket costs incurred in connection therewith and the cost of any adjusted premium charges to the extent directly relating to the claim for such Indemnifiable Loss ("Recovery Costs"), together with interest thereon from the date of payment thereof at the publicly announced prime rate then in effect of Citibank, shall promptly be repaid by the Indemnitee to the Indemnifying Party.

(e) A failure to give timely notice as provided in this Section 8.4 shall not affect the rights or obligations of any Party hereunder except if, and only to the extent that, as a result of such failure, the Party which was entitled to receive such notice was actually prejudiced as a result of such failure.

ARTICLE IX

TERMINATION

9.1 Termination.

(a) This Agreement may be terminated at any time prior to the Closing Date by mutual written consent of Seller and Buyer.

(b) This Agreement may be terminated by Seller or Buyer if (i) any federal or state court of competent jurisdiction shall have issued an order, judgment or decree permanently restraining, enjoining or otherwise prohibiting the Closing, and such order, judgment or decree shall have become final and nonappealable; (ii) any statute, rule, nonappealable order or regulation shall have been enacted or issued by any Governmental Authority which prohibits the consummation of the Closing; or (iii) the Closing shall have not occurred on or before the day which is fifteen (15) months from the date of this Agreement, subject to such extensions (not to exceed six months) as may be required by Seller to repair or replace lost or damaged Assets in accordance with Section 6.13(c) (the "Termination Date"); provided that the right to terminate this Agreement under this Section 9.1(b)(iii), and any other Section, shall not be available to any Party whose failure to fulfill any obligation under this Agreement has been the cause of, or resulted in the event giving rise to the applicable termination right.

(c) Except as otherwise provided in this Agreement, this Agreement may be terminated by Buyer if any of the Buyer Required Regulatory Approvals, the receipt of which is a condition to the obligation of Buyer to consummate the Closing as set forth in Section 7.1(c), shall have been denied (and a petition for rehearing or refiling of an application initially denied without prejudice shall also have been denied) or, if such Required Regulatory Approval is obtained, contains terms or conditions that would have a Regulatory Material Adverse Effect for Buyer (after Buyer's petition for rehearing objecting to such terms and conditions has been denied) or an Asset Material Adverse Effect, in either case that is not cured or otherwise addressed in a manner reasonably acceptable to Buyer by the Closing Date.

(d) Except as otherwise provided in this Agreement, this Agreement may be terminated by Seller if any of the Seller Required Regulatory Approvals, the receipt of which is a condition to the obligation of Seller to consummate the Closing as set forth in Section 7.2(c), shall have been denied (and a petition for rehearing or refiling of an application initially denied without prejudice shall also have been denied) or, if such Required Regulatory Approval is obtained, contains terms or conditions that would have a Regulatory Material Adverse Effect for Seller (after Seller's petition for rehearing objecting to such terms and conditions has been denied), in either case that is not cured or otherwise addressed in a manner reasonably acceptable to Seller by the Closing Date.

(e) This Agreement may be terminated by Buyer if there has been a violation or breach by Seller of any covenant, representation or warranty contained in this Agreement provided that such violation or breach would have an Asset Material Adverse Effect or a Buyer Material Adverse Effect that is not cured or otherwise addressed by Seller in a manner reasonably acceptable to Buyer by the Closing Date and such violation or breach has not been waived by Buyer.

(f) This Agreement may be terminated by Seller, if there has been a violation or breach by Buyer of any covenant, representation or warranty contained in this Agreement provided that such violation or breach would have a Seller Material Adverse Effect, (including, without limitation, Buyer's failure to pay the Purchase Price on the Closing Date) and such violation or breach is not cured or otherwise addressed by Buyer in a manner reasonably acceptable to Seller by the Closing Date, and such violation or breach has not been waived by Seller.

9.2 Procedure and Effect of Termination. In the event of termination of this Agreement by either or both Seller and Buyer pursuant to this Article IX, written notice thereof shall forthwith be given by the terminating Party to the other Party, whereupon the liabilities of the Parties hereunder will terminate, except as otherwise expressly provided in this Agreement (including Section 9.3), and thereafter none of the Parties shall have any recourse against any other Party by reason of this Agreement. If prior to Closing either Party resorts to legal proceedings to enforce this Agreement, the prevailing Party in such proceedings shall be entitled to recover all costs incurred by such Party, including reasonable attorney's fees, in addition to any other relief to which such Party may be entitled; provided, however, and notwithstanding anything to the contrary in this Agreement, in no event shall either Party be entitled to receive any punitive, indirect or consequential damages. If a Party terminates this Agreement pursuant to this Article IX, the Arizona Gas Purchase Agreement shall be automatically terminated,

without any further liability to the parties thereto (including payment of liquidated damages or termination fees pursuant to Section 9.3 of the Arizona Gas Purchase Agreement, and both Parties agree that if the Arizona Gas Purchase Agreement is terminated pursuant to Article IX of the Arizona Gas Purchase Agreement, this Agreement shall be automatically terminated, without any further liability to the parties thereto.

9.3 Liquidated Damages; Termination Fees.

(a) Seller shall pay to Buyer \$10,000,000 if (i) Buyer terminates this Agreement pursuant to Section 9.1(e) or (ii) Buyer terminates this Agreement pursuant to Section 9.1(c) due to a Regulatory Material Adverse Effect on Buyer which is due in whole or in substantial part to concern by the ACC about the condition of the Assets and which is reasonably expected to have an aggregate economic impact on Buyer, taking into consideration all relevant circumstances, in excess of \$25,000,000.

(b) Buyer shall pay to Seller \$25,000,000 if (i) Seller terminates this Agreement pursuant to Section 9.1(f), (ii) Seller terminates this Agreement pursuant to Section 9.1(d) because the requisite Required Regulatory Approval from the ACC or the FERC has not been obtained due in whole or in substantial part to concerns about Buyer's financial qualifications or capabilities, or (iii) Buyer terminates this Agreement pursuant to Section 9.1(c), because the requisite Required Regulatory Approval from the ACC or the FERC has not been obtained, due in whole or in substantial part to concerns about Buyer's financial qualifications or capabilities, or has been obtained and contains financial terms and conditions that are unacceptable to Buyer.

(c) Buyer may terminate this Agreement upon payment of a \$25,000,000 termination fee upon any of the following events:

(i) There shall have occurred an Asset Material Adverse Effect having or reasonably expected to have a financial or economic impact, taking into account all relevant considerations, in excess of \$25,000,000;

(ii) Regulatory Exceptions (after Buyer's petition for rehearing objecting to such Regulatory Exceptions has been denied) shall have been imposed against Buyer having a financial or economic impact on Buyer, taking into account all relevant considerations in excess of \$25,000,000; or

(iii) There shall have occurred a casualty loss to the Assets having an aggregate financial or economic impact, taking into account all relevant considerations, in excess of \$25,000,000.

(d) Seller may terminate this agreement upon payment of a \$10,000,000 termination fee if there shall have occurred a casualty loss to the Assets having or reasonably expected to have an aggregate financial or economic impact, taking into account all relevant considerations, in excess of \$25,000,000.

(e) In view of the difficulty of determining the amount of damages which may result to the non-terminating Party from a termination pursuant to any of Sections 9.3(a) through

9.3(d) or pursuant to any of the Sections of this Agreement referenced in Section 9.3(a) through 9.3(d), and the failure of the terminating Party to consummate the transactions contemplated by this Agreement, Buyer and Seller have mutually agreed that each of the payments set forth in Section 9.3(a) through 9.3(d) shall be made to the non-terminating Party as liquidated damages, and not as a penalty, and this Agreement shall thereafter become null and void except for those provisions which by their terms survive termination of this Agreement. In the event of any such termination, the Parties have agreed that each of the payments set forth in Section 9.3(a) through Section 9.3(d) shall be the non-terminating Party's sole and exclusive remedy. ACCORDINGLY, THE PARTIES HEREBY ACKNOWLEDGE THAT (1) THE EXTENT OF DAMAGES TO THE NON-TERMINATING PARTY CAUSED BY THE FAILURE OF THIS TRANSACTION TO BE CONSUMMATED WOULD BE IMPOSSIBLE OR EXTREMELY DIFFICULT TO ASCERTAIN, (2) THE AMOUNT OF THE LIQUIDATED DAMAGES PROVIDED FOR IN EACH OF SECTIONS 9.3(a) THROUGH 9.3(d) ARE FAIR AND REASONABLE ESTIMATES OF SUCH DAMAGES UNDER THE CIRCUMSTANCES AND (3) RECEIPT OF SUCH LIQUIDATED DAMAGES BY THE NON-TERMINATING PARTY DOES NOT CONSTITUTE A PENALTY. THE PARTIES HEREBY FOREVER WAIVE AND AGREE TO FOREGO TO THE FULLEST EXTENT UNDER APPLICABLE LAW ANY AND ALL RIGHTS THEY HAVE OR IN THE FUTURE MAY HAVE TO BRING ANY ACTION OR ARBITRAL PROCEEDING DISPUTING OR OTHERWISE OBJECTING TO ANY OR ALL OF THE FOREGOING PROVISIONS OF THIS SECTION 9.3.

(f) All payments under this Section 9.3 shall be from payor to payee by wire transfer of immediately available funds to a bank account in the United States of America designated in writing by payee not later than three (3) business days following payor's receipt of such account designation from payee.

ARTICLE X

MISCELLANEOUS PROVISIONS

10.1 Amendment and Modification. This Agreement may be amended, modified or supplemented only by written agreement of the Parties.

10.2 Waiver of Compliance; Consents. Except as otherwise provided in this Agreement, any failure of any of the Parties to comply with any obligation, covenant, agreement or condition herein may be waived by the Party entitled to the benefits thereof only by a written instrument signed by the Party granting such waiver, but any such waiver of such obligation, covenant, agreement or condition shall not operate as a waiver of, or estoppel with respect to, any subsequent failure to comply therewith.

10.3 [Intentionally Omitted]

10.4 Notices. All notices and other communications hereunder shall be in writing and shall be deemed given if delivered personally or by facsimile transmission with completed transmission acknowledgment, or mailed by overnight delivery via a nationally recognized courier or registered or certified first class mail (return receipt requested), postage prepaid, to the recipient Party at its address (or at such other address or facsimile number for a Party as shall be

specified by like notice; provided; however, that notices of a change of address shall be effective only upon receipt thereof):

(a) If to Seller, to:

Citizens Communications Company
1460 Poydras Street, Suite 1800
New Orleans, LA 70112
Attention: Kenneth L. Cohen
Telephone: (504) 299-4501
Telecopier: (504) 544-5822

with a copy to:

Citizens Communications Company
High Ridge Park
Stamford, CT 06905
Attention: L. Russell Mitten
Telephone: (203) 614-5047
Telecopier: (203) 614-4651

and:

Fleischman and Walsh, L.L.P.
1400 Sixteenth Street, N.W.
Washington, D.C. 20036
Attention: Jeffry L. Hardin
Telephone: (202) 939-7914
Telecopier: (202) 387-3467

(b) if to Buyer, to:

Tucson Electric Power Company
One South Church Avenue, Suite 100
Tucson, Arizona 85701
Attention: Vincent Nitido, Jr.
Telephone: (520) 884-3670
Telecopier: (520) 884-3612

with a copy to:

Thelen Reid & Priest LLP
40 West 57th Street
New York, NY 10019
Attention: J. Anthony Terrell
Telephone: (212) 603-2108
Attention: John T. Hood

Telephone: (212) 603-2140

Telecopier: (212) 603-2001

10.5 Assignment. This Agreement and all of the provisions hereof shall be binding upon and inure to the benefit of the Parties hereto and their respective successors and permitted assigns, but neither this Agreement nor any of the rights, interests or obligations hereunder shall be assigned by any Party hereto, including by operation of law, without the prior written consent of each other Party, nor is this Agreement intended to confer upon any other Person except the Parties hereto any rights, interests, obligations or remedies hereunder; provided, however, in the event of any such assignment by a Party by operation of law without the consent of the other Party, this Agreement and all the provisions hereof shall be binding upon the Person receiving such assignment by operation of law. Notwithstanding the foregoing, Buyer may (i) assign any or all of its rights and obligations hereunder to a UniSource Designee, or (ii) make a security assignment to any lender providing financing in respect of the Buyer's acquisition of the Assets. Upon receipt of notice by Seller from Buyer of any such assignment to a UniSource Designee, such assignee will be deemed to have assumed, ratified, agreed to be bound by and perform all such obligations, and all references herein to "Buyer" shall thereafter be deemed to be references to such assignee, in each case without the necessity for further act or evidence by the Parties hereto or such assignee; provided, however, that no such assignment shall relieve or discharge UniSource from any of its obligations hereunder.

10.6 Governing Law. This Agreement shall be governed by and construed in accordance with the law of the State of Arizona (without giving effect to conflict of law principles) as to all matters, including but not limited to matters of validity, construction, effect, performance and remedies (except to such matters of real estate law that must be governed by the law of the State of Arizona). THE PARTIES HERETO AGREE THAT VENUE IN ANY AND ALL ACTIONS AND PROCEEDINGS RELATED TO THE SUBJECT MATTER OF THIS AGREEMENT SHALL BE IN THE STATE AND FEDERAL COURTS IN AND FOR PHOENIX, ARIZONA, WHICH COURTS SHALL HAVE EXCLUSIVE JURISDICTION FOR SUCH PURPOSE, AND THE PARTIES HERETO IRREVOCABLY SUBMIT TO THE EXCLUSIVE JURISDICTION OF SUCH COURTS AND IRREVOCABLY WAIVE THE DEFENSE OF AN INCONVENIENT FORUM TO THE MAINTENANCE OF ANY SUCH ACTION OR PROCEEDING. SERVICE OF PROCESS MAY BE MADE IN ANY MANNER RECOGNIZED BY SUCH COURTS. EACH OF THE PARTIES HERETO IRREVOCABLY WAIVES ITS RIGHT TO A JURY TRIAL WITH RESPECT TO ANY ACTION OR CLAIM ARISING OUT OF ANY DISPUTE IN CONNECTION WITH THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY.

10.7 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.8 Interpretation. The articles, section and schedule headings contained in this Agreement are solely for the purpose of reference, are not part of the agreement of the Parties and shall not in any way affect the meaning or interpretation of this Agreement.

10.9 Schedules and Exhibits. Except as otherwise provided in this Agreement, all Exhibits and Schedules referred to herein are intended to be and hereby are specifically made a part of this Agreement. Any matter or item disclosed on any Schedule shall not be deemed to give rise to circumstances which result in an Asset Material Adverse Effect or a Material Adverse Effect solely by reason of it being so disclosed. Any matter or item disclosed pursuant to any Schedule shall be deemed to be disclosed for all purposes under this Agreement reasonably related thereto and any matter disclosed in one Schedule will be deemed disclosed with respect to another Schedule if such disclosure is made in such a way as to make its relevance with respect to such other Schedule readily apparent.

10.10 Entire Agreement. This Agreement, the Ancillary Agreements and the Exhibits, Schedules, documents, certificates and instruments referred to herein or therein, embody the entire agreement and understanding of the Parties hereto in respect of the transactions contemplated by this Agreement. There are no restrictions, promises, representations, warranties, covenants or undertakings, other than those expressly set forth or referred to herein or therein. This Agreement and the Ancillary Agreements supersede all prior agreements and understandings between the Parties other than the Confidentiality Agreement with respect to such transactions.

10.11 U.S. Dollars. Unless otherwise stated, all dollar amounts set forth herein are United States (U.S.) dollars.

10.12 Bulk Sales Laws. Buyer acknowledges that, notwithstanding anything in this Agreement to the contrary, Seller will not comply with the provision of the bulk sales laws of any jurisdiction in connection with the transactions contemplated by this Agreement. Buyer hereby waives compliance by Seller with the provisions of the bulk sales laws of all applicable jurisdictions to the extent permitted by law.

10.13 Construction of Agreement. The terms and provisions of this Agreement represent the results of negotiations between Buyer and Seller, each of which has been represented by counsel of its own choosing, and neither of which has acted under duress or compulsion, whether legal, economic or otherwise. Accordingly, the terms and provisions of this Agreement shall be interpreted and construed in accordance with their usual and customary meanings, and Buyer and Seller hereby waive the application in connection with the interpretation and construction of this Agreement of any rule of law to the effect that ambiguous or conflicting terms or provisions contained in this Agreement shall be interpreted or construed against the Party whose attorney prepared the executed draft or any earlier draft of this Agreement. It is understood and agreed that neither the specification of any dollar amount in the representations and warranties contained in this Agreement nor the inclusion of any specific item in the Schedules or Exhibits is intended to imply that such amounts or higher or lower amounts, or the items so included or other items, are or are not material, and none of the Parties shall use the fact of the setting of such amounts or the fact of any inclusion of any such item in the Schedules or Exhibits in any dispute or controversy between the Parties as to whether any obligation, item or matter is or is not material for purposes hereof.

10.14 Severability. If any term or other provision of this Agreement is invalid, illegal or incapable of being enforced by any rule of law or public policy, all other conditions and

provisions of this Agreement shall nevertheless remain in full force and effect so long as the economic or legal substance of the transactions contemplated hereby is not affected in any manner materially adverse to any Party. Upon such determination that any term or other provision is invalid, illegal or incapable of being enforced, the Parties shall negotiate in good faith to modify this Agreement so as to effect the original intent of the Parties as closely as possible in an acceptable manner to the end that transactions contemplated hereby are fulfilled to the greatest extent possible.

10.15 Third Party Beneficiary. No provision of this Agreement shall create any third party beneficiary rights in any employee or former employee of Seller (including any beneficiary or dependant thereof) in respect of continued employment or resumed employment, and no provision of this Agreement shall create any rights in any such Persons in respect of any benefits that may be provided, directly or indirectly, under any employee benefit plan or arrangement.

IN WITNESS WHEREOF, Buyer and Seller have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

UNISOURCE ENERGY CORPORATION

CITIZENS COMMUNICATIONS COMPANY

By: 
Name: Michael J. DeConcini
Title: Senior Vice President

By: _____
Name:
Title:

IN WITNESS WHEREOF, Buyer and Seller have caused this Agreement to be signed by their respective duly authorized officers as of the date first above written.

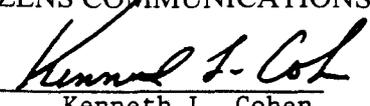
UNISOURCE ENERGY CORPORATION

CITIZENS COMMUNICATIONS COMPANY

By: _____

Name:

Title:

By: 

Name:

Title:

Kenneth L. Cohen

President and C.O.O.

LIST OF EXHIBITS AND SCHEDULES**EXHIBITS**

| | |
|-----------|---|
| Exhibit A | Form of Assignment and Assumption Agreement |
| Exhibit B | Form of Bill of Sale |
| Exhibit C | Special Warranty Deed |
| Exhibit D | Form of Seller General Counsel Opinion |
| Exhibit E | Form of Seller Bond Counsel Opinion |
| Exhibit F | Form of Buyer General Counsel Opinion |

SCHEDULES

| | |
|-----------------|--|
| 1.1 | Seller Employees on Whose Knowledge Buyer May Rely |
| 2.2 | Excluded Assets |
| 2.3(g) | Governmental Orders |
| 2.3(i) | Assumed Actions and Proceedings |
| 4.3(a) | Seller Conflicts, Defaults and Violations |
| 4.3(b) | Seller Required Regulatory Approvals |
| 4.4 | Seller Insurance |
| 4.5 | Seller Real Property Leases |
| 4.6 | Seller Environmental Matters |
| 4.7 | Seller Labor Matters |
| 4.8 | Seller Benefit Plans |
| 4.9 | Seller Real Property |
| 4.10 | Seller Condemnation Matters |
| 4.11(a) | Certain Seller Material Agreements |
| 4.11(b) | Certain Seller Material Agreements Requiring Consent to Transfer |
| 4.11(c) | Defaults Under Certain Material Agreements |
| 4.12 | Legal Proceedings Involving Seller |
| 4.13 | Seller Permit Violations |
| 4.14 | Seller Tax Matters |
| 4.15 | Seller Intellectual Property Exceptions |
| 4.20 | Seller Financial Statements |
| 5.3(a) | Buyer Conflicts, Defaults and Regulations |
| 5.3(b) | Buyer Required Regulatory Approvals |
| 5.6 | Legal Proceedings Involving Buyer |
| 6.1(a) | Exceptions to Conduct of Business and Operation of the Assets |
| 6.3 | Environmental Consultants on Which Buyer will Rely |
| 6.12(d)(iii) | Buyer Benefit Plans |
| 6.12(d)(iii)(D) | Retirees |
| 6.14(a) | Seller Revenue Bonds |
| 6.15 | Seller Surety Instruments |

2

EXHIBIT A

ASSIGNMENT AND ASSUMPTION AGREEMENT

This Assignment and Assumption Agreement (this "Assignment") is made as of _____, 2003, between Citizens Communications Company, a Delaware corporation ("Transferor"), and UniSource Energy Corporation, an Arizona corporation ("Transferee"), and is entered into pursuant to, and is subject to, the terms of the Asset Purchase Agreement, dated as of _____, 2002, by and between Transferor and Transferee (the "Purchase Agreement") with respect to the sale of the Arizona Electric Division. Capitalized terms not otherwise defined in this Assignment shall have the meanings given to such terms in the Purchase Agreement.

In consideration of the foregoing premises, the transactions contemplated by the Purchase Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Transferor does hereby transfer and assign unto Transferee, its successors and assigns, all of the Assumed Liabilities, and Buyer does hereby assume and agrees to pay, perform and discharge when due, all Assumed Liabilities.

No provisions set forth in this Assignment shall be deemed to enlarge, alter or amend the terms and provisions of the Purchase Agreement. In the event of any conflict between the provisions of this Assignment and the provisions of the Purchase Agreement, the Purchase Agreement shall control.

This Assignment is made solely for the benefit of Transferor and Transferee and no third party shall have any right to enforce its terms or to rely on it.

This Assignment shall be governed by and construed in accordance with laws of the State of Arizona, without regard to its conflicts of laws rules.

This Assignment may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Assignment and Assumption effective as of the date first written above.

TRANSFEROR:

CITIZENS COMMUNICATIONS COMPANY

By: _____
Name:
Title:

TRANSFEE:

UNISOURCE ENERGY CORPORATION

By: _____
Name:
Title:

EXHIBIT B

BILL OF SALE

This Bill of Sale is made as of _____, 2003, between Citizens Communications Company, a Delaware corporation ("Transferor"), and UniSource Energy Corporation, an Arizona corporation ("Transferee"), and is entered into pursuant to, and is subject to, the terms of the Asset Purchase Agreement, dated as of _____, 2002, by and between Transferor and Transferee (the "Purchase Agreement") with respect to the sale of the Arizona Electric Division. Capitalized terms not otherwise defined in this Bill of Sale shall have the meanings given to such terms in the Purchase Agreement.

In consideration of the foregoing premises, the transactions contemplated by the Purchase Agreement, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Transferor does hereby sell, transfer, assign and convey unto Transferee, its successors and assigns, all of the Tangible Personal Property.

No provisions set forth in this Bill of Sale shall be deemed to enlarge, alter or amend the terms and provisions of the Purchase Agreement. In the event of any conflict between the provisions of this Bill of Sale and the provisions of the Purchase Agreement, the Purchase Agreement shall control.

This Bill of Sale is made solely for the benefit of Transferor and Transferee and no third party shall have any right to enforce its terms or to rely on it.

This instrument and the rights of the parties under it shall be governed by and construed in accordance with laws of the State of Arizona, without regard to its conflicts of laws rules.

This Bill of Sale may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

IN WITNESS WHEREOF, the undersigned have executed this Assignment and Assumption effective as of the date first written above.

TRANSFEROR:

CITIZENS COMMUNICATIONS COMPANY

By: _____

Name:

Title:

TRANSFEE:

UNISOURCE ENERGY CORPORATION

By: _____

Name:

Title:

EXHIBIT C

SPECIAL WARRANTY DEED

When Recorded, return to:

Lee Esch
Jennings, Strouss & Salmon, P.L.C.
201 East Washington Street - Suite 1100
Phoenix, Arizona 85004-2385

For the consideration of Ten Dollars, and other valuable considerations, the undersigned Citizens Communications Company, a Delaware Corporation (Grantor"), does hereby convey to UniSource Energy Corporation, an Arizona corporation ("Grantee"), the following described real property (the "Property") situated in _____ County, Arizona:

See Exhibit A attached hereto and by this reference made a part hereof.

together with all rights and privileges appurtenant thereto; SUBJECT however, to all taxes and other assessments, reservations in patents and all easements, rights of way, encumbrances, liens, covenants, conditions, restrictions, obligations and liabilities as may appear of record, all matters which would be shown by a current ALTA Survey of the Property and all Permitted Encumbrances.

As used within this Special Warranty Deed, the term, "Permitted Encumbrances" shall mean and include usual and customary nonmonetary encumbrances, covenants, imperfections in title, Easements, restrictions and other title matters (whether or not the same appear of record) that do not and will not materially interfere with the operation of that portion of the business of Grantor or Grantee currently conducted on the Property

Grantor hereby binds itself and its successors to Grantee, only, to warrant and defend the title, as against all acts of the Grantor herein and no other, subject to the matters above set forth.

Dated this _____ day of _____, 2003.

Citizens Communications Company,
a Delaware corporation

By: _____

Its _____

EXHIBIT D

_____, 2003

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

Ladies and Gentlemen:

I have acted as counsel for Citizens Communications Company, a Delaware corporation (the "Company"), in connection with the execution and delivery by the Company, and UniSource Energy Corporation, an Arizona corporation ("Buyer"), of the Asset Purchase Agreement, dated as of _____, 2002 (the "Purchase Agreement") with respect to the sale of the Arizona Electric Division. All capitalized terms used herein without definition shall have the respective meanings ascribed to them in the Purchase Agreement.

In connection with the opinions expressed below, I have made such examination of law and have examined originals, or copies certified or otherwise identified to our satisfaction, of the Purchase Agreement, the Bill of Sale, and the Assignment and Assumption Agreement, and the other documents delivered by the Company at Closing pursuant to the Purchase Agreement dated the date hereof (collectively, the "Transaction Documents"), and such corporate documents and records of the Company, certificates of public officials and of officers of the Company, and such other documents as I have deemed necessary or appropriate. With respect to the matters set forth in Paragraph 1 below, I have relied upon certain documentation received from public officials.

In making such examination and rendering the opinions set forth below, I have assumed the genuineness of all signatures, the authenticity of all documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as certified, conformed or photostatic copies and the authenticity of the originals of such documents. As to factual matters material to our opinion, I have had such discussions with the officers of the Company as I have deemed relevant or necessary, and, I have assumed, with your permission and without independent investigation, the truthfulness of all recitals, representations, warranties and factual matters set forth in all documents, instruments, certificates and reports I have examined.

In rendering the opinions set forth below, I have also assumed that (a) each of the parties to the Purchase Agreement and the Transaction Documents, other than the Company, is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (b) each of such other parties to the Purchase Agreement and the Transaction Documents has the requisite corporate power and corporate authority and has taken the corporate action necessary to execute and deliver the Purchase Agreement and the Transaction Documents and to consummate the transactions contemplated thereby; (c) the Purchase Agreement and the Transaction Documents have been duly executed and delivered by each of such other parties

thereto; and (d) the Purchase Agreement and the Transaction Documents constitute the legal, valid and binding obligations of each such other party thereto, enforceable against such other party in accordance with its respective terms.

I am a member of the bar of the State of Missouri, and I express, subject to the qualifications herein, no opinion as to the laws of any jurisdiction except the General Corporation Law of the State of Delaware, the federal laws of the United States of America (with the exception of federal antitrust laws and regulations, federal securities laws and regulations, matters relating to the Communications Act of 1934, as amended, and the rules and regulations of the Federal Communications Commission), and the laws of the State of Missouri (with the exception of state antitrust or unfair competition laws and regulations, state securities laws and other statutes, ordinances, administrative decisions and rules and regulations of counties, towns, municipalities and special political subdivisions). I am not admitted to practice in the States of Delaware or Arizona. To the extent that any matter with respect to which an opinion is rendered herein is governed by the laws of another jurisdiction other than the General Corporation Law of the State of Delaware, I have, with your permission, assumed that the laws of such other jurisdiction are identical to the laws of the State of Missouri.

"Actual Knowledge" as used in this letter means the conscious awareness of facts or other information by myself or any lawyer in the employ of the Company who has had active involvement in negotiating the Purchase Agreement, preparing the Transaction Documents or preparing this letter.

The opinions hereinafter expressed are subject to the following further qualifications:

(i) This opinion is subject to the effect of bankruptcy, insolvency, fraudulent conveyance, reorganization, arrangement, moratorium or otherwise similar laws now or hereafter relating to or affecting debtors' obligations and the rights of creditors generally.

(ii) This opinion is subject to limitations imposed by general principles of equity upon the specific enforceability of any of the remedies, covenants or other provisions of the Transaction Documents and upon the availability of injunctive relief or other equitable remedies, and the application of principles of equity (regardless of whether enforcement is considered in proceedings in law or in equity).

(iii) The opinions stated herein are as of the date hereof and are limited to laws, facts and circumstances in existence on the date hereof, and I assume no undertaking to advise Buyer of any change in the opinions expressed herein, whether or not material, as a result of any change in any laws, facts or circumstances pertaining to the Transaction Documents which may come to my attention after the date hereof.

Based upon and subject to the foregoing, it is my opinion that as of the date hereof:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware, is duly qualified as a foreign corporation under the laws of the State of Arizona and has requisite corporate power and authority to own, lease and operate its material assets and properties and to carry on its business as is now being conducted, and to execute and deliver the Transaction Documents and to consummate the transactions contemplated hereby or thereby; and the execution and delivery of the Transaction Documents and the consummation by the Company of the transactions contemplated hereby or thereby have been duly and validly authorized by all necessary corporate action required on the part of the Company.

2. The Transaction Documents have been duly and validly executed and delivered by the Company and constitute legal, valid and binding agreements of the Company, enforceable against the Company in accordance with their terms, except as may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally and general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity).

3. The execution, delivery and performance of the Transaction Documents do not (A) conflict with the Certificate of Incorporation or Bylaws of the Company or (B) to my Actual Knowledge, constitute a default under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which the Company is a party or by which it, or any of the Assets may be bound, except for such defaults (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or that would not, individually or in the aggregate, result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

4. The Bill of Sale, the Assignment and Assumption Agreement and the Special Warranty Deeds are in proper form to transfer to Buyer such title as was held by the Company to the Assets, except I express no opinion with respect to the sufficiency, validity or form of the conveyance of the rights, claims or causes of action against Arizona Public Service Company, or its Affiliates, pursuant to the Terminated Power Service Agreement. In rendering the foregoing opinion, I have relied exclusively upon the attached opinion of Jennings, Strouss & Salmon, the Company's local Arizona counsel, with respect to such matters.

5. No consent or approval of, filing with, or notice to, any Governmental Authority is necessary for the execution and delivery by the Company of the Transaction Documents or the consummation by the Company of the transactions contemplated hereby and thereby, other than such consents, approvals, filings or notices set forth in Schedules 4.3(a) and 4.3(b) of the Purchase Agreement or which, if not obtained or made, will not result in a Seller

UniSource Energy Corporation

_____, 2003

Page 4

Material Adverse Effect or an Asset Material Adverse Effect. In rendering the foregoing opinion as it relates to matters of Arizona law, I have relied exclusively upon the opinion of Deborah Scott, Associate General Counsel of the Company, who is in charge of Arizona regulatory affairs for the Company and a member of the State Bar of Arizona.

The opinions expressed herein are intended only for your benefit and use, and may not, without my written consent, be used or relied upon in any manner for any purpose by any other person or entity.

Very truly yours,

L. Russell Mitten, Vice President,
General Counsel and Secretary

ATTACHMENT TO EXHIBIT D

_____, 200__

L. Russell Mitten, Vice President,
General Counsel and Secretary
Citizens Communications Company
3 High Ridge Park
Stamford, CT 06905

Dear Mr. Mitten:

Pursuant to the terms and conditions of that certain Asset Purchase Agreement ("Purchase Agreement"), dated as of _____, 2002 for the sale of the Arizona Electric Division to UniSource Energy Corporation, you are obliged to render certain opinions to UniSource Energy Corporation, an Arizona corporation ("Buyer") on behalf of Citizens Communications Company, a Delaware corporation ("Seller"). You have asked that in my role as Citizens' Associate General Counsel for the Western Region that I provide a legal opinion in connection with certain of those opinions. This request is based on the fact that I am a member of the Arizona State Bar and have practiced regulatory law in Arizona for many years.

No consent or approval of, filing with, or notice to, any state or local Governmental Authority in the state of Arizona is necessary for the execution and delivery by the Company of the Transaction Documents or the consummation by the Company of the transactions contemplated hereby and thereby, other than such consents, approvals, filings or notices set forth in Schedules 4.3(a) and 4.3(b) of the Purchase Agreement or which, if not obtained or made, will not result in a Seller Material Adverse Effect or an Asset Material Adverse Effect.

This opinion is based upon and relies upon the current status of law and in all respects is subject to, and may be limited by, future enactments of law and by developing case law. The opinions expressed above are based solely upon applicable laws, statutes, ordinances, rules, regulations and facts, all as in existence on this date. In rendering the foregoing opinions, I express no opinion as to the applicability or effect of the laws of any jurisdictions, other than the State of Arizona and the United States of America.

This opinion is rendered solely for the benefit of you, Citizens Communications Company and UniSource Energy Corporation.

Sincerely,

Deborah R. Scott
Associate General Counsel

ATTACHMENT TO EXHIBIT D

_____, 200__

L. Russell Mitten, Vice President
General Counsel and Secretary
Citizens Communications Company
High Ridge Park
Stamford, Connecticut 06905

Dear Mr. Mitten:

Pursuant to the terms and conditions of that certain Asset Purchase Agreement ("Purchase Agreement"), dated as of _____, 2002 with respect to the sale of the Arizona Electric Division, you are obliged to render certain opinions to UniSource Energy Corporation, an Arizona corporation ("Buyer") on behalf of Citizens Communications Company, a Delaware corporation ("Seller"). You have asked that we serve as local Arizona counsel in connection with certain of those opinions.

In furtherance of that engagement, we have examined the following documents of legal significant in connection with the consummation of the transaction contemplated by the Purchase Agreement, each dated as of _____, 200__, unless otherwise indicated:

- (a) Bill of Sale executed by Seller in favor of Buyer for the purpose of selling and transferring certain personal property located within the State of Arizona ("Bill of Sale"); and
- (b) Assignment and Assumption Agreement executed by Seller in favor of Buyer ("Assignment and Assumption Agreement"); and
- (c) Special Warranty Deeds executed by Seller in favor of Buyer to convey real property situated within the State of Arizona ("Deeds").

Based upon the scope of review set forth above, and subject to the qualifications herein set forth, and having due regard for such legal considerations as we deem relevant, we are of the opinion that the Bill of Sale, the Assignment and Assumption Agreement and Deeds are in proper form to transfer to Buyer such right, title and interest as is held by Seller in and to the property and assets described therein, at the date thereof, except we express no opinion with respect to the sufficiency, validity or form of the conveyance of the rights, claims or causes of action against Arizona Public Service Company, or its Affiliates, pursuant to the Terminated Power Service Agreement.

This opinion is given as of the date hereof, and we disclaim any obligation to update this opinion letter for events occurring after the date of this opinion letter. This opinion is limited to the matters stated herein and no opinion is implied or may be inferred beyond the matters expressly stated herein. This opinion is based upon and relies upon the current status of law in all respects is subject to, and may be limited by, future enactments of law and by developing case

L. Russell Mitten
_____, 200_____

Page 2

law. The opinions expressed above are based solely upon applicable laws, statutes, ordinances, rules, regulations and facts, all as in existence on this date, and we express no opinion as to the effect which any amendments, changes, additions, or modifications thereof may have upon the effect of the Bill of Sale, the Assignment and Assumption Agreement or the Deeds.

In rendering the foregoing opinions, we express no opinion as to the applicability or effect of the laws of any jurisdictions, other than the State of Arizona and the United States of America, upon the Bill of Sale, the Assignment and Assumption Agreement and the Deeds.

This opinion is rendered solely for the benefit of you, Citizens Communications Company, its successors and assigns, and UniSource Energy Corporation.

Very truly yours,

JENNINGS, STROUSS & SALMON, P.L.C.

By: _____
Lee E. Esch

150591v2

EXHIBIT E
FORM OF SELLER'S BOND COUNSEL OPINION

_____, 200__

Citizens Communications Company
High Ridge Park
Stamford, CT 06905

UniSource Energy Corporation
One South Church Avenue
Tucson, AZ 85701

Re: Citizens Communications Company Bond Issues Identified by Schedule I hereto

Ladies and Gentlemen:

You have requested our opinion as bond counsel with respect to the bond issues identified by Schedule I hereto (collectively the "Bonds") in connection with the sale (the "Sale") by Citizens Communications Company and the purchase by UniSource Energy Corporation of the Assets (as defined in the Asset Purchase Agreement, as defined below), consisting of facilities for the local furnishing of electric energy and gas, financed in whole or in part by the proceeds of the Bonds. In such capacity, we have examined the two Asset Purchase Agreements between Citizens Communications Company (formerly named Citizens Utilities Company) ("Citizens") and UniSource Energy Corporation ("UniSource") dated as of _____, 200__, (collectively, the "Asset Purchase Agreement"); the IDR Documents (as defined in the Asset Purchase Agreement), as amended or supplemented to the date hereof; the transcripts of proceedings of the issuance of the Bonds and such other documents and laws as we deemed relevant and necessary in rendering this opinion. For the purposes of this opinion we have relied on (i) the representations of Citizens set out in the Asset Purchase Agreement regarding its ownership, operation, use and maintenance of the Assets in accordance with its representations and warranties in the IDR Documents, and (ii) the representations, warranties, covenants and agreements of UniSource set out in the Asset Purchase Agreement regarding its use and operation of the Assets in compliance with applicable federal income tax law requirements for tax-exempt bonds.

Under existing laws, regulations, rulings and judicial decisions, and based on such examination and in reliance on the aforesaid representations and covenants and assuming UniSource's operation of the Assets in a manner that is consistent with the Exempt Facility Operating Protocols referred by the Asset Purchase Agreement, and subject to the qualification described herein, we are of the opinion that the Sale does not adversely affect (i) the exclusion from gross income of the interest on the Bonds for federal income tax purposes, or (ii) the deductibility of Citizens' payments of interest on the Bonds based on the restrictions in Section 150(b) of the Internal Revenue Code of 1986, as amended.

We express no opinion with respect to the proposed "Gateway" interconnection described in Section IV of the Exempt Facility Operating Protocol relating to the Santa Cruz Electric Facility.

In addition to the addressees of this letter, each Trustee and each Issuer (as such terms are defined in the IDR Documents) of each issue of the Bonds, may rely on the opinion expressed in this letter as if this letter were addressed to them.

Very truly yours,

SCHEDULE I

Citizens Communications Company Bond Issues

- I. The Industrial Development Authority of the County of Coconino Industrial Development Revenue Bonds (Citizens Utilities Company Project)
 - A. \$2,100,000 1993 Series

- II. The Industrial Development Authority of the County of Mohave Industrial Development Revenue Bonds (Citizens Utilities Company Project)
 - A. \$11,000,000 1985 Series
 - B. \$15,000,000 1988 Series
 - C. \$10,000,000 1993B Series
 - D. \$22,960,000 1993 Series
 - E. \$6,640,000 1994 Series

- III. The Industrial Development Authority of the County of Navajo Industrial Development Revenue Bonds (Citizens Utilities Company Project)
 - A. \$4,500,000 1993 Series
 - B. \$12,380,000 1997 Series B

- IV. The Industrial Development Authority of the County of Santa Cruz Industrial Development Revenue Bonds (Citizens Utilities Company Project)
 - A. \$8,200,000 1985 Series
 - B. \$12,680,000 1988 Series
 - C. \$8,000,000 1994 Series

- V. The Industrial Development Authority of the County of Yavapai Industrial Development Revenue Bonds (Citizens Utilities Company Project)
 - A. \$17,500,000 1993 Series
 - B. \$20,000,000 1998 Series

EXHIBIT F

[BUYER OPINION]

_____, 2003

Citizens Communications Company
High Ridge Park
Stamford, CT 06905

Ladies and Gentlemen:

I have acted as counsel for UniSource Energy Corporation, an Arizona corporation (the "Company"), in connection with the execution and delivery by the Company, and Citizens Communications Company, a Delaware corporation ("Seller"), of the Asset Purchase Agreement, dated as of _____, 2002 (the "Purchase Agreement"), with respect to the sale of the Arizona Electric Division. All capitalized terms used herein without definition shall have the respective meanings ascribed to them in the Purchase Agreement.

In connection with the opinions expressed below, I have made such examination of law and have examined originals, or copies certified or otherwise identified to our satisfaction, of the Purchase Agreement, the Bill of Sale, and the Assignment and Assumption Agreement, and the other documents delivered by the Company at Closing pursuant to the Purchase Agreement dated the date hereof (collectively, the "Transaction Documents"), and such corporate documents and records of the Company, certificates of public officials and of officers of the Company, and such other documents as I have deemed necessary or appropriate. With respect to the matters set forth in Paragraph 1 below, I have relied upon certain documentation received from public officials.

In making such examination and rendering the opinions set forth below, I have assumed the genuineness of all signatures, the authenticity of all documents submitted to me as originals and the conformity to authentic original documents of all documents submitted to me as certified, conformed or photostatic copies and the authenticity of the originals of such documents. As to factual matters material to our opinion, I have had such discussions with the officers of the Company as I have deemed relevant or necessary, and, I have assumed, with your permission and without independent investigation, the truthfulness of all recitals, representations, warranties and factual matters set forth in all documents, instruments, certificates and reports I have examined.

In rendering the opinions set forth below, I have also assumed that (a) each of the parties to the Purchase Agreement and the Transaction Documents, other than the Company, is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization; (b) each of such other parties to the Purchase Agreement and the Transaction Documents has the requisite corporate power and corporate authority and has taken the corporate action necessary to execute and deliver the Purchase Agreement and the Transaction Documents

and to consummate the transactions contemplated thereby; (c) the Purchase Agreement and the Transaction Documents have been duly executed and delivered by each of such other parties thereto; and (d) the Purchase Agreement and the Transaction Documents constitute the legal, valid and binding obligations of each such other party thereto, enforceable against such other party in accordance with its respective terms.

I am a member of the bar of the State of Arizona, and I express, subject to the qualifications herein, no opinion as to the laws of any jurisdiction except the federal laws of the United States of America (with the exception of federal antitrust laws and regulations and federal securities laws and regulations) and the laws of the State of Arizona (with the exception of state antitrust or unfair competition laws and regulations, state securities laws and other statutes, ordinances, administrative decisions and rules and regulations of counties, towns, municipalities and special political subdivisions).

"Actual Knowledge" as used in this letter means the conscious awareness of facts or other information by myself or any lawyer in the employ of the Company who has had active involvement in negotiating the Purchase Agreement, preparing the Transaction Documents or preparing this letter.

The opinions hereinafter expressed are subject to the following further qualifications:

(i) This opinion is subject to the effect of bankruptcy, insolvency, fraudulent conveyance, reorganization, arrangement, moratorium or otherwise similar laws now or hereafter relating to or affecting debtors' obligations and the rights of creditors generally.

(ii) This opinion is subject to limitations imposed by general principles of equity upon the specific enforceability of any of the remedies, covenants or other provisions of the Transaction Documents and upon the availability of injunctive relief or other equitable remedies, and the application of principles of equity (regardless of whether enforcement is considered in proceedings in law or in equity).

(iii) The opinions stated herein are as of the date hereof and are limited to laws, facts and circumstances in existence on the date hereof, and I assume no undertaking to advise Seller of any change in the opinions expressed herein, whether or not material, as a result of any change in any laws, facts or circumstances pertaining to the Transaction Documents which may come to my attention after the date hereof.

Based upon and subject to the foregoing, it is my opinion that as of the date hereof:

1. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Arizona and has requisite corporate power and authority to own, lease and operate its material assets and properties and to carry on its business as is now being conducted, and to execute and deliver the Transaction Documents and to consummate the transactions contemplated hereby or thereby; and the execution and delivery of the Transaction Documents and the consummation by the Company of the transactions contemplated hereby or

thereby have been duly and validly authorized by all necessary corporate action required on the part of the Company.

2. The Transaction Documents have been duly and validly executed and delivered by the Company and constitute legal, valid and binding agreements of the Company, enforceable against the Company in accordance with their terms, except as may be limited by applicable bankruptcy, insolvency, fraudulent conveyance, reorganization, moratorium or other similar laws affecting or relating to enforcement of creditors' rights generally and general principles of equity (regardless of whether enforcement is considered in a proceeding at law or in equity).

3. The execution, delivery and performance of the Transaction Documents do not (A) conflict with the Certificate of Incorporation or Bylaws of the Company or (B) to my Actual Knowledge, constitute a default under any of the terms, conditions or provisions of any note, bond, mortgage, indenture, material agreement or other instrument or obligation to which the Company is a party or by which it, or any of the Assets may be bound, except for such defaults (or rights of termination, cancellation or acceleration) as to which requisite waivers or consents have been obtained or that would not, individually or in the aggregate, result in a Buyer Material Adverse Effect.

4. The Bill of Sale, the Special Warranty Deeds and the Assignment and Assumption Agreement is in proper form for Buyer to acquire such title as was held by Seller to the Assets and to assume the Assumed Liabilities, except I express no opinion with respect to the sufficiency, validity or form of the conveyance of the rights, claims or causes of action against Arizona Public Service Company, or its affiliates, pursuant to the Terminated Power Service Agreement.

5. No consent or approval of, filing with, or notice to, any Governmental Authority is necessary for the execution and delivery by the Company of the Transaction Documents or the consummation by the Company of the transactions contemplated hereby and thereby, other than such consents, approvals, filings or notices set forth in Schedules 5.3(a) and 5.3(b) of the Purchase Agreement or which, if not obtained or made, will not result in a Buyer Material Adverse Effect.

The opinions expressed herein are intended only for your benefit and use, and may not, without my written consent, be used or relied upon in any manner for any purpose by any other person or entity.

Very truly yours,

Vincent Nitido, Jr.
Vice President, General Counsel
and Corporate Secretary

3

LIST OF SCHEDULES

| | |
|-----------------|---|
| 1.1 | Seller Employees on Whose Knowledge Buyer May Rely |
| 2.2 | Excluded Assets |
| 2.3(g) | Governmental Orders |
| 2.3(i) | Assumed Actions and Proceedings |
| 4.3(a) | Seller Conflicts, Defaults and Violations |
| 4.3(b) | Seller Required Regulatory Approvals |
| 4.4 | Seller Insurance |
| 4.5 | Seller Real Property Leases |
| 4.6 | Seller Environmental Matters |
| 4.7 | Seller Labor Matters |
| 4.8 | Seller Benefit Plans |
| 4.9 | Seller Real Property |
| 4.10 | Seller Condemnation Matters |
| 4.11(a) | Certain Seller Material Agreements |
| 4.11(b) | Certain Seller Material Agreements Requiring Consent to Transfer |
| 4.11(c) | Defaults Under Certain Material Agreements |
| 4.12 | Legal Proceedings Involving Seller |
| 4.13 | Seller Permit Violations |
| 4.14 | Seller Tax Matters |
| 4.15 | Seller Intellectual Property Exceptions |
| 4.20 | Seller Financial Statements |
| 5.3(a) | Buyer Conflicts, Defaults and Regulations |
| 5.3(b) | Buyer Required Regulatory Approvals |
| 5.6 | Legal Proceedings Involving Buyer |
| 6.1(a) | Exceptions to Conduct of the Business and Operation of the Assets |
| 6.3 | Environmental Consultants |
| 6.12(d)(iii) | Buyer Benefit Plans |
| 6.12(d)(iii)(D) | Retirees |
| 6.14(a) | Seller Revenue Bonds |
| 6.15 | Seller Surety Instruments |

SCHEDULE 1.1

SELLER EMPLOYEES ON WHOSE KNOWLEDGE BUYER MAY RELY

With respect to all applicable matters:

Kenneth L. Cohen, President, Public Services Sector

Thomas J. Ferry, Vice President and General Manager Arizona Electric

A. Bill DeJulio, Manager, T&D Mohave Electric Operations

Ernesto Ojeda, District Manager, Santa Cruz Electric

With respect to environmental matters addressed in Section 4.6 only:

Kenneth L. Cohen, President, Public Services Sector

Thomas J. Ferry, Vice President and General Manager Arizona Electric

A. Bill DeJulio, Manager, T&D Mohave Electric Operations

Ernesto Ojeda, District Manager, Santa Cruz Electric

Jonathan Weeda, Environmental Project Manager

SCHEDULE 2.2

EXCLUDED ASSETS

1. R/3 Software End-User Value License Agreement, dated February 28, 1997, between SAP America, Inc. and Citizens Communications Company, together with the licenses for SAP GUI clients that are installed on desktop machines.
2. National Account Services Master Services Agreement and Addendum, dated September 20, 2001, between Citizens Communications Company and ADP, Inc.
3. Netscape, Novell, and other network, Internet and email software packages and related licenses owned by Citizens Communications Company.
4. All communications circuits owned or leased by a subsidiary or division of Citizens Communications Company other than the Arizona Electric Division (including Electric Lightwave, Inc.), and all communications and network equipment and personal computers owned or leased by a subsidiary or division of Citizens Communications Company other than the Arizona Electric Division, including WAN equipment (routers, DSU/CSU's and related miscellaneous devices), LAN equipment (servers, hubs, patch panels, cables and connections and related miscellaneous devices) located in facilities at the following locations:
 - a. 2290 Airway Boulevard, Kingman, Arizona (real property owned by the Arizona Electric Division) (Note: The personal computers located at this facility and used by the Arizona Electric Division employees are owned by the Arizona Electric Division.)
 - b. 830 South Acoma Avenue, Lake Havasu City, Arizona (real property owned by the Arizona Electric Division) (Note: The personal computers located at this facility and used by the Arizona Electric Division employees are owned by the Arizona Electric Division.)
 - c. 1741 North Grand Avenue, Nogales, Arizona (real property owned by the Arizona Electric Division) (Note: The personal computers located at this facility and used by the Arizona Electric Division employees are owned by the Arizona Electric Division.)
 - d. 1710 North Mastick Way, Nogales, Arizona (real property leased by the Arizona Electric Division. See Schedule 4.5, item 2.) (Note: The personal computers located at this facility and used by the Arizona Electric Division employees are owned by the Arizona Electric Division.)
5. All land, buildings, improvements, office furniture and equipment and communications circuits and communications and network equipment, including WAN equipment (routers, DSU/CSU's and related miscellaneous devices), LAN equipment (servers, hubs, patch panels, cables and connections and related miscellaneous devices) and personal computers located at the following locations:

- a. 1760 McCulloch Boulevard, Lake Havasu City, Arizona (real property leased by Citizens Utilities Rural Company, Inc. See Schedule 4.5, item 5.)
 - b. 2901 North Central Avenue, Phoenix, Arizona (real property leased by Citizens Communications Company; one dedicated Arizona Electric employee situated in the Phoenix office)
6. All billing, printing, computer and other equipment and devices used to provide support services to the Business and located outside the State of Arizona.
 7. Various Easements (most of which are located in Mohave and Santa Cruz Counties, Arizona) granted to Citizens Communications Company (or to a specific subsidiary or division of Citizens Communications Company) that were not granted solely for electric use but permit joint use for electric, telephone and/or gas. (Note: When permitted by a particular Easement that permits multiple uses, including electric use, Citizens Communications Company and/or its Affiliates at Closing will assign to the Buyer its rights and interests in such Easement but only to the extent relating to electric use (*i.e.*, the Buyer will receive only a "partial assignment" of such Easement). A joint use agreement with respect to such partially assigned Easements will be prepared by Citizens Communications Company (and mutually acceptable to Buyer) and executed at Closing by the Buyer and the then owners of all other utility businesses now being conducted by Citizens Communications Company or its Affiliates that are permitted to use such common Easements.)
 8. Account receivable (re: unreimbursed property taxes) owed to Citizens Communications Company by Avatar Holdings Inc. ("Avatar") arising pursuant to Agreement for Electric Service, dated September 6, 1970, between Citizens Communications Company and Avatar. (See Item IX.10 of Schedule 4.11(a).) Such account receivable is in dispute and is subject to possible offset by the amount of unpaid refund payments due Avatar under such Agreement for Electric Service. (Such unpaid refund payments are Excluded Liabilities.)
 9. Agreement for the Collection of Unpaid Accounts, dated October 16, 2001, between Citizens Communications Company and NCO Financial Systems, Inc. (Note: This agreement covers all of the Citizens utilities properties.)

SCHEDULE 2.3(g)

GOVERNMENTAL ORDERS

See attached list of Governmental Orders.

Arizona Electric

| Type | Decision Number | Date | Docket Number | Description |
|------------|-----------------|----------|---|--|
| RATES | 27040 | 12/30/52 | 9963-E-1033 | In The Matter Of The Application Of Citizens Utilities Company For An Escalator Clause In Its Certificated Area In Santa Cruz County, Including The City Of Nogales, Arizona. |
| TARIFF | 28647 | 12/29/54 | 9962-E-1032 | In The Matter Of Citizens Utilities Company For An Approval Of Tariff. |
| TARIFF | 28737 | 02/09/55 | 9962-E-1032 | In The Matter Of Citizens Utilities Company For An Approval Of Tariff. |
| CC&N | 35268 | 06/24/64 | U-1750 | In The Matter Of The Application Of Mohave Electric Cooperative, Inc., An Arizona Public Service Corporation, For A CC&N And For Operation And Maintenance Of An Electrical Public Utilities System In Portions Of Mohave, Yavapai And Coconino Counties, Arizona. |
| RATES | 38826 | 02/03/67 | 9962-E-1032 | In The Matter Of Citizens Utilities Company For Application Of An Escalator Clause To Its Electric Rates. |
| COMPLAINT | 41330 | 1971 | 9962-E-1032 | Arizona Corporation Commission v. Citizens Utilities Company. |
| RATES | 43221 | 04/06/73 | U-1656 9962-E-1032 | In The Matter Of The Application Of Citizens Utilities Company For A Determination Of The Value Of Its Electric Utility Property In Mohave County For Rate Making Purposes, A Finding Of A Just And Reasonable Rate Of Return Thereon, And Approval Of Rate Schedules Designed To Develop Such Return. |
| RATES | 43737 | 10/25/73 | 9962-E-1032 U-1656 | In The Matter Of The Application Of Citizens Utilities Company For A Determination Of The Value Of Its Electric, Gas And Water Utility Properties In Mohave And Santa Cruz Counties And Sun City Water Company. |
| OSC | 47941 | 05/25/77 | 9962-E-1032 U-1954; U-1846 | In The Matter Of The Commission On Its Own Motion Investigating Electric Service Being Rendered By Citizens Utilities Company, A Corporation, In The Lake Havasu Area, Intrastate Telephone Service By Citizens Utilities Rural Company, Inc., A Corporation, And Telephone Toll Service Being Rendered By Continental Telephone Company Of California, A Corporation, All In Lake Havasu City Area. |
| RATES | 49004 | 05/23/78 | 9962-E-1032 | In The Matter Of The Application Of Citizens Utilities Company For Rate Adjustments For Electric Service In Its Certificated Area In Santa Cruz County Arizona. |
| RATES | 49005 | 05/23/78 | 9962-E-1032 | In The Matter Of The Application Of Citizens Utilities Company For Rate Adjustments For Electric Service In Its Certificated Area In Mohave County Arizona. |
| ESCALATION | 49333 | 09/13/78 | 9955-E-1025 U-1773; U-1345 U-1586; 9962-E-1032 U-1851; U-1824 U-2044; U-1703 U-1891; U-1749 U-1750; 9979-E-1049 U-1787; U-1575 U-1461; U-1933 | In The Matter Of The Commission On Its Own Motion Investigation Escalation Clauses And/Or Purchased Power Fuel Adjustment Clauses Of The Electric Utilities Operating Intrastate In Arizona. |

Arizona Electric

| Type | Decision Number | Date | Docket Number | Description |
|------------|-----------------|----------|--|---|
| ESCALATION | 49438 | 10/25/78 | 9955-E-1025 U-1773; U-1345 U-1586 9962-E-1032 U-1851; U-1824 U-2044; U-1703; U-1891; U-1749 U-1750; 9979-E-10491 U-1787; U-1575 U-1461; U-1933 | In The Matter Of The Commission On Its Own Motion Investigating Escalation Clauses And/Or Purchased Power Fuel Adjustment Clauses Of The Electric Utilities Operating Intrastate In Arizona. |
| ESCALATION | 49576 | 12/29/78 | 9955-E-1025; U-1773; U-1345 U-1586; 9962-E-1032 U-1851; U-1824 U-2044; U-1703 U-1891; U-1749 U-1750; 9979-E-1049 U-1787; U-1575 U-1461; U-1933 | In The Matter Of The Commission On Its Own Motion Investigating Escalation Clauses And/Or Purchased Power Fuel Adjustment Clauses Of The Electric Utilities Operating Intrastate In Arizona. |
| RATES | 50128 | 08/02/79 | 9962-E-1032 | In The Matter Of The Projected Increase In The Electric Purchased Power Fuel And/Or Fuel Escalation For Citizens Utilities In Mohave & Santa Cruz Counties As Presented To The Commission For Approval. |
| RATES | 51702 | 12/30/80 | 9962-E-1032 | In The Matter Of The Application Of Citizens Utilities Company For Rate Adjustments For Electric Service In Its Certificated Area In Mohave County, Arizona. |
| ESCALATION | 51703 | 12/30/80 | 9962-E-1032-212 | In The Matter Of The Projected Increase In The Electric Purchased Power Fuel And/Or Fuel Escalation For Citizens Utilities In Mohave & Santa Cruz Counties As Presented To The Commission For Approval. |
| RATES | 52503 | 01/05/81 | 9962-E-1032-81-308 | In The Matter Of The Commission On Its Own Motion Investigating The Purchased Power Fuel Adjustment Of Citizens Utilities Company (Mohave And Santa Cruz County Electric). |
| RATES | 52664 | 12/16/81 | 9962-E-1032-80-122 | In The Matter Of The Commission On Its Own Motion Investigating The Purchased Power Fuel Adjustment Of Citizens Utilities Company For Rate Adjustments For Electric Service In Its Service Area In Santa Cruz County, Arizona. |
| RATES | 53095 | 06/28/82 | 9962-E-1032 | In The Matter Of The Application Of Citizens Utilities Company For Rate Adjustments For Electric Service In Its Service Area In Mohave County, Arizona. |
| | 53195 | 08/26/82 | E-1032-82-092 E-1032-82-093 | In The Matter Of The Commission On Its Own Motion Investigating The Electric Purchased Power Fuel Adjustment Clause Of The Citizens Utilities Company In Santa Cruz, Arizona. In The Matter Of The Commission On Its Own Motion Investigating The Electric Purchased Power Fuel Adjustment Clause Of The Citizens Utilities Company In Mohave County. |
| | 53347 | 12/21/82 | E-1032-82-092 E-1032-82-093 | In The Matter Of The Commission On Its Own Motion Investigating The Electric Purchased Power Fuel Adjustment Clause Of The Citizens Utilities Company In Santa Cruz, Arizona. In The Matter Of The Commission On Its Own Motion Investigating The Electric Purchased Power Fuel Adjustment Clause Of The Citizens Utilities Company In Mohave County. |
| | 53372 | 01/03/83 | E-1032-82-328 | In The Matter Of The Commission On Its Own Motion Investigating The Purchased Power Fuel Adjustment Of Citizens Utilities Company In Mohave County And In Santa Cruz County. |
| TARIFF | 53769 | 10/05/83 | E-1032-83-223 | In The Matter Of Citizens utilities Company, Mohave County Electric Division Filing New Tariff Pages For Approval By The Commission. |

Arizona Electric

| Type | Decision Number | Date | Docket Number | Description |
|---------------|-----------------|----------|---|--|
| TARIFF | 54044 | 05/24/84 | E-1032-84-118 | In the matter of the application of Citizens Utilities Company, Mohave Electric Division, tariff filing to clarify the deposit policy |
| REFUND | 54113 | 07/18/84 | E-1032-84-157 | In The Matter Of Citizens Utilities Company, Mohave Electric Division, For Approval Of A Plan Of Refund As A Result Of Refunds From Its Supplier, Arizona Public Service Company. |
| REFUND | 54114 | 07/18/84 | E-1032-84-158 | In The Matter Of Citizens Utilities Company, Santa Cruz Electric Division, For Approval Of A Plan Of Refund As A Result Of Refunds From Its Supplier, Arizona Public Service Company. |
| RATES | 54394 | 03/04/85 | U-2334-84-160 E-1032-84-213 E-1032-84-214 E-2283-83-228 E-1032-85-041 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Nogales Electric And Gas Division; The Fair Value Of The Company For Rate Making Purposes Thereon; And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return. |
| TARIFF | 54495 | 04/25/85 | E-1032-85-041 | In The Matter Of The Application Of Citizens Utilities Company Santa Cruz County Electric Division Application For Approval Tariff Change. |
| AGREEMENT | 54512 | 05/08/85 | E-1032-85-102 | In The Matter Of The Application Of Citizens Utilities Company Mohave Electric Division For Approval Of Agreement With Four Corners Pipeline Company. |
| FUEL DECREASE | 54520 | 05/08/85 | E-1032-85-063 | In The Matter Of Commission's Own Motion For A Fuel Adjustor Decrease For Citizens Utilities Company, Mohave Electric Division. |
| TARIFF | 54561 | 06/14/85 | E-1032-85-153 | In The Matter Of The Application Of Citizens Utilities Company, Mohave Electric Division, For A New Interruptible Municipal Water Pumping Tariff. |
| RATES | 55474 | 03/18/87 | E-1032-86-020 U-1656-86-020 U-2276-86-020 U-2334-86-020 E-1032-86-177 U-1595-86-176 U-1656-85-066 U-2276-85-066 E-1032-84-160 E-1032-84-213 E-1032-84-214 E-1032-83-227 E-1032-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Santa Cruz Electric And Gas Division, The Fair Value Of The Company For Rate Making Purposes Thereof And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return. |
| RATES | 55488 | 03/19/87 | E-1032-86-020 U-1656-86-020 U-2276-86-020 U-2334-86-020 E-1032-86-177 U-1595-86-176 U-1656-85-066 U-2276-85-066 E-1032-84-160 E-1032-84-213 E-1032-84-214 E-1032-83-227 E-1032-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Santa Cruz Electric And Gas Division, The Fair Value Of The Company For Rate Making Purposes Thereof And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return. |
| OSC PHASE I | | | | |
| OSC PHASE II | | | | |

Arizona Electric

| Type | Decision Number | Date | Docket Number | Description |
|------------------------|-----------------|----------|---|---|
| RATES OSC PHASE III | 55535 | 04/23/87 | E-1032-86-020 U-1656-86-020 U-2276-86-020 U-2334-86-020 E-1032-86-177 U-1595-86-176 U-1656-85-066 U-2276-85-066 E-1032-84-160 E-1032-84-213 E-1032-84-214 E-1032-83-227 E-1032-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Santa Cruz Electric And Gas Division, The Fair Value Of The Company For Ratemaking Purposes Thereof And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return. |
| RATES OSC PHASE IV | 55584 | 06/03/87 | E-1032-86-020 U-1656-86-020 U-2276-86-020 U-2334-86-020 E-1032-86-177 U-1595-86-176 U-1656-85-066 U-2276-85-066 E-1032-84-160 E-1032-84-213 E-1032-84-214 E-1032-83-227 E-1032-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Santa Cruz Electric And Gas Division, The Fair Value Of The Company For Ratemaking Purposes Thereof And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return. |
| RATES OSC PHASE V | 55585 | 06/03/87 | E-1032-86-020 U-1656-86-020 U-2276-86-020 U-2334-86-020 E-1032-86-177 U-1595-86-176 U-1656-85-066 U-2276-85-066 E-1032-84-160 E-1032-84-213 E-1032-84-214 E-1032-83-227 E-1032-83-228 | Complaint And Petition For An Arizona Corporation Commission Hearing To Determine The Earnings Of The Citizens Utilities Company, Santa Cruz Electric And Gas Division, The Fair Value Of The Company For Ratemaking Purposes Thereof And To Approve A Schedule Of Rates And Charges Designed To Develop Such Return. |
| REFUND | 55779 | 11/13/87 | E-1032-87-259 | In The Matter Of The Application Of Citizens Utilities Company (Mohave And Santa Cruz Electric Divisions) Request To Refund The Current Fuel Adjustor Over-Collection. |
| RATES/ TARIFF | 55796 | 11/24/87 | E-1032-87-267 U-1954-87-267 U-1656-87-267 U-2276-87-267 U-2334-87-267 U-1595-87-267 U-1938-87-267 | In The Matter Of The Application Of Citizens Utilities Company, Its Arizona Operating Divisions And Arizona Subsidiaries, For An Order And Tariff Approving The Accounting And Ratemaking Treatment For Advances And Contributions In Aid Of Construction. |

Arizona Electric

| Type | Decision Number | Date | Docket Number | Description |
|------------------|-----------------|----------|--|---|
| RATES/ TARIFF | 55911 | 03/09/88 | E-1032-87-267 U-1954-87-267 U-1656-87-267 U-2276-87-267 U-2334-87-267 U-1595-87-267 U-1938-87-267 E-1032-88-095 | In The Matter Of The Application Of Citizens Utilities Company, Its Arizona Operating Divisions And Arizona Subsidiaries, For An Order And Tariff Approving The Accounting And Ratemaking Treatment For Advances And Contributions In Aid Of Construction. |
| FUEL ADJUSTOR | 55998 | 05/26/88 | | In the matter of the application of Citizens Utilities Company Mohave and Santa Cruz Electric Divisions - Request to refund the current fuel adjustor overcollection |
| REFUND | 56013 | 06/13/88 | E-1032-88-095 | In The Matter Of The Application Of Citizens Utilities Company (Mohave And Santa Cruz Electric Divisions) - Request To Refund The Current Fuel Adjustor Overcollection. |
| AGREEMENT | 56132 | 09/15/88 | E-1032-88-193 | In The Matter Of Citizens Utilities Company - Application For Approval Of An Electric Service Agreement With Ford Motor Company. |
| REFUND | 56134 | 09/15/88 | E-1032-88-095 | In The Matter Of The Application Of Citizens Utilities Company (Mohave And Santa Cruz Electric Division) - Request To Refund The Current Fuel Adjustor Overcollection. |
| RATES | 56638 | 09/14/89 | E-1032-88-243 | In The Matter Of The Application Of Citizens Utilities Company, Mohave And Santa Cruz Electric Divisions, Request To Establish Fuel Adjustor Rates For 1989. |
| REFUND | 56764 | 12/20/89 | E-1032-89-163 | In The Matter Of The Application Of Citizens Utilities Company (Mohave And Santa Cruz Electric Division) - Request To Refund The Current Fuel Adjustor Overcollection. |
| AGREEMENT | 56957 | 06/06/90 | E-1032-90-130 | In The Matter Of Citizens Utilities Company, Mohave Electric Division Electric Service Agreement With Union Carbide Industrial Gases, Inc. |
| TARIFF | 57346 | 05/01/91 | E-1032-91-021 | In The Matter Of The Application Of Citizens Utilities Company Mohave Electric Division And Citizens Utilities Company Santa Cruz Electric Division For Approval Of Citizens Assistance Residential Support Tariff. |
| AGREEMENT | 57963 | 08/15/92 | E-1032-92-189 | In The Matter Of Citizens Utilities Company - Application For Approval Of An Amendment With Cyprus Mineral Park Corporation. |
| COMPLAINT | 58082 | 11/12/92 | E-1032-91-367 | In The Matter Of The Complaint Of Gold Coast Construction, Inc. Against Citizens Utilities Company (Mohave Electric Division). |
| RATES | 58360 | 07/23/93 | E-1032-92-073 | In The Matter Of The Application Of Citizens Utilities Company (Arizona Electric Division) For A Hearing (1) To Determine The Fair Value Of Its Properties For Ratemaking Purposes, To Fix A Just And Reasonable Rate Of Return Thereon, And To Approve Rate Schedules Designed To Provide Such Rate Of Return And (2) To Approve The Consolidation Of Accounting Records Of The Mohave And Santa Cruz Electric Divisions For Ratemaking Purposes And The Establishment Of A Single Set Of Regulations Of Service Applicable To Customers In Applicant's Mohave County And Santa Cruz County Service Areas. |
| TARIFF | 58753 | 09/02/94 | E-1032-94-272 | In The Matter Of Citizens Utilities Company, Arizona Electric Division Tariff Filing To Introduce Large Power Service Transmission Voltage Level Service. |
| TARIFF | 58754 | 09/02/94 | E-1032-94-273 | In The Matter Of Citizens Utilities Company, Arizona Electric Division - Tariff Filing To Introduce An Experimental Optional Time Of Day Rate For Small Commercial Customers. |
| CC&N | 58798 | 10/14/94 | E-1032-94-293 U-1750-94-293 | In The Matter Of The Transfer Of A Portion Of Citizens Utilities Company's CC&N To Mohave Electric Cooperative, Inc. |
| TARIFF | 58885 | 11/30/94 | E-1032-94-272 | In The Matter Of Citizens Utilities Company, Arizona Electric Division Tariff Filing To Introduce Large Power Service Transmission Voltage Level Service. |
| PROGRAM | 58984 | 02/24/95 | E-1032-94-214 | In The Matter Of Citizens Utilities Company - Filing For Commission Pre-Approval Of Its Demand Side Management Program Plans. |
| COMPLAINT | 59101 | 05/23/95 | E-1032-94-416 | Advantage Boats, Inc. v. Citizens Utilities Company |

Arizona Electric

| Type | Decision Number | Date | Docket Number | Description |
|-----------|--------------------------|----------|--------------------------------|---|
| REFUND | 59170 | 07/20/95 | E-1032-95-315 | In The Matter Of The Application Of Citizens Utilities Company, Arizona Electric Division For The Approval To Refund The Over Recovery In The Purchased Power Fuel Adjustment Clause Bank Balance And To Establish A Negative Purchased Power Fuel Adjustment Clause Rate. |
| AGREEMENT | 59561 | 03/13/96 | E-1032-96-077 | In The Matter Of The Application Of Citizens Utilities Company's Application For Approval Of An Electric Service Agreement With Adwest Minerals Corporation. |
| TARIFF | 59565 | 03/13/96 | E-1032-96-094 | In The Matter Of Citizens Utilities Company, Arizona Electric Division - Filing To Revise The Demand Ratchet Provision Of Its Large Power Service Tariff. |
| AGREEMENT | 59628 | 04/24/96 | E-1032-96-232 | In The Matter Of Citizens Utilities Company Application For Approval Of An Amendment To Its Electric Service Agreement With Adwest Minerals Corporation. |
| AGREEMENT | 59686 | 06/05/96 | E-1032-96-281 | In The Matter Of Citizens Utilities Company - Application For Approval Of An Electric Service Agreement With Cyprus Mineral Park Corporation. |
| AGREEMENT | 59911 | 11/26/96 | E-1032-96-541 | In The Matter Of Citizens Utilities Company, Application For Approval Of An Electric Service Agreement With Hallett Wire Products Company. |
| AGREEMENT | 59927 | 12/18/96 | E-1032-96-575 | In The Matter Of Citizens Utilities Company, Application For Approval Of An Electric Service Agreement With McCulloch Corporation. |
| RATES | 59951 | 01/03/97 | E-1032-95-433 E-1032-95-040 | In The Matter Of The Application Of Citizens Utilities Company, Arizona Electric Division, For A hearing To Determine The Fair Value Of Its Properties For Rate-making Purposes To Fix A Just And Reasonable Rate Of Return Thereon, And To Approve Rate Schedules Designed To Provide Such Rate Of Return; In The Matter Of The Application Of Citizens Utilities Company, Arizona Electric Division, For An Extension Of Its Demand Side Management Accounting Order To Include Lost Net Revenues And For An Incentive Mechanism. |
| AGREEMENT | 60087 | 02/20/97 | E-1032-97-021 | In The Matter Of Citizens Utilities Company, Application For Approval Of An Electric Service Agreement With Kimberly-Clark Tissue Company. |
| AGREEMENT | 60222 | 05/27/97 | E-1032-97-209 | In The Matter Of Citizens Utilities Company - Application For Approval Of An Electric Service Agreement With Ford Motor Company. |
| ENVIRON | 60344 | 07/20/97 | Case No. 88 | In The Matter Of The Application Of Citizens Utilities Company, In Conformance With The Requirements Of Arizona Revised Statutes 40-360.03 And 40-360.06, For A Certificate Of Environmental Compatibility Authorizing Construction Of A 230 kV/69 kV Double Circuit Transmission Line And Substations In Mohave County, Arizona, Between The Existing Hilltop Substation Near Kingman And The Proposed North Havasu Substations Near Lake Havasu City, A Distance Of Approximately 56 Miles. |
| TARIFF | 60422 | 09/26/97 | E-1032-97-472 | In The Matter Of Citizens Utilities Company, Arizona Electric Division Tariff Filing To Introduce A Low Income Medical Life Support Tariff Supplement. |
| TARIFFS | 60575 | 01/14/98 | E-01032C-97-0774 | In The Matter Of The Filing By Citizens Utilities Company Of Unbundled And Standard Offer Service Tariffs Pursuant To A.A.C. R14-2-1606. |
| TARIFFS | 60910 | 05/22/98 | E-01032C-97-0774 | In The Matter Of The Filing By Citizens Utilities Company Of Unbundled And Standard Offer Service Tariffs Pursuant To A.A.C. R14-2-1606. |
| COMPLAINT | 60938 (Admin Closure) | 06/08/98 | E-01750A-98-0182 | Citizens Utilities Company, Mohave Water Division vs. Mohave Electric Cooperative. |
| TARIFFS | 61339 | 01/11/99 | E-01032C-97-0774 | In The Matter Of The Filing By Citizens Utilities Company Of Unbundled And Standard Offer Service Tariffs Pursuant To A.A.C. R14-2-1606. |
| COMPLAINT | 61353 (Admin Closure) | 02/01/99 | E-01750A-98-0609 | Citizens Utilities Company, Mohave Water Division vs. Mohave Electric Cooperative. |
| AGREEMENT | 61381 | 01/29/99 | E-01032C-98-0751 | In The Matter Of Citizens Utilities Company - Application For Approval Of An Electric Service Agreement With Praxair, Inc. |

Arizona Electric

| Type | Decision Number | Date | Docket Number | Description |
|-----------------------------|-----------------------|----------|--|--|
| Y2K ACTG | 61382 | 01/29/99 | E-01032A-98-0726 SW-02276A-98-0726 W-01656A-98-0726 SW-02334A-98-0726 W-01595A-98-0726 W-03454A-98-0726 W-03455A-98-0726 T-01954B-98-0726 T-03214A-98-0726 T-02115B-98-0726 | In The Matter Of Citizens Utilities Company, Sun City Sewer Company, Sun City Water Company, Sun City West Utilities Company, Tubac Valley Water Company, Citizens Water Resources Company, Citizens Water Services Company Of Arizona, Citizens Utilities Rural Company, Inc., Citizens Telecommunications Company Of The White Mountains, Inc. And Navajo Communications Company, Inc. - Filing For An Order Approving The Deferred Accounting For Year 2000 Compliance Costs. |
| HOLDING COMPANY INFORMATION | 61383 | 01/29/99 | E-01032A-98-0726 SW-02276A-98-0726 W-01656A-98-0726 WS-02334A-98-0726 W-01595A-98-0726 W-03454A-98-0726 W-03455A-98-0726 T-01954B-98-0726 T-03214A-98-0726 T-02115B-98-0726 | In The Matter Of The Joint Notice Of Intent Of Citizens Utilities Company, Citizens Telecommunications Company Of The White Mountains, Inc., Navajo Communications Company, Inc., Citizens Utilities Rural Company, Inc., Citizens Telecommunications Company, Sun City Sewer Company, Sun City Water Valley Water Company And Electric Lightwave, Inc. To Organize A Public Utility Holding Company And For Related Approvals Or Waivers Pursuant To R14-2-801, Et Seq. |
| COMPLAINT | 61680 | 05/05/99 | E-01032D-98-0659 | Richard L. Kerr, Complainant, vs Citizens Utilities Company, Respondent |
| COMPLAINT | 61793 | 06/29/99 | E-01032B-98-0621 | City Of Nogales, Arizona, Complainant, vs Citizens Utilities Company, Respondent |
| HOLDING COMPANY INFORMATION | 61858 (Admin Closure) | 08/02/99 | E-01032A-98-0611 T-03214A-98-0611 T-02115B-98-0611 T-01954B-98-0611 T-02755A-98-0611 SW-02276A-98-0611 W-01656A-98-0611 WS-02334A-98-0611 W-03454A-98-0611 W-03455A-98-0611 W-01595A-98-0611 T-03054A-98-0611 | In The Matter Of The Joint Notice Of Intent Of Citizens Utilities Company, Citizens Telecommunications Company, Inc., Navajo Communications Company, Inc., Citizens Utilities Rural Company, Sun City Sewer Company, Sun City Water Valley Water Company And Electric Lightwave, Inc. To Organize A Public Utility Holding Company And For Related Approvals Or Waivers Pursuant To R14-2-801, Et Seq. |
| SERVICE QUALITY | 62011 | 11/02/99 | E-01032A-99-0401 | In The Of Service Quality Issues, Analysis Of Transmission Alternatives And Proposed Plan Of Action In The Santa Cruz Electric Division Of Citizens Utilities Company. |
| RATES | 62082 | 11/19/99 | E-01032A-99-0626 | In The Matter Of The Application Of Citizens Utilities Company, Arizona Electric Division, For A Hearing To Determine The Fair Value Of Its Properties For Rate-making Purposes, To Fix A Just And Reasonable Rate Of Return Thereon, And To Approve Rate Schedules Designed To Provide Such Rate Of Return. |
| PPFAC | 62094 | 11/19/99 | E-01032C-99-0630 | In The Matter Of The Application Of Citizens Utilities Company's Arizona Electric Division To Refund The Current Purchased Power-Fuel Adjustment Clause Bank-Balance, To Reset The Purchased Power-Fuel Adjustment Clause Rate, And To Establish A Purchase Power-Fuel Adjustment Clause Bank-Balance Threshold. |
| RATES | 62759 | 07/27/00 | E-01032A-99-0626 | In The Matter Of The Application Of Citizens Utilities Company, Arizona Electric Division, For A Hearing To Determine The Fair Value Of Its Properties For Rate-making Purposes, To Fix A Just And Reasonable Rate Of Return Thereon, And To Approve Rate Schedules Designed To Provide Such Rate Of Return. |

Arizona Electric

| Type | Decision Number | Date | Docket Number | Description |
|-------------------------------------|-----------------|----------|--------------------------------------|--|
| PPFAC | 63139 | 11/16/00 | E-01032C-00-0751 | In The Matter Of The Application Of The Arizona Electric Division Of Citizens Communications Company To Change The Current Purchase Power And Fuel Adjustment Clause Rate, To Establish A New Purchased Power And Fuel Adjustment Clause Bank And To Request Approved Guidelines For The Recovery Of Costs Incurred In Connection Energy Risk Management With Initiatives. |
| EFPS | 63360 | 02/08/01 | E-01032A-01-0045 | In The Matter Of Citizens Communications Company - Application For Approval Of Environmentally Friendly Portfolio Surcharge (EFPS). |
| Electric Service Curtailment Tariff | 63722 | 06/06/01 | E-01032C-01-0410 | In The Matter of the Arizona Electric Division of Citizens Communications Application for Approval of a Voluntary Electric Service Curtailment Tariff Rider and related Accounting Treatment. |
| Complaint | 64292 | 12/28/01 | E-1032A-01-0348 | Peter and Patricia Goshia dba Burro Inn vs. Citizens - complaint regarding their electric bill |
| Line Siting | 64356 | 01/15/02 | L-00000C-01-0111 L-00000F-01-0111 | In The Matter of the Joint Applications of Tucson Electric Power Company and Citizens Communications Company for a Certificate of Environmental Capability in Nogales. |

SCHEDULE 2.3(i)

ASSUMED ACTIONS AND PROCEEDINGS

1. Opinion and Order of the Arizona Corporation Commission (Decision No. 62011), dated November 2, 1999, approving Settlement Agreement, dated August 9, 1999, re: Santa Cruz Electric Division Plan of Action. (Settlement Agreement requires Buyer to fulfill Citizens Communications Company's obligations with respect to a second transmission line as a condition to the Arizona Corporation Commission's approval of sale.)
2. Order of the Arizona Corporation Commission (Decision No. 61793), dated June 29, 1999, re: Revised Settlement Agreement, dated June 1, 1999, between City of Nogales, Arizona, and Citizens Communications Company.
3. The pending regulatory proceedings listed in Part I of Schedule 4.12 are incorporated herein by reference.

SCHEDULE 4.3(a)

SELLER CONFLICTS, DEFAULTS AND VIOLATIONS

Failure to obtain certain consents listed on Schedule 4.3(b) or Schedule 4.11(b) or to provide notice to certain parties listed on Schedule 4.3(b) or Schedule 4.11(b) may result in a default of the related Assigned Agreement or applicable law upon assignment to Buyer.

SCHEDULE 4.3(b)

SELLER REQUIRED REGULATORY APPROVALS

- I. FEDERAL GOVERNMENTAL BODIES
 - A. U.S. Federal Trade Commission and U.S. Department of Justice, pursuant to the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended.
 - B. Federal Communications Commission, with respect to the following licenses:
 - 1. KNNR214 (GB) - Conventional Business Radio License.
 - 2. WPNI526 (MG) - Business Radio License.
 - 3. WPNI525 (MG) - Business Radio License.
 - 4. WPNI527 (MG) - Business Radio License.
 - 5. WPNI524 (MG) - Business Radio License.
 - 6. WPOZ859 (GB) - Business Radio License.
 - 7. WNNW240 (IG) - Radio Station License.
 - 8. WPMN260 (IG) - Radio Station License.
 - 9. WNVJ769 (GO) - Radio Station License.
 - C. Department of Energy, Office of Fossil Energy, with respect to the following:
 - 1. Presidential Permit authorizing Citizens Communications Company to operate and maintain electric transmission facilities at the International Border between the United States and Mexico (Federal Power Commission - Docket No. E-6432), dated August 8, 1952, as amended by Amendatory Permit, dated September 16, 1955. (Note: Buyer must apply for new permit.)
 - D. Federal Energy Regulatory Commission (FERC), for the sale or transfer of the Seller's FERC jurisdictional facilities included among the Assets to the Buyer.
 - E. Bureau of Land Management, with respect to various Easements.
 - F. United States Department of the Interior, National Park Service, with respect to various Easements.
 - G. United States Department of Energy, Western Area Power Administration, with respect to

the following Contracts:

1. Transmission Service Contract No. 99-DSR-11004, dated February 23, 1999, between U.S. Department of Energy, Western Area Power Administration, Desert Southwest Regional Office, Pacific North West, Pacific South West Intertie Project, Parker-Davis Project and Citizens Communications Company.
2. Firm Transmission Service Contract No. 87-BCA-10140, dated March 9, 1988, between U.S. Department of Energy, Western Area Power Administration, Parker-Davis Project, Central Arizona Project and Citizens Communications Company, as amended by Amendment No. 1, dated February 20, 1996, together with Schedules of Firm Transmission Service Commitments.
3. Service Agreement No. 01-DSR-11113, dated June 22, 2001, between the U.S. Department of Energy, Western Area Power Administration and Citizens Communications Company, re: Long-Term Firm Point-to-Point Transmission Service.
4. Letter Agreement No. 01-DSR-11279, accepted October 10, 2001, between the U.S. Department of Energy, Western Area Power Administration and Citizens Communications Company, re: performance of a study to determine maximum amount of power that can be delivered over P-DP Transmission System between Griffith and Black Mesa, Hilltop and North Havasu.
5. Mutual Services Contract No. 96-DSR-10734, dated September 10, 1998, between U.S. Department of Energy, Western Area Power Administration, Desert Southwest Regional Office and Citizens Communications Company.
6. Letter Agreement No. 01-DSR-11259, dated May 14, 2001, between Western Energy Power Administration and Citizens Communications Company, re: assistance with installation of remote radio connections (for read-only data) to Western's equipment at Nogales Switchyard and Black Mesa, Griffith, and Hilltop substations.

II. STATE GOVERNMENTAL BODIES

A. Arizona Corporation Commission, with respect to:

1. Certificate of Public Convenience and Necessity issued to Citizens Communications Company by ACC on May 29, 1962, as amended.

2. Certificate of Public Convenience and Necessity to operate an electric utility and a telephone utility throughout the County of Mohave, granted to Public Utilities Consolidated Corporation, May 23, 1934 (Docket No. 7552) assigned to Citizens Communications Company on November 22, 1935 (Decision No. 8220). (Note: This CPCN will only be transferred to Buyer as it relates to the electric utility. The parties will need to inquire at the ACC about how to split this CPCN appropriately.)
 3. Certificate of Public Convenience and Necessity and for the operation and maintenance of an electrical public utilities system in portions of Mohave, Yavapai and Coconino Counties to Mohave Electric Cooperative, Inc., dated May 25, 1962 (Decision No. 33905), assigned to Citizens Communications Company on June 24, 1964 (Decision No. 35268).
- B. State of Arizona Land Office, with respect to various Easements.
- C. Arizona Department of Environmental Quality, with respect to the following permits:
1. Permit No. 1000563, re: Valencia Power Plant Facility, renewed November 1999. (Note: This permit is non-transferable. Buyer must obtain a new permit.)
 2. Permit No. 1000402, renewed November 1999, together with Significant Revision No. 1001556, dated June 18, 2002, re: Valencia Power Plant Facility. (Note: This permit is non-transferable. Buyer must obtain a new permit.)

III. LOCAL GOVERNMENTAL BODIES

- A. Franchise, dated June 6, 1990, granted to Citizens Utilities Company (nka Citizens Communications Company) by the Board of Supervisors of the County of Santa Cruz, Arizona, authorizing Citizens Communications Company to operate an electric power and energy and gas distribution and sales systems. (Note: Written notice to Santa Cruz County is required to transfer this franchise. Approval of Santa Cruz County is required to release Citizens from the obligations of this franchise.)
- B. Ordinance No. 599, Franchise to operate and supply electricity granted to Citizens Communications Company by City of Kingman, Arizona, passed and adopted April 7, 1986.
- C. Franchise Agreement, dated September 19, 1988, between Mohave County and Sunset Water Co. (predecessor-in-interest to Citizens Communications Company), re: operation of a water system.

SCHEDULE 4.4

SELLER INSURANCE

See attached list of material insurance policies. (Note: The attached list does not list the D&O policy.)

MATERIAL INSURANCE POLICIES

| Insurance | Policy No. | Broker (Consultant) | Company | Limits of Liability | Deductible | Expiration Date |
|--|---------------|---------------------|----------------------------------|---|--|-----------------|
| All Risk (including Boiler and Machinery, EDP and Fine Arts) | LE072 | Marsh USA Inc. | FM Global | All Risk Property: Blanket, with applicable sub-limits. | Various | 11/01/2003 |
| Excess Liability - Claims First Made | X0187A1A02 | (Marsh USA Inc.) | AEGIS | \$35,000,000 in excess of Employers Liability, General Liability and Auto Liability policy deductibles | \$500,000 Pollution Liability. \$500,000 Non-Owned Aviation. \$250,000 each claimant / \$1,000,000 any one occurrence - Employment Practices | 06/01/2003 |
| 2 nd Layer Excess Liability, Occurrence Reported | XLUMB-02322 | (Marsh USA Inc.) | X.L. Insurance Company Ltd. | \$90,000,000 in excess of \$35,000,000 underlying | \$35,000,000 retention per occurrence | 06/01/2003 |
| 3 rd Layer Excess Liability, Occurrence Reported | 6394285 | (Marsh USA Inc.) | Starr Bermuda | \$50,000,000 in excess of \$125,000,000 underlying | \$35,000,000 AEGIS \$90,000,000 XL | 06/01/2003 |
| Workers Compensation | WC 251887088 | Marsh USA Inc. | Transportation Insurance Company | WC: Statutory Benefits Employers Liability. \$500,000 each accident; \$500,000 each employee (disease); \$500,000 policy limit (disease); unlimited where required by law. | \$500,000 per accident/disease | 06/01/2003 |
| Business Automobile Liability | BUA 251887141 | Marsh USA Inc. | Transportation Insurance Company | \$500,000 each accident, combined single limit for bodily injury and property damage (including Auto Physical Damage - Comprehensive Coverage only - collision coverage excluded) | N/A; all claims reimbursed 100% by Citizens at \$500,000 each accident | 06/01/2003 |
| General Liability | GL 251887124 | Marsh USA Inc. | Transportation Insurance Company | \$500,000 each occurrence combined single limit for bodily injury and property damage \$2,000,000 aggregate | \$500,000 per occurrence | 06/01/2003 |
| Non-owned Aircraft Liability | PXLN 380 0047 | Marsh Aviation | XL Specialty Insurance Company | \$5,000,000 combined single limit bodily injury and property damage liability (including passengers) | No deductible | 06/01/2003 |

SCHEDULE 4.5

SELLER REAL PROPERTY LEASES

1. Lease, dated April 19, 1960, between Jerry & Karen Hill, successors-in-interest to Central Commercial Company, Inc., (Lessors) and Citizens Communications Company (Lessee), re: 69 KV transmission switching facility.
2. Lease Agreement, dated April 1, 1994, between Mastick Family Trust Limited Partnership (Lessor) and Citizens Communications Company (Lessee), re: Administrative Office Lease located on 1710 North Mastick Way, Nogales, Arizona, as amended by First Amendment to Lease Agreement, dated September 20, 2000.
3. Ground Lease, dated August 31, 1999, between McCulloch North America, Inc. (Lessor) and Citizens Communications Company (Lessee), re: McCulloch Substation site, 900 Lake Havasu Avenue, Lake Havasu City, Arizona.
4. Real Estate Lease Agreement, dated as of July 31, 2001, between Citizens Arizona Electric (Lessee) and Joe and Carol Ott (Lessors), as amended by First Modification of Lease, dated as of May 14, 2002, re: administrative, engineering and business offices, 2498 Airway Avenue, Kingman, Arizona.
5. Real Estate Lease Agreement, dated April 7, 1990, between Citizens Utilities Rural Company, Inc. (Lessor) and Citizens Communications Company, Arizona Electric Division (Lessee), re: 1760 McCulloch Boulevard, Lake Havasu City, Arizona (Note: The term of this lease expired; the term of this lease is currently month to month.)
6. Various lease arrangements regarding the following substation sites: Arco #10, Highway (Oasis), Hoover Dam, Mineral Park, Slaughterhouse, Warm Springs, Willow Beach, Black Mesa, Cattail Cove, Highlands, Mulberry, N. Havasu, Parker Dam, and Kantor.

SCHEDULE 4.6

SELLER ENVIRONMENTAL MATTERS

1. In December 1996 (original filed January 2, 1997) Citizens entered into a Consent Order with the Arizona Department of Environmental Quality ("ADEQ") resolving certain alleged new source performance standards violation in connection with the Valencia Power Plant (the "VPP").
2. In March 1992 (original filed April 14, 1992) Citizens entered into a Consent Agreement and Final Order (Docket No. TSCA-09-90-0029) with the U.S. Environmental Protection Agency resolving certain alleged violations of the Toxic Substances Control Act in connection with the site (operations and warehouse) at 2290 Airway Avenue, Kingman.
3. Citizens received a notice of violation, dated September 17, 2001, from ADEQ regarding the VPP for certain alleged violations of monitoring record keeping and reporting requirements under the VPP's Air Quality Control Permit.
4. At the time of conducting the records review during the VPP site assessment, it was discovered that a Stormwater Pollution Prevention Plan was not in place at this site. Citizens is currently working with an environmental consulting firm to develop a Stormwater Pollution Prevention Plan for Citizens Arizona facilities as required by applicable Environmental Laws.
5. On January 5, 1995, Citizens received a Preliminary Assessment regarding the VPP from the ADEQ. Citizens responded to the Preliminary Assessment on January 31, 1995.

Citizens is investigating the VPP site to evaluate the presence of low levels of chromium and chlorinated solvents on the VPP site and to assess the impact of various petroleum releases to the soil and ground water. The VPP site has been accepted into the ADEQ's Voluntary Remediation Program and Citizens is working with ADEQ to investigate the VPP site and to develop remedial options as necessary. The VPP site is not listed on the National Priorities List and therefore is not currently a federal Superfund site. The VPP site, however, is the subject of an ongoing combined preliminary assessment/site inspection under CERCLA.

SCHEDULE 4.7

SELLER LABOR MATTERS

I. COLLECTIVE BARGAINING AGREEMENTS

1. Agreement between Citizens Communications Company, Santa Cruz District, and International Brotherhood of Electrical Workers, Local Union No. 387, effective March 1, 2002 through February 28, 2005. (Note: This agreement applies to certain Santa Cruz gas and electric employees.)
2. Agreement between International Brotherhood of Electrical Workers IBEW Local Union 769 and Citizens Communications Company, Mohave County Electric Operations, dated June 25, 2000 and effective through June 24, 2003.

II. EXCEPTIONS TO COMPLIANCE WITH EMPLOYMENT REGULATIONS

None.

III. NATIONAL LABOR RELATIONS BOARD NOTICES

None.

IV. PENDING ARBRITATION

None.

V. WORK STOPPAGES

None.

SCHEDULE 4.8**SELLER BENEFIT PLANS**

| | Providers of Service |
|--|--|
| Citizens Pension Plan | Company sponsored |
| Citizens 401(k) | Putnam Investments |
| Medical Plan | North American Benefits Network, Inc. – Intermediary Plan Anthem Blue Cross and Blue Shield - PPO & EPO Plans |
| Dental Plan | North American Benefits Network, Inc. |
| Vision Plan | Vision Services Plan |
| Long-term Disability | MetLife |
| Business Travel Accident | CAN |
| Basic Group Term and Optional Life Insurance | MetLife |
| Spousal and Child Term Life Insurance | MetLife |
| Flexible Spending Accounts (including Medical, Dependent Care and Mass Transit accounts) | North American Benefits Network, Inc. |
| Citizens Incentive Plan | Company administered |
| Equity Incentive Plan (including Management Stock Option Plan and Distinguished Performer Award) | Company administered |
| Citizens Executive Deferred Savings Plan | Putnam Investments |
| Employee Assistance Plan | Worklife Solutions, Inc. |

SCHEDULE 4.9

SELLER REAL PROPERTY

See attached list of Real Property.

**CITIZENS COMMUNICATIONS COMPANY
ARIZONA ELECTRIC DIVISION - LIST OF OWNED REAL PROPERTY**

| COUNTY | TITLE HOLDER OF RECORD | PROPERTY ADDRESS | USE | LEGAL DESCRIPTION | RECORDING INFORMATION | TAX ID NO. |
|--------|--|-------------------------------|---|---|---|---------------------------|
| 1 | Santa Cruz Citizens Utilities Company | 1741 N. Grand Avenue | Power Plant, warehouse, operations center | Portion of Sections 5 & 8, Township 24 South, Range 14 East; Portion of SW 1/4 of SE 1/4 and of SE 1/4 of Section 5, Township 24 South, Range 14 East | Book 30, Page 69, plus additions in Book 86, Page 384, Book 438, Page 279, Dock 612, Page 36 and Dock 847, Page 537 | 967-001-50 967-001-50C |
| 2 | Santa Cruz Citizens Utilities Company | 1856 Camino Anatista | Substation #1 | Lot 47, Block 487, Rio Rico Estates No. 16 | Book 3, Page 18; Dock 548, Pages 196-197 | 115-21-332 |
| 3 | Santa Cruz Citizens Utilities Company | 1732 Circulo Agua Blanca | Vacant Property in Rio Rico Ranchettes 18 (Substation #2); Well No. 52 and No. 86 | Lot 74, Block 523 (Substation #2); Lot V, Block 707, Rio Rico Unit No. 7 (0.389 acres - Well No. 52); Lot A, Block 530 (0.048 acres - Well No. 86) | Book 3 at Page 19; Dock 548, Pages 191-192, 193-194 and 198-199 | 132-02-280 |
| 4 | Santa Cruz Citizens Utilities Company | 205 Angel Court | Caney Substation in Rio Rico Ranchettes 4 (Substation #3) | 1.034 Acres; SE Corner of Lot 2, Block 50, Township 24 South, Range 14 East | Book 2, Page 228; Dock 555, Pages 37-41 | 116-05-216A |
| 5 | Santa Cruz Citizens Utilities Company | 1120 Avenida Leon | Sonoita Substation (Rio Rico Substation #4) | 0.9808 Acres; Lots 1, 95 and 96 of Block 3 of Rio Rico Unit No. 3 | Book 2 at Page 222; Dock 129, Pages 536-538 | |
| 6 | Santa Cruz Citizens Utilities Company | Placita Gitano & Vereda Ortiz | Vacant Property in Rio Rico Villas Unit No. 16 (Substation #5) | 2.733 Acres, Lot A, Block 712, Rio Rico Villas Unit 16 | Book 3 at Page 42; Dock 548, Pages 200-201 | 130-01-108B |
| 7 | Santa Cruz Citizens Utilities Company | 19 Bravo Lane | North Nogales Poleyard | Portion of SW 1/4 Section 19, Township 23, South Range 14 East | Dock 91, Page 236 | |
| 8 | Mohave (Kingman District) Citizens Communications Company | 4691 S. Jaquar Road | Boriana Junction Substation | 2.34 acres; Lot 96, Paradise Acres Unit 2 | Book 3996 (Original Records), Page 755 Fee No. 02-010805 Recorded 2/19/2002 | 215-11-096 |
| 9 | Mohave (Kingman District) Citizens Utilities Company | 6491 South Girard Avenue | Boundary Cone Substation | 0.52 Acre; a portion of the SW 1/4 Section 6, Township 18 North, Range 21 West | Book 2052 (Original Records), Pages 186 Fee No. 92-26411 Recorded 5/18/2002 | 225-52-005 |
| 10 | Mohave (Kingman District) Citizens Utilities Company | 2198 Airway Avenue | Casson, W.L. Substation | 2.21 Acres; a portion of the Government Lot 2, Section 7, Township 21 North, Range 16 West | Book 3378 (Original Records), Page 162 Book 3389 (Original Records), Page 822 | 320-10-059 |
| 11 | Mohave (Kingman District) Citizens Utilities Company | 9745 North Highway | Chloride Junction Substation | 4.28 Acres; Portion SE 1/4 Section 1, Township 23 North, Range 19 West | Book 52 (Deeds), Pages 528-530, Recorded 7/21/38 | 340-02-001 |
| 12 | Mohave (Kingman District) Citizens Utilities Company | 20001 Pierce Ferry Road | Dolan Springs Substation | 0.92 Acre; a portion of the SE 1/4 Section 23, Township 27 North, Range 18 West | Book 2602 (Original Records), Page 381 Fee No. 95-039835 Recorded 8/2/95 | 329-01-038 |
| 13 | Mohave (Kingman District) Citizens Utilities Company | 3525 Windsor Avenue | Eastern Substation | 1 Acre; a portion of the W 1/2 NW 1/4 SW 1/4 Section 9, Township 21 North, Range 16 West | Book 2554 (Original Records), Page 429 Fee No. 95-19543 Recorded 4/17/95 | 322-06-009 |

| COUNTY | TITLE HOLDER OF RECORD | PROPERTY ADDRESS | USE | LEGAL DESCRIPTION | RECORDING INFORMATION | TAX ID NO. |
|------------------------------|--------------------------------|------------------------------|----------------------------------|---|--|--------------------------|
| 14 Mohave (Kingman District) | Citizens Utilities Company | 4303 W. Highway 68 | Golden Valley Substation | 1.38 Acres; Lot 17, Block J, Golden Sage Ranchos Unit No. 55 | Book 828, Page 516 Fee No. 82-27437 Recorded 6/2/82 | 306-07-137 |
| 15 Mohave (Kingman District) | Citizens Utilities Company | 3875 Hualapai Mountain Road | Hilltop-230kv Substation | 4.34 Acres; Portion of the NE 1/4 of Section 28, Township 21, Range 16 West | Book 1870 (Original Records), Pages 933-936 and Book 3509 (Original Records), Page 148 | 322-23-053 322-23-054 |
| 16 Mohave (Kingman District) | Citizens Utilities Company | 4600 Industrial Blvd. | Industrial Substation | 3.25 Acres; Parcel IV-E, Kingman Airport Industrial Park, Section 27, Township 22 North, Range 16 West | Recorded 4/2/91 & 5/9/00 Book 1429 (Original Records), Page 389 | 310-19-031 |
| 17 Mohave (Kingman District) | Citizens Utilities Company | 5076 North Bank Street | Jagerson Substation | 1 Acre; a portion of the SW 1/4 Section 20, Township 22 North, Range 16 West | Fee No. 88-20282 Book 1290 (Original Records), Page 19 | 310-01-045 |
| 18 Mohave (Kingman District) | Citizens Utilities Company | Wilshire Road | North Kingman Substation | SW 1/4 of Lot 13, Valley Slope, Section 12, Township 21 North, Range 17 West | Fee No. 87-5334 Recorded 2/10/87 Book 323 (Original Records), Page 47 | 305-14-015C |
| 19 Mohave (Kingman District) | Citizens Utilities Company | 9287 West 3rd Street | Pierce Ferry Junction Substation | 1.25 Acres; SE 1/4 Lot 123, Gateway Acres Tract 10, Sec. 19, Township 25 North, Range 19 West | Fee No. 76-10452 Recorded 4/16/76 Book 105 (Deeds), Page 227 | 326-03-145 |
| 20 Mohave (Kingman District) | Citizens Utilities Company | 4250 W. Yucca Drive | Sacramento Substation | 320 Acres; Parcels 14A, B and B-1, N 1/2 Section 14, Township 19 North, Range 18 West; Parcels 14, 15 and 16 in N 1/2 of Section 23, Township 19 North, Range 18 West | Book 2694 (Original Records), Page 586 Fee No. 96-10971 Recorded 2/29/96 | 209-32-008 209-29-017 |
| 21 Mohave (Kingman District) | Citizens Utilities Company | 3510 Rainbow Drive | Shangri-La Substation | 1.06 Acres; Lot 4, Block 3, 2nd Amended Shangri-La Estates | Book 209 (Deeds), Page 284 Fee No. 7247 | 320-02-023P |
| 22 Mohave (Kingman District) | Citizens Utilities Company | 3564 W. Agua Fria Drive | So Hi Substation | 0.52 Acre; NE 1/4 of Lot 14, Block A, Golden Sage Ranchos, Unit 54 | Recorded 5/26/66 Book 122 (Deeds), Page 208 Fee No. 111252 | 306-02-011 |
| 23 Mohave (Kingman District) | Desert Power and Water Company | 180 West Andy Devine Avenue | South Kingman Substation | 0.68 Acre; Portion of SE 1/4 Section 23, Township 21 North, Range 17 West | Book 1270 (Original Records) Pages 962-963 | 304-18-039 |
| 24 Mohave (Kingman District) | Citizens Utilities Company | 3726 West 12465 South Street | Yucca Substation | 2.5 Acres; SW 1/4, SE 1/4, SE 1/4, SW 1/4 of Section 12, Township 17 North, Range 18 West | Book 161 (Deeds), Page 60 Fee No. 136872 Recorded 7/14/64 | 208-04-036 |
| 25 Mohave (Havasus District) | Citizens Utilities Company | 911 Mohican Drive | Clearwater Substation | 3.26 Acres; Parcel C, Block 3, Tract 2203, Lake Havasu City | Book 590 (Original Records), Page 150 Fee No. 79-39471 | 111-03-258 |
| 26 Mohave (Havasus District) | Citizens Utilities Company | 2791 Maricopa Avenue | Havasus Substation | 0.66 Acre; Lot 13, Block 1, Tract 2211, Lake Havasu City | Recorded 11/19/79 Book 745 (Original Records), Page 916 | 114-15-013 |
| 27 Mohave (Havasus District) | Citizens Resources Company | 2000 N. Kiowa Avenue | Kiowa Substation | 2 Acres; Lot 5, Block 3, Tract 2307, Lake Havasu City | Fee No. 81-33247 Recorded 9/18/81 Book 590 (Original Records), Pages 165-167 Fee No. 79-39482 Recorded 11/19/79 | 106-32-012 |

| COUNTY | TITLE HOLDER OF RECORD | PROPERTY ADDRESS | USE | LEGAL DESCRIPTION | RECORDING INFORMATION | JAN ID NO. |
|--------|--|-----------------------------|-------------------------------------|--|--|--|
| 28 | Mohave (Havasu District) Citizens Utilities Company | 165 N. Lake Havasu Avenue | London Bridge Substation | 1.5 Acres; Lot 1, Block 1, Tract 2305, Lake Havasu City | Book 189 (Original Records), Page 140 Fee No. 74-5123 Recorded 2/22/74 | 107-23-001 |
| 29 | Mohave (Havasu District) Citizens Utilities Company | 3351 Amberwood Avenue | Palo Verde Substation | 3.01 Acres; Parcel M, Tract 2216, Lake Havasu City | Book 316 (Deeds), Pages 186-187 Fee No. 70-16565 Recorded 11/19/70 | 113-07-486 |
| 30 | Mohave (Mohave Sector) Citizens Utilities Company | 2290 Airway | K. Operations and Warehouse | A portion of Government Lot 2, Section 7, Township 21 North, Range 16 West | Book 3378 (Original Records), Page 162 Fee No. 99-056296 Book 2165 (Original Records), Page 973 Book 86 (Original Records), Page 32 Book 3389 (Original Records), Page 822 | 370-10-059 320-10-071 320-10-072 320-10-081 |
| 31 | Mohave (Mohave Sector) Citizens Utilities Company | 830 S. Acoma Avenue | H. Operations and Warehouse | Portion SE 1/4, SE 1/4, SE 1/4 Section 13, Township 13 North, Range 20 West | Book 1810 (Original Records), Page 323 Recorded 10/24/90 | 114-19-008 |
| 32 | Mohave (Mohave Sector) Citizens Resources Company | 3080 Amigo Drive | Amigo - Future substation site | Parcel I, Block 13, Tract 2215 Lake Havasu City and Lot 5, Block 3, Tract 2307, Lake Havasu City | Book 590 (Original Records), Pages 165-167 Fee No. 79-39482 Recorded 11/19/79 | 112-16-543 |
| 33 | Mohave (Mohave Sector) Citizens Utilities Company | Old 44Kv Sub Site | Athos 44kv Substation Site - Vacant | 0.23 Acre; Portion SW 1/4 Section 9, Township 18 North, Range 17 West | Book 84 (Deeds), Pages 497-499 | 208-20-004 |
| 34 | Mohave (Mohave Sector) Citizens Resources Company | None - Vacant Lot | Chloride - old plant site | Lots 1-5 & Lots 20-24, Block 22 of Chloride Townsite | Book 28 (Deeds), Page 49 Fee No. 72-9797 Recorded 5/17/72 | 308-06-187C (Only for Lots 20-24) 322-23-041 |
| 35 | Mohave (Mohave Sector) Citizens Utilities Company | 3875 Hualapai Mountain Road | Hilltop - addition 1 | 6.97 Acres; Portion of Section 28, Township 21 North, Range 16 West | Book 3181 (Original Records), Page 917 Fee No. 98-064069 Recorded 10/22/98 | 322-23-032 322-23-035 |
| 36 | Mohave (Mohave Sector) Citizens Utilities Company | 3875 Hualapai Mountain Road | Hilltop - addition 2 | 1.61 Acres; Portion of Section 28, Township 21 North, Range 16 West | Book 3156 (Original Records), Page 863 Fee No. 98-054357, Recorded 9/9/1998 | 322-23-038 |
| 37 | Mohave (Mohave Sector) Citizens Utilities Company | 3875 Hualapai Mountain Road | Hilltop - addition 3 | 5.87 Acres; Portion of Section 28, Township 21 North, Range 16 West | Book 3160 (Original Records), Page 677 Fee No. 98-055798 Recorded 9/16/98 | 310-19-004 |
| 38 | Mohave (Mohave Sector) Citizens Utilities Company | None - Vacant Lot | Kingman Airport - vacant | 0.16 Acre; Section 27, Township 22 North, Range 16 West | Book 270 (Deeds), Pages 213-214 Recorded 9/13/68 | 221-25-013 |
| 39 | Mohave (Mohave Sector) Citizens Utilities Company | None - Vacant Lot | Oatman - vacant | 0.07 Acre; NW 1/4 Section 23, Township 19 North, Range 20 West | Book 201 (Deeds), Page 224 Fee No. 2087 Recorded 2/15/66 | 209-32-008 |
| 40 | Mohave (Mohave Sector) Citizens Utilities Company | None - Vacant Lot | Sacramento - 40's | 160 Acres; Parcels 14, 15 & 16, Section 23, Township 19 North, Range 18 West | Book 2694 (Original Records), Page 586 Fee No. 96-10971 Recorded 2/29/96 | |

SCHEDULE 4.10

SELLER CONDEMNATION MATTERS

1. City of Nogales threatened to condemn the electric plant in the City of Nogales during a telephonic conversation with an officer of Citizens Communications Company.
2. Santa Cruz County threatened to condemn the streetlights owned by Citizens in Santa Cruz County. The County has expressed interest in purchasing such streetlights. (See Schedule 6.1(a), item 4.)

SCHEDULE 4.11(a)

CERTAIN SELLER MATERIAL AGREEMENTS

I. POWER AND FUEL PURCHASE AND SUPPLY AGREEMENTS

1. Power Service Agreement, dated June 1, 2001, between Pinnacle West Capital Corporation and Citizens Communications Company.
2. Diesel Fuel Contract, dated May 25, 2001, between Union Distributing Company of Tucson and The Arizona Electric Division of Citizens Communications Company, together with Addendum, dated as of July 25, 2001.
3. Transportation Service Agreement, dated as of February 6, 1992, by and between El Paso Natural Gas Company and Citizens Communications Company.

II. INTERCONNECTION AGREEMENTS

1. Interconnection Agreement, dated September 16, 1991, between Citizens Communications Company and Nevada Power Company.
2. Non-Firm Interchange Agreement, dated as of August 5, 2002, by and between Citizens Communications Company, Arizona Electric Division and Aha Macav Power Service.

III. TRANSMISSION AGREEMENTS

1. Transmission Service Contract No. 99-DSR-11004, dated February 23, 1999, between U.S. Department of Energy, Western Area Power Administration, Desert Southwest Regional Office, Pacific North West, Pacific South West Intertie Project, Parker-Davis Project and Citizens Communications Company.
2. Firm Transmission Service Contract No. 87-BCA-10140, dated March 9, 1988, between U.S. Department of Energy, Western Area Power Administration, Parker-Davis Project, Central Arizona Project and Citizens Communications Company, as amended by Amendment No. 1, dated February 20, 1996, together with Schedules of Firm Transmission Service Commitments.
3. Service Agreement No. 01-DSR-11113, dated June 22, 2001, between the U.S. Department of Energy, Western Area Power Administration and Citizens Communications Company, re: Long-Term Firm Point-to-Point Transmission Service.

IV. CONSTRUCTION, CONSULTING AND OUTSOURCING AGREEMENTS

1. Letter Agreement, dated July 23, 1997, from Citizens Communications Company to Fred Lawrence Whipple Observatory, re: installation of underground line to Smithsonian Institute on Mount Hopkins by January 1, 2005.
2. Armored Service Agreement, dated January 22, 2001, as amended as of February 1, 2001, between Citizens Communications Company and Loomis, Fargo & Co., re: service for Kingman and Lake Havasu City.
3. Service Agreement, dated August 1, 2001, between Citizens Communications Company and Loomis, Fargo & Co., re: armored car service for Nogales.
4. Service Agreement, dated January 8, 1999, between Citizens Communications Company and Kachina Telecommunications, Inc.
5. Local Collection Agency Agreement, dated August 4, 1992, between Stockmen's Bank, Golden Valley Branch and Citizens Communications Company.
6. Local Collection Agency Agreement, dated November 1, 1995, between Stockmen's Bank, Dolan Springs Branch, and Citizens Communications Company.
7. Agreement for Meter Reading Services, effective as of February 1, 2002, between Citizens Communications Company and Guard Force, Inc., re: meter reading in Mohave County.
8. Customer Care Agreement, dated October 5, 2000, between Orcom Solutions, Inc. and Citizens Arizona Electric, a division of Citizens Communications Company, re: replacement of existing customer information systems. (Note: Prior notice is required to transfer this agreement. This agreement will only be partially assigned to Buyer because the consultant also provides services to Vermont Electric Division.)
9. Letter Agreement, dated as of June 24, 2002, from Citizens Communications Company, Arizona Gas Division and Arizona Electric Division, to Andrejs Auskaps, re: Orcom assistance project. (Note: This letter agreement will only be partially assigned to the Buyer because the consultant also provides services to Arizona Gas Division.)
10. Agreement, dated March 29, 2001, between Citizens Communications Company and WESCO, re: purchase of Padmounted Transformers (expires July 1, 2003).
11. Agreement For Trans Union Score Services, dated June 21, 2001, by and between Citizens Energy Services and Trans Union LLC, together with Pricing Addendum, dated June 26, 2001. (Note: This agreement is used in Citizens' other utility operations. Therefore this agreement will only be partially assigned to Buyer as it relates to Arizona Electric Division.)

12. Invoicing arrangement with Xerox for maintenance of copier (Serial #1WE080375) at the Kingman Operation Center.
13. Good Cents Program Master License Agreement, dated July 11, 1997, by and between Southern Development & Investments Group, Inc. and Citizens Communications Company.
14. Project Development Agreement, dated January 12, 2001, between Citizens Communications Company and Tucson Electric Power Company, re: construction of interconnection and transmission facilities, together with the Confidentiality Agreement, dated February 16, 2001, among Citizens Communications Company, Tucson Electric Power Company and General Electric International Inc.
15. Contract No. 98-DSR-10872, dated February 2, 1999, between United States Department of Energy - Western Area Power Administration ("WAPA") and Citizens Communications Company, re: Construction at Black Mesa Substation, Hilltop Substation, North Havasu Substation, Generator Site Substation, and Nogales Switchyard. Citizens Communications Company to compensate WAPA for direct and associated indirect costs incurred.
16. Letter Agreement No. 01-DSR-11259, dated May 14, 2001, between Western Energy Power Administration and Citizens Communications Company, re: assistance with installation of remote radio connections (for read-only data) to Western's equipment at Nogales Switchyard and Black Mesa, Griffith, and Hilltop substations.
17. Letter Agreement No. 01-DSR-11279, accepted October 10, 2001, between the U.S. Department of Energy, Western Area Power Administration and Citizens Communications Company, re: performance of a study to determine maximum amount of power that can be delivered over P-DP Transmission System between Griffith and Black Mesa, Hilltop and North Havasu.
18. Letter Agreement No. 02-DSR-11136, dated April 12, 2002, between Western Energy Power Administration and Citizens Communications Company, re: System Impact Study.
19. Letter Agreement No. 02-DSR-11137, dated April 12, 2002, between Western Energy Power Administration and Citizens Communications Company, re: Facilities Study.
20. Mutual Services Contract No. 96-DSR-10734, dated September 10, 1998, between U.S. Department of Energy, Western Area Power Administration, Desert Southwest Regional Office and Citizens Communications Company.
21. Weatherization Services Agreement, effective January 1, 2002, between Southeastern Arizona Human Resources Council and Citizens Communications Company, re: Citizens Electric Low Income Outreach Program.

22. Weatherization Services Agreement, effective as of January 1, 2002, between Citizens Communications Company and Western Arizona Council of Governments, re: Citizens' Low Income Outreach Program.
23. Consultant Services Master Agreement, dated December 18, 1998, between Citizens Communications Company and T.O.R. Engineering Corp.
24. Consultant Services Master Agreement, dated December 22, 1994, between Citizens Communications Company and Power Engineers, Inc., as amended by Amendment No. 1, dated March 10, 1997.
25. Consultant Services Master Agreement, effective as of November 22, 1999, between Citizens Communications Company and R.W. Beck, Inc. (Note: This agreement's term expired; Citizens is seeking to execute a new agreement.)
26. Consultant Services Master Agreement, dated October 15, 1997, between Citizens Communication Company and Management Applications Consulting, Inc., as amended by Amendment, dated February 8, 2000. (Note: This agreement's term expired; Citizens is seeking to execute a new agreement. This agreement will only be partially assigned to Buyer because the consultant also provides services to Arizona Gas Division.)
27. Consultant Services Agreement, dated April 12, 2002, between Citizens Communications Company and Verde Management, L.L.C., re: fuel tank monitoring services.
28. Consultant Services Master Agreement, effective as of July 9, 1999, between Citizens Communications Company and Electrical Consultants Inc. (Note: This agreement's term expired; Citizens is seeking to execute a new agreement.)
29. Consultant Services Master Agreement, effective as of _____, _____, between Citizens Communications Company and Coronado Group (Note: This agreement's term expired; Citizens is seeking to execute a new agreement.)
30. Consultant Services Master Agreement, effective as of November 13, 1995, between Citizens Communications Company and Electrical Systems Consultants, Inc., as amended by Amendment No. 1, dated March 5, 1997.
31. Consultant Services Master Agreement, effective as of February 15, 2002, between Citizens Communications Company and Bill Cox.
32. Consultant Services Master Agreement, effective as of February 15, 2002, between Citizens Communications Company and Harp Engineering, Inc.
33. A Fire Suppression Services Agreement, effective as of July 1, 2001, between Citizens Communications Company and United Fire Equipment Company.

34. Master Services Agreement, dated as of May 1, 2002, by and between Brown and Caldwell and Citizens Communications, Santa Cruz Electric Division, re: environmental engineering and/or consulting services.
35. General Services Master Agreement, effective as of January 1, 2002, by and between Citizens Communications Company and Nogal Tree Services, Inc., re: tree trimming.
36. Construction Services Agreement, dated as of April 8, 2002, by and between Citizens Communications Company and PAR Electrical Contractors, Inc.
37. Construction Services Agreement, dated as of May 10, 2002, by and between Citizens Communications Company and Southwest Energy Solutions.
38. Rental Garment Service Agreement, dated as of April 16, 2002, by and between Cintas and Citizens Communications Company.
39. Services Agreement, dated as of April 27, 2001, by and between Weatherbank, Inc. and Citizens Communications Company, Arizona Electric Division, re: weather related services.

V. EQUIPMENT LEASES

1. Agreement No. 2106-1000, dated December 9, 1991, between Citizens Communications Company and U.S. Fleet Leasing, successor in interest of Trans-National Leasing, Inc., as partially assigned to Associates Leasing, Inc. (predecessor-in-interest to CitiCapital Fleet), as of July 1, 1993, re: approximately 32 leased Arizona Electric Division vehicles. (Note: This lease can only be partially assigned to the Buyer because this lease covers other Citizens vehicles in addition to Arizona Electric Division vehicles.)
2. Equipment Lease, dated December 18, 2001, between Citizens Communications Company and PBCC/Pitney Bowes, re: mail machine, meter and scale.
3. Equipment Lease, dated September 28, 2001, between Citizens Communications Company and PBCC/Pitney Bowes, re: meters and scales.
4. Xerox, with respect to:
 - a. Lease Agreement, dated July 13, 2001, between Citizens Communications Company and Xerox, re: Nogales copier/fax Serial #1WE080375.
 - b. Lease Agreement, dated January 8, 1998, between Citizens Communications Company and Xerox, re: Nogales copier Serial #NG3133176.
 - c. Lease Agreement, dated March 18, 2002, between Citizens Communications Company and Xerox, re: Kingman Admin. Office copier/fax Serial #NM9107130.

- d. Lease Agreement, dated January 21, 2002, between Citizens Communications Company and Xerox, re: Kingman Business Office copier Serial #EYC003505.
- e. Lease Agreement, dated May 22, 2001, between Citizens Communications Company and Xerox, re: Kingman Dispatch Center copier Serial #NM102733.
- f. Lease Agreement, dated April 29, 2002, between Citizens Communications Company and Xerox, re: Kingman Dispatch Center, fax Serial #PY7026529.
- g. Lease Agreement, dated March 20, 2001, between Citizens Communications Company and Xerox, re: Lake Havasu City Business Office copier/fax Serial #NM9106978.

VI. SOFTWARE LICENSES

- 1. Advanced Control Systems, Inc., with respect to:
 - a. Major Purchase Agreement, dated January 1, 2000, between Advanced Control Systems, Inc. and Citizens Communications Company.
 - b. Software License Agreement, dated April 18, 1997, between Advanced Control Systems, Inc. and Citizens Communications Company.
 - c. Customer Confidentiality Agreement, dated April 18, 1997, between Advanced Control Systems, Inc. and Citizens Communications Company.
- 2. Wind Mil and Light Table for Windows Engineering Analysis Software Agreement, dated July 17, 1998, between Milsoft Integrated Solutions, Inc. and Citizens Communications Company.
- 3. Contract No. ENC-0987-118, Hardware Purchase and Software License Agreement, dated as of December 10, 1987, by and between Citizens Communications Company and ITRON, Inc., re: meter reading devices.

VII. RELATED PARTY AGREEMENTS

- 1. Joint Use of Telephone System Poles, dated August 6, 1966, as amended January 1, 1971, and January 1, 1976, between the utilities operations of Citizens Communications Company, successor-in-interest to Citizens Utilities Rural Company, Inc., and the communications operations of Citizens Communications Company.
- 2. License Agreement for Joint Use of Poles, dated April 16, 1973, as amended, among Citizens Utilities Rural Company, Inc., Citizens Communications Company and Mohave Cable Co. Inc.

3. Invoicing arrangement with Citizens Communications (Frontier), re: T1 frame relay circuits at the following locations:
 - a. 2290 Airway Boulevard, Kingman, Arizona
 - b. 830 South Acoma Avenue, Lake Havasu City, Arizona
 - c. 1760 McCulloch Boulevard, Lake Havasu City, Arizona
4. Real Estate Lease Agreement, dated April 7, 1990, between Citizens Utilities Rural Company, Inc. (Lessor) and Citizens Communications Company, Arizona Electric Division (Lessee), re: 1760 McCulloch Boulevard, Lake Havasu City, Arizona (Note: The lease's term expired; the term of the leases is currently month to month.) (See Item 5 of Schedule 4.5.)

VIII. EMPLOYEE-RELATED AGREEMENTS

The collective bargaining agreements described on Schedule 4.7 (Seller Labor Matters) are hereby incorporated herein by reference.

IX. OTHER CONTRACTS

1. Letter Agreement, dated September 25, 1998, from Citizens Communications Company to Mayor of Nogales, re: Citizens Communications Company response actions to recent power outage.
2. Joint Use Contract, dated July 26, 1932, as supplemented October 17, 1938, and amended September 18, 1969 and July 22, 1974, between Citizens Communications Company, successor to Public Utilities Consolidated Corporation, and Qwest Corporation, successor to Mountain States Telephone and Telegraph Company.
3. License Agreement, dated February 15, 1995, between Citizens Communications Company and Mediacom LLC, successor-in-interest to Saguaro Cable TV.
4. License Agreement for Attachment on Electric Company Owned Poles, dated August 1, 1989, between Citizens Communications Company and Americable International Arizona, Inc., successor-in-interest to Silver Springs Cable TV, Inc.
5. Memorandum of Agreement covering attachments to the Poles and Fixtures, dated September 1, 1985, between Citizens Communications Company and London Bridge Broadcasting, Inc.
6. License Agreement for Attachment on Electric Company Owned Poles, dated January 24, 1980, between Citizens Communications Company and NPG Cable of Arizona, Inc., successor to Kingman Television Company, Inc.
7. License Agreement for Attachment on Electric Company Owned Poles, dated April 24, 1990, between Citizens Communications Company and Dimension Cable Services.

8. Revised Settlement Agreement, dated June 1, 1999, between the City of Nogales, Arizona and Citizens Communications Company. (See Schedule 4.12, item II.2.)
9. Settlement Agreement, dated August 9, 1999, between Staff of the Arizona Corporation Commission and Citizens Communications Company. (See Schedule 4.12, item II.1.)
10. Agreement for Electric Service, dated September 6, 1970, as amended by letter agreement, dated September 4, 1970, between Citizens Communications Company and Avatar Holdings Inc. (f/k/a GAC Properties Inc. of Arizona) ("Avatar"). (Note: Since 1997, Citizens has not made refund payments to Avatar under such Contract as an offset for Avatar not reimbursing Citizens for property taxes paid by Citizens and assessed upon or related to electric facilities constructed or installed under such Contract and the land parcels upon which such facilities are located, as required by such Contract.)
11. Utility Easement Agreement and Quit Claim Deed, dated September 20, 2000, by and between DJS Family Limited Partnership and Citizens Communications Company, regarding, *inter alia*, converting the existing aboveground distribution circuit to an underground distribution circuit if land subject to such easement is subdivided in the future.
12. Utility Easement Agreement, dated September 20, 2000, by and between Mastick Family Trust Limited Partnership and Citizens Communications Company, regarding, *inter alia*, lowering the existing underground transmission line if land subject to such easement is subdivided in the future.
13. License Agreement for Attachment on Electric Company Poles, dated February 14, 2000, between Citizens Communications Company and Nogales Unified School District #1.
14. Confidentiality Agreement, effective as of September 15, 1998, by and between Arizona Public Service Company and Citizens Communications Company.
15. Proposal and Standard Contract, dated March 26, 2002, between Citizens Energy Services and Southwest Hazard Control, Inc. (Note: This agreement will only be partially assigned to Buyer because Southwest Hazard Control also provides services to Arizona Gas Division.)

SCHEDULE 4.11(b)

CERTAIN SELLER MATERIAL AGREEMENTS REQUIRING CONSENT TO TRANSFER

- A. Power and Fuel Purchase and Supply Agreements
1. Power Service Agreement, dated June 1, 2001, between Pinnacle West Capital Corporation and Citizens Communications Company.
 2. Diesel Fuel Contract, dated May 25, 2001, between Union Distributing Company of Tucson and The Arizona Electric Division of Citizens Communications Company, together with Addendum, dated as of July 25, 2001.
 3. Transportation Service Agreement, dated as of February 6, 1992, by and between El Paso Natural Gas Company and Citizens Communications Company.
- B. Transmission Agreements
1. Transmission Service Contract No. 99-DSR-11004, dated February 23, 1999, between U.S. Department of Energy, Western Area Power Administration, Desert Southwest Regional Office, Pacific North West, Pacific South West Intertie Project, Parker-Davis Project and Citizens Communications Company.
 2. Firm Transmission Service Contract No. 87-BCA-10140, dated March 9, 1988, between U.S. Department of Energy, Western Area Power Administration, Parker-Davis Project, Central Arizona Project and Citizens Communications Company, as amended by Amendment No. 1, dated February 20, 1996, together with Schedules of Firm Transmission Service Commitments.
 3. Service Agreement No. 01-DSR-11113, dated June 22, 2001, between the U.S. Department of Energy, Western Area Power Administration and Citizens Communications Company, re: Long-Term Firm Point-to-Point Transmission Service.
- C. Construction, Consulting and Outsourcing Agreements
1. Armored Service Agreement, dated January 22, 2001, as amended as of February 1, 2002, between Citizens Communications Company and Loomis, Fargo & Co., re: service for Kingman and Lake Havasu City.
 2. Service Agreement, dated August 1, 2001, between Citizens Communications Company and Loomis, Fargo & Co., re: armored car service for Nogales.
 3. Customer Care Agreement, dated October 5, 2000, between Orcom Solutions, Inc. and Citizens Arizona Electric, a division of Citizens Communications Company, re:

replacement of existing customer information systems. (Note: Prior notice is required to transfer this agreement. This agreement will only be partially assigned to Buyer because the consultant also provides services to Vermont Electric Division.)

4. Agreement For Trans Union Score Services, dated June 21, 2001, by and between Citizens Energy Services and Trans Union LLC, together with Pricing Addendum, dated June 26, 2001. (Note: This agreement is used in Citizens' other utility operations. Therefore this agreement will only be partially assigned to Buyer as it relates to Arizona Electric Division.)
5. Good Cents Program Master License Agreement, dated July 11, 1997, by and between Southern Development & Investments Group, Inc. and Citizens Communications Company.

D. Equipment Leases

1. Agreement No. 2106-1000, dated December 9, 1991, between Citizens Communications Company and U.S. Fleet Leasing, successor in interest of Trans-National Leasing, Inc., as partially assigned to Associates Leasing, Inc. (predecessor-in-interest to CitiCapital Fleet), as of July 1, 1993, re: approximately 32 leased Arizona Electric Division vehicles. (Note: This lease can only be partially assigned to the Buyer because this lease covers other Citizens vehicles in addition to Arizona Electric Division vehicles.)
2. Equipment Lease, dated December 18, 2001, between Citizens Communications Company and PBCC/Pitney Bowes, re: mail machine, meter and scale.
3. Equipment Lease, dated September 28, 2001, between Citizens Communications Company and PBCC/Pitney Bowes, re: meters and scales.
4. Xerox, with respect to:
 - a. Lease Agreement, dated July 13, 2001, between Citizens Communications Company and Xerox, re: Nogales copier/fax Serial #1 WE080375.
 - b. Lease Agreement, dated January 8, 1998, between Citizens Communications Company and Xerox, re: Nogales copier Serial #NG3133176.
 - c. Lease Agreement, dated March 18, 2002, between Citizens Communications Company and Xerox, re: Kingman Admin. Office copier/fax Serial #NM9107130.

- d. Lease Agreement, dated January 21, 2002, between Citizens Communications Company and Xerox, re: Kingman Business Office copier Serial #EYC003505.
- e. Lease Agreement, dated May 22, 2001, between Citizens Communications Company and Xerox, re: Kingman Dispatch Center copier Serial #NM102733.
- f. Lease Agreement, dated April 29, 2002, between Citizens Communications Company and Xerox, re: Kingman Dispatch Center fax Serial #PY7026529.
- g. Lease Agreement, dated March 20, 2001, between Citizens Communications Company and Xerox, re: Lake Havasu City Business Office copier/fax Serial #NM9106978.

E. Software Licenses

1. Advanced Control Systems, Inc., with respect to:
 - a. Major Purchase Agreement, dated January 1, 2000, between Citizens Communications Company and Advanced Control Systems, Inc.
 - b. Software License Agreement, dated April 18, 1997, between Advanced Control Systems, Inc. and Citizens Communications Company.
2. Contract No. ENC-0987-118, Hardware Purchase and Software License Agreement, dated as of December 10, 1987, by and between Citizens Communications Company and ITRON, Inc., re: meter reading devices.

F. Other Contracts

1. Joint Use Contract, dated July 26, 1932, as supplemented October 17, 1938, and amended September 18, 1969 and July 22, 1974, between Citizens Communications Company, successor to Public Utilities Consolidated Corporation, and Qwest Corporation, successor to Mountain States Telephone and Telegraph Company.
2. Agreement for Electric Service, dated September 6, 1970, as amended by letter agreement, dated September 4, 1970, between Citizens Communications Company and Avatar Holdings Inc. (f/k/a GAC Properties Inc. of Arizona) ("Avatar"). (Note: Since 1997, Citizens has not made refund payments to Avatar under such Contract as an offset for Avatar not reimbursing Citizens for property taxes paid by Citizens and assessed upon or related to electric facilities constructed or installed under such Contract and the land parcels upon which such facilities are located, as required by such Contract.)

G. Miscellaneous Consents

1. Railroad Crossing Agreements:

- a. Union Pacific Railroad Company, with respect to numerous railroad crossing agreements.
- b. Burlington Northern Railroad, with respect to numerous railroad crossing agreements.

2. Right-of-Way Private Easement in Mohave County with Marvin Lustiger and Inger Kristina Lustiger (Book No. 3084, Page No. 879).

H. Real Property Lease Agreements

None.

SCHEDULE 4.11(c)

DEFAULTS UNDER CERTAIN MATERIAL AGREEMENTS

None. (Note: (i) Missing Easement for forty miles of distribution line in Fort Rock Area. The owner of the subservient real property receives his electric power *via* such line, which is the only practical energy source in the area. Prescriptive rights likely are held, and (ii) Citizens does not possess a written easement to cover encroachment at the following substation sites: Duval Booster #2, Duval Waterfield and Arco #9.)

SCHEDULE 4.12LEGAL PROCEEDINGS INVOLVING SELLER

I. PROCEEDINGS

1. ACC Docket No. E-01032C-98-0474, re: Citizens stranded cost. (Note: The Hearing Officer assigned to this matter and Docket Nos. E-01032C-97-0774 and RE-0000C-94-0165 (Items II.2 and II.3 below) issued a procedural order on January 18, 2001 effectively putting on hold Citizens' Stranded Cost and Unbundled Tariff Settlement Agreement, pending the outcome of the PPFAC application in Docket No. E-01032C-00-0751. The procedural order also provides a waiver from the Retail Electric Competition Rules for Citizens pending such outcome, and contains accounting authority to defer for future regulatory consideration costs being incurred in connection with the implementation of retail competition which are not included in the revenue requirement underlying current service rates.)
2. ACC Docket No. E-01032C-97-0774, re: Citizens unbundled and standard offer rates.
3. ACC Docket No. RE-0000C-94-0165, re: Electric Competition.
4. ACC Docket No. E-01032C-00-0751, re: purchased power. (Note: On November 17, 2000, the Hearing Officer assigned to this matter issued a procedural order setting forth the schedule for filing of Company data and for the parties' submitting testimony.) The latest procedural order was issued on September 27, 2002. This order sets the commencement of hearing for December 9, 2002.+-
5. ACC Docket Nos. E-01032B-00-0813 and E-01032C-00-0814. (Note: Neither application has yet been acted upon by the ACC.)
6. ACC Power Plant and Transmission Line Siting Committee - Docket No. L-00000F-01-0111 - application for approval of the planned transmission line proposed to be built between Tucson and Nogales, and to be jointly owned by Citizens Communications Company and Tucson Electric Power. On January 15, 2002, the ACC issued Decision No. 64356 approving a modified and amended Certificate of Environmental Compatibility.
7. Arizona Department of Environmental Quality - on June 18, 2002, approved application seeking a revised operating permit to expand the number of hours for potential generation. Citizens is now in the process of obtaining a certification of its emission monitoring equipment, as required by such approval.

8. Federal Energy Regulatory Commission Docket ER01-2498 -- accepted for filing on September 1, 2001, seeking approval of an Open Access Transmission tariff in connection with Citizens' status as a participating Transmission Provider of the Arizona Independent System Administrator.
9. Federal Energy Regulatory Commission Docket ER02 -- application filed on August 9, 2002, seeking (1) approval of Non-firm Interchange Agreement, dated as of August 5, 2002, between Citizens Communications Company, Arizona Electric Division and Aha Macav Power Service, and (2) waiver of 60-day prior notice requirement and effective date.
10. Arizona Corporation Commission consolidated the following five dockets into a single, combined proceeding: (1) Docket No. E-00000A-02-0051 -- Generic Electric Restructuring Issues; (2) Docket No. E-01345A-01-0822 -- Arizona Public Service Company ("APS") Variance Request; (3) Docket No. E-00000A-01-0630 -- Arizona Independent Scheduling Administrator; (4) Docket No. E-01933A-02-0069 -- Tucson Electric Power Company ("TEP") Waiver Request; and (5) Docket No. E-01933A-98-0471 -- TEP Stranded Cost Recovery. The key issue being addressed is the current requirement under Rule R14-2-1606(B) relating to the required acquisition of power through a competitive bid process. The Commission has created a "Track A" list and a "Track B" list. Track A issues include market power, divestiture of generation assets, codes of conduct and affiliated transactions, and jurisdictional issues. Track B issues relate to the competitive bidding process. Among the Track B issues being addressed are the continuing feasibility of the Purchased Power and Fuel Adjustment Clause mechanism and transmission issues. On May 29, 2002 Citizens filed testimony on the adjustment mechanism and certain transmission issues affecting Citizens' Arizona operations. The Commission is currently addressing Track A and B issues through workshops and hearings.
11. The Proceedings that resulted in the Orders of the ACC listed in Part II of this Schedule 4.12 are incorporated herein by reference.

II. GOVERNMENTAL ORDERS

1. Opinion and Order of the ACC (Decision No. 62011), dated November 2, 1999, approving Settlement Agreement, dated August 9, 1999, re: Santa Cruz Electric Division Plan of Action. (Settlement Agreement requires Buyer to fulfill Citizens Communications Company's obligations with respect to a second transmission line as a condition to the Commission's approval of a sale of Arizona Electric.)
2. Order of the ACC (Decision No. 61793), dated June 29, 1999, re: Revised Settlement Agreement, dated June 1, 1999, between City of Nogales, Arizona, and Citizens Communications Company.

SCHEDULE 4.13

SELLER PERMIT VIOLATIONS

I. VIOLATIONS

None.

II. MISSING PERMITS

None. (Note:

(a) The franchise with the City of Nogales expired on December 31, 1997. (See Schedule 6.1(a), Item 1.) Citizens is currently operating pursuant to Ordinance No. 098-02-04, an ordinance of the City of Nogales relating to the establishment of a Public Utility Tax (2% of gross income).

SCHEDULE 4.14

SELLER TAX MATTERS

- I. NOTICES OF DEFICIENCY OR ASSESSMENT OR INFORMATION DOCUMENT REQUESTS
 - A. Internal Revenue Service 1997-2000.
 - B. State of Arizona Income Tax Audit for the years 1996-2000.
 - C. State of Montana Income Tax Audit for September 1, 1996 - September 1, 2001.
 - D. IRS Audit of Mohave County IDR, 1993 Series.

- II. WAIVERS OF STATUTES OF LIMITATIONS
 - A. Citizens Communications Company has signed a waiver that extends the statute of limitations (Federal) until June 30, 2003 for the tax years ending December 31, 1997 and December 31, 1998.

- III. SAFE HARBOR LEASE PROVISIONS (SECTION 168(F) OF THE CODE)

None.

- IV. "TAX-EXEMPT USE" PROPERTY (SECTION 168(H) OF THE CODE)

Certain of the Assets are "Tax-Exempt Use" property; See Schedule 6.15.

- V. CERTAIN TAXING JURISDICTIONS

None.

SCHEDULE 4.15

SELLER INTELLECTUAL PROPERTY EXCEPTIONS

None.

SCHEDULE 4.20

SELLER FINANCIAL STATEMENTS

See attached.

Citizens Energy Services
Proforma Balance Sheet- Arizona Electric Division
December 31, 2001
(Unaudited)

| | Property Level Subtotal | Consolidations/ Corporate Adjustments | Consolidated Electric Sector Total |
|--|----------------------------|---|---------------------------------------|
| Petty Cash | 96,070 | - | 96,070 |
| Accounts Receivable-Utilities | 11,377,584 | (302,383) | 11,075,201 |
| Accounts Receivable-Other | 19,448 | - | 19,448 |
| Reserve for Doubtful Accounts | (489,568) | 302,383 | (187,185) |
| Materials & Supplies | 1,391,677 | - | 1,391,677 |
| Special Deposits | 43,290 | - | 43,290 |
| Prepayments | 28,428 | - | 28,428 |
| Other Current Assets | - | - | - |
| Total Current Assets | 12,466,929 | - | 12,466,929 |
| Property, Plant and Equipment | 291,783,595 | - | 291,783,595 |
| Construction Work In Process | 4,453,048 | - | 4,453,048 |
| Accumulated Depreciation | (104,072,920) | - | (104,072,920) |
| Net Fixed Assets | 192,163,723 | - | 192,163,723 |
| Preliminary Survey and Investigation | 358,819 | - | 358,819 |
| Deferred Debits | 103,748,535 | - | 103,748,535 |
| Regulatory Assets | 3,509,361 | - | 3,509,361 |
| Total Non-Current | 107,616,715 | - | 107,616,715 |
| Total Assets | 312,247,367 | - | 312,247,367 |
| Accounts Payable | 13,324,723 | 1,350,000 | 14,674,723 |
| Customer Deposits | 2,429,427 | - | 2,429,427 |
| Income Taxes Accrued | - | - | - |
| Other Taxes Accrued | 2,871,261 | - | 2,871,261 |
| Interest Accrued on Customer Deposits | 488,504 | - | 488,504 |
| Other Current and Accrued Liabilities | - | - | - |
| Total Current and Accrued Liabilities | 19,113,915 | 1,350,000 | 20,463,915 |
| Customer Advances for Construction | 15,510,047 | (11,129,551) | 4,380,496 |
| Deferred Income Taxes | 2,368,152 | (2,368,152) | - |
| Regulatory Liabilities | - | - | - |
| Other Payables | - | 1,285,234 | 1,285,234 |
| Unamortized Investment Tax Credit | 594,266 | (594,266) | - |
| Contributions In Aid of Construction | - | - | - |
| Total Non-Current Liabilities | 18,472,465 | (12,806,735) | 5,665,730 |
| Net Retained Earnings | 403,481 | 285,714,241 | 286,117,722 |
| Intercompany Receivables | 274,257,506 | (274,257,506) | - |
| Total Shareholder's Equity | 274,660,987 | 11,456,735 | 286,117,722 |
| Total Liabilities and Equity | 312,247,367 | - | 312,247,367 |

Notes to the Financial Statements:

- 1- For the Proforma Balance Sheet, Deferred Income Taxes, Cash held in Bank Accounts, Investment Tax Credits, and FASB 109 liability have been eliminated.
- 2- All assets which are non exclusive have been removed for presentation purposes.
- 3- Pension liability allocation based on 12/31/01 expense calculation.
- 4- Does not include IDRB obligations and unamortized debt discount.

Citizens Energy Services
Proforma Income Statement- Arizona Electric Division
For the Twelve Months Ended December 31, 2001
(Unaudited)

| | Property Level Subtotal | Consolidations/ Corporate Adjustments | Consolidated Electric Sector Total |
|---|----------------------------|---|--|
| Electric Revenue | 103,968,870 | - | 103,968,870 |
| Electric Energy & Fuel Oil Purchased | 65,509,495 | - | 65,509,495 |
| Other O&M Expenses | 13,767,967 | - | 13,767,967 |
| Taxes Other Than Income | 5,365,218 | - | 5,365,218 |
| Total Operating Expenses | 84,642,680 | - | 84,642,680 |
| EBITDA | 19,326,190 | - | 19,326,190 |
| Depreciation & Amortization Expense | 12,354,025 | - | 12,354,025 |
| Income From Operations | 6,972,165 | - | 6,972,165 |
| Allowance for Funds Used During Construction | 33,849 | - | 33,849 |
| Investment Income | - | - | - |
| Other Income(Deductions) | (6,610,997) | - | (6,610,997) |
| Misc Nonoperating Income | (2,228) | - | (2,228) |
| Total Other Income(Deductions) | (6,579,376) | - | (6,579,376) |
| Operating Income Before Interest Expense and Income Taxes | 392,789 | - | 392,789 |
| Interest on Long Term Debt | - | - | - |
| Amortization of Debt Discount | - | - | - |
| Other Interest Expense | 165,544 | - | 165,544 |
| Total Interest Expense | 165,544 | - | 165,544 |
| Operating Income Before Income Taxes | 227,245 | - | 227,245 |
| Income Taxes | (176,236) | - | (176,236) |
| Net Income | 403,481 | - | 403,481 |

Notes to the Financial Statements:

- 1- The Proforma Income Statement does not include allocated interest from parent.
- 2- Income taxes are recorded at 35% for Federal and 8% for State. The corporation files a consolidated tax return including Arizona Electric.

SCHEDULE 5.3(a)

BUYER CONFLICTS, DEFAULTS AND REGULATIONS

None.

SCHEDULE 5.3(b)

BUYER REQUIRED REGULATORY APPROVALS

- I. Any and all approvals listed by Seller in Schedule 4.3(b) (*Seller Required Regulatory Approvals*) that require affirmative action on the part of Buyer to assume, transfer, or obtain the rights granted to Seller by the listed license, permit, order of approval or acceptance, easement, franchise, or other regulatory approval set forth in Schedule 4.3(b) (*Seller Required Regulatory Approvals*).

- II. FEDERAL GOVERNMENTAL BODIES
 - A. U.S. Federal Trade Commission and U.S. Department of Justice, pursuant to the Hart-Scott-Rodino Antitrust Improvement Acts of 1976, as amended.
 - B. Federal Energy Regulatory Commission (FERC), for the Buyer to acquire Seller's FERC jurisdictional facilities.
 - C. Securities and Exchange Commission, PUHCA.
 - D. See I, *supra*.

- III. STATE GOVERNMENTAL BODIES
 - A. Arizona Corporation Commission, with respect to:
 - 1. Commission Review of Transaction between Public Utilities and Affiliates, Affiliated Interest Rules Section 14-2-804
 - 2. Transfer of Certificates of Convenience and Necessity
 - 3. Financing
 - 4. Order allowing acquisition pursuant to ARS 40-285
 - B. See I, *supra*.

- IV. LOCAL GOVERNMENTAL BODIES
 - A. See I, *supra*.

SCHEDULE 5.6

LEGAL PROCEEDINGS INVOLVING BUYER

None.

SCHEDULE 6.1(a)

EXCEPTIONS TO CONDUCT OF THE BUSINESS AND OPERATION OF THE ASSETS

1. Citizens may perform obligations pursuant to Revised Citizens Settlement Agreement, dated June 1, 1999, between City of Nogales, Arizona, and Citizens Communications Company, including negotiating 25-year franchise agreement with participation of UniSource.
2. Citizens may enter into agreements with federal and non-federal entities, as required, to construct and operate North Havasu Substation and the Griffith North Havasu Transmission Line.
3. Citizens may enter into agreements with federal and non-federal entities as required to construct and operate the 345/115 kV Joint Transmission Project and associated facilities.
4. Citizens may enter into an agreement with Santa Cruz County to sell to the County the streetlights located in the County of Santa Cruz. (See Schedule 4.10, item 2.)

SCHEDULE 6.3

ENVIRONMENTAL CONSULTANTS

1. Brown & Caldwell
2. Bill Cox & Associates
3. Detection Sciences
4. Verde Company

SCHEDULE 6.12(d)(iii)**BUYER BENEFIT PLANS**

| Plan | Provider |
|---|--|
| Medical - Aetna HMO - Self-funded PPO | Aetna US Healthcare Self-insured, Zenith Administrators - BCBSAZ network provider mgmt - Excess Health (organ/Tissue Transplant benefits) - Banner Health Systems (Mental Health/Substance Abuse benefits) |
| Dental - Self-funded Dental - Dental Maintenance Organization | Self-insured, Zenith Administrators Employers Dental Services |
| Vision - Vision Plan | Vision Services Plan |
| Life Insurance - Employee Life (\$10,000 - \$600,000) - Spouse Life (\$5,000 - \$25,000) - Child Life (\$1,000 - \$5,000) - Accidental Death and Dismemberment - Business Travel Accident (salaried only) | UNUM UNUM UNUM UNUM Life Ins. Co. of North America |
| Long-term Disability | UNUM |
| Health & Dependent Care Spending Accounts | Denver Reserve |
| 401(k) Plan | Fidelity Investments |
| Defined Benefit Pension Plans | State Street Bank & Trust |
| Performance Enhancement Plan (PEP) | Company administered |
| Management & Directors Deferred Compensation Plan | Clark/Bardes |
| Employee Assistance Plan | Banner Health Systems |

SCHEDULE 6.12(d)(iii)(D)**RETIREES**

Current retirees

| LAST NAME | FIRST NAME | SEX | BIRTH DATE | HIRE DATE | RETIRE DATE | SPOUSE COVERED | MEDICAL COVERAGE | DENTAL COVERAGE | LIFE | DEP LIFE |
|-----------|-------------|-----|------------|------------|-------------|----------------|------------------|-----------------|--------|----------|
| ADKINS | JOHN H | M | 09/29/1933 | 10/08/1980 | 07/31/1995 | N | Y | N | 10,000 | 0 |
| ATTEBERY | SYLVESTER H | M | 04/09/1931 | 04/22/1963 | 05/01/1993 | N | Y | N | 10,000 | 0 |
| CALLISON | EDWARD A | M | 09/26/1933 | 01/21/1971 | 07/31/1995 | Y | Y | N | 10,000 | 0 |
| CASTRO | GRACIELA | F | 01/06/1924 | 03/01/1976 | 01/31/1995 | N | Y | N | 10,000 | 0 |
| DIERICH | ERNEST R | M | 01/04/1939 | 08/01/1977 | 10/31/1994 | Y | Y | N | 10,000 | 0 |
| EVANS | ROBERT L | M | 03/10/1928 | 04/21/1969 | 09/15/1995 | Y | Y | N | 10,000 | 0 |
| FRIEND | HERBERT O | M | 10/04/1929 | 08/02/1976 | 02/29/1992 | Y | Y | N | 0 | 0 |
| FAVRO | ARLINE | F | 07/24/1937 | 03/15/1976 | 08/14/1998 | | | | | |
| IBARRA | ROBERTO S | M | 12/31/1936 | 05/22/1967 | 09/18/1995 | Y | Y | N | 10,000 | 0 |
| JACOBUS | CHARLES L | M | 09/09/1929 | 07/16/1966 | 09/30/1993 | Y | Y | N | 10,000 | 0 |
| KUNTZ | ANDREW L | M | 10/26/1927 | 03/01/1972 | 10/01/1989 | Y | Y | N | 0 | 0 |
| LITZINGER | ROBERT L | M | 03/02/1926 | 09/05/1973 | 05/31/1990 | Y | Y | N | 0 | 0 |
| MILLERMON | DONALD H | M | 09/19/1933 | 12/03/1979 | 07/31/1995 | Y | Y | N | 10,000 | 0 |
| MOODY | JANE E | F | 09/09/1932 | 06/20/1967 | 07/31/1995 | N | Y | N | 10,000 | 0 |
| MOORE | GERALD R | M | 06/26/1932 | 02/23/1970 | 06/30/1993 | Y | Y | N | 10,000 | 0 |
| PARADA | FERNANDO N | M | 10/27/1934 | 08/16/1961 | 08/01/1995 | Y | Y | N | 10,000 | 0 |
| PETTY | DUKE | M | 03/25/1927 | 03/01/1969 | 03/31/1992 | Y | Y | N | 10,000 | 0 |
| RIVERA | MIGUEL R | M | 04/21/1937 | 01/04/1982 | 10/02/1995 | Y | Y | N | 10,000 | 0 |
| RODRIGUEZ | GILBERTO S | M | 03/20/1935 | 05/22/1967 | 10/02/1995 | Y | Y | N | 10,000 | 0 |
| ROSAS | EDUARDO V | M | 05/05/1933 | 09/04/1956 | 08/01/1995 | Y | Y | N | 10,000 | 0 |
| SAMANIEGO | BERNARDO B | M | 09/19/1933 | 12/01/1969 | 10/02/1995 | Y | Y | N | 10,000 | 0 |
| TRAMMEL | ARTHUR E | M | 06/17/1928 | 08/30/1965 | 08/31/1990 | N | Y | N | 10,000 | 0 |

Grandfathered active employees

| Name | Birth Date | Hire Date |
|---------------------|------------|-----------|
| Richards, Walter A. | 08/05/36 | 08/12/74 |
| Russell, Jerome T. | 12/03/39 | 05/15/61 |
| Sheppard, Joseph | 10/22/38 | 08/13/73 |
| Stutz, Jacqueline A | 06/17/42 | 06/10/85 |
| Scanlan, Dennis | 06/24/39 | 01/05/87 |

(Eligible union employees)

| Name | Birth Date | Hire Date |
|--------------------|------------|-----------|
| Woodhouse, John A. | 06/03/40 | 03/29/66 |

Actuarial Assumptions

- Discount Rate:** 7.5% per year as of January 1, 2001; 7.25% as of December 31, 2001
- Expected Rate of Return on Assets:** 8.25% per year as of January 1, 2000
- Expected Salary Increase Rate:** 4.0% per year for Citizens. Salary scale for Frontier is based on age. The weighted average salary scale is 5.17%.
- Mortality:** The 1983 Male and Female Group Annuity Table
- Turnover:** In accordance with the following tables:

| <u>Age</u> | <u>Male</u> | <u>Female</u> |
|------------|-------------|---------------|
| 25 | 15.1% | 26.2% |
| 30 | 10.3 | 16.5 |
| 35 | 7.2 | 11.2 |
| 40 | 4.2 | 7.8 |
| 45 | 2.2 | 4.8 |
| 50 | 0.3 | 2.6 |
| 55 | 0.0 | 0.7 |
| 60 | 0.0 | 0.0 |

Retirement:

In accordance with the rates shown below except as noted:

Percentage of Eligibles Retiring

| <u>Age</u> | |
|------------|-----|
| 45 | |
| 46 | |
| 47 | |
| 48 | |
| 49 | |
| 50 | |
| 51 | |
| 52 | |
| 53 | |
| 54 | |
| 55 | 5% |
| 56 | 5 |
| 57 | 5 |
| 58 | 5 |
| 59 | 5 |
| 60 | 5 |
| 61 | 5 |
| 62 | 25 |
| 63 | 10 |
| 64 | 10 |
| 65 | 100 |
| 66 | 100 |
| 67 | 100 |
| 68 | 100 |
| 69 | 100 |
| 70 | 100 |

Medical costs shown are average costs for covered individuals who are age 65. The starting costs are adjusted for age. Costs are assumed to increase 5% per year up to age 73 and 3% per year for ages 73 and over. Dental and vision costs are not aged.

Trend Rates:

The following trend rates were used for determining annual expense:

| <u>Year</u> | <u>Citizens</u> | |
|----------------|-----------------|---------------|
| | <u>Medical</u> | <u>Dental</u> |
| 2001 | 9.0% | 4.5% |
| 2002 | 9.0 | 4.5 |
| 2003 | 9.0 | 4.5 |
| 2004 | 9.0 | 4.5 |
| 2005 | 7.5 | 4.5 |
| 2006 | 7.5 | 4.5 |
| 2007-2029 | 7.5 | 4.5 |
| 2030-2039 | 6.5 | 4.5 |
| 2040-2049 | 5.5 | 4.5 |
| 2050 and later | 5.0 | 4.5 |

The following trend rates were used for determining year end disclosure (Citizens and Frontier):

| <u>Year</u> | <u>Medical</u> | <u>Dental</u> |
|----------------|----------------|---------------|
| 2002-2004 | 9.0% | 4.5% |
| 2005-2009 | 7.5% | 4.5% |
| 2010-2014 | 6.5% | 4.5% |
| 2015-2019 | 5.5% | 4.5% |
| 2020 and later | 5.0% | 4.5% |

Spouses:

Actual demographics of the current retiree spouses and surviving spouses were used.

Citizens: For employees currently active, 75% of males and females are assumed to be married at retirement. Spouses are assumed to be the same age as the retiree.

Participation:

Citizens: At retirement 80% of employees in locations with cost sharing are assumed to elect medical coverage.

| Service at Retirement | % Participate |
|-----------------------|---------------|
| < 15 years | NA |
| 15-19 years | 63% |
| 20-24 years | 77% |
| 25-29 years | 89% |
| 30+ years | 92% |

Starting Claim Costs (Citizens):

| | Non-Medicare <u>Eligible</u> | Medicare <u>Eligible</u> |
|---------------------|---------------------------------|-----------------------------|
| All Other Locations | 7,000 | 1,149 |

SCHEDULE 6.14(a)SELLER REVENUE BONDS

I. JOINT ELECTRIC/WATER

| ISSUER | LOAN AGREEMENT | INDENTURE | TAX REGULATORY AGREEMENT |
|--|--|---|--|
| The Industrial Development Authority of the County of Mohave | | | |
| \$11,000,000 The Industrial Development Authority of the County of Mohave Industrial Development Revenue Bonds 1985 Series (Citizens Utilities Company Project) Callable on 08/01/07 @ 100 | Loan Agreement between The Industrial Development Authority of the County of Mohave and Citizens Utilities Company Dated as of August 1, 1985 | Indenture of Trust between the Industrial Development Authority of the County of Mohave and The Connecticut National Bank as Trustee and The Valley National Bank of Arizona, as Co-Trustee, Dated as of August 1, 1985 | None |
| \$15,000,000 The Industrial Development Authority of the County of Mohave Industrial Development Revenue Bonds 1988 Series A and 1988 Series B Callable @ par on 30 days notice | Loan Agreement Between The Industrial Development Authority of the County of Mohave and Citizens Utilities Company Dated as of September 1, 1988 | Indenture of Trust between The Industrial Development Authority of the County of Mohave and The Connecticut National Bank, as Trustee Dated as of September 1, 1991 | Tax Regulatory Agreement among The Industrial Development Authority of the County of Mohave, Citizens Utilities Company, The Connecticut National Bank, as Trustee Dated as of September 1, 1988 |

II. JOINT GAS/ELECTRIC

| ISSUER | LOAN AGREEMENT | INDENTURE | TAX REGULATORY AGREEMENT |
|--|--|--|--|
| The Industrial Development Authority of the County of Mohave | | | |
| \$22,960,000 The Industrial Development Authority of the County of Mohave Industrial Development Revenue Bonds 1993 Series (Citizens Utilities Company Project) Callable @ par on 30 days notice | Loan Agreement Between The Industrial Development Authority of the County of Mohave and Citizens Utilities Company Dated as of March 1, 1993 | Indenture of Trust between The Industrial Development Authority of the county of Mohave and Shawmut Bank Connecticut, N.A., as Trustee Dated as of March 1, 1993 | Tax Regulatory Agreement Among The Industrial Development Authority of the County of Mohave, Citizens Utilities Company and Shawmut Bank Connecticut, N.A., as Trustee Dated as of March 1, 1993 |
| \$6,640,000 The Industrial Development Authority of the County of Mohave Industrial Development Revenue Bonds | Loan Agreement between The Industrial Development Authority of the County of Mohave and Citizens Utilities Company Dated as of September 1, 1994 | Indenture of Trust between The Industrial Development Authority of the County of Mohave and Shawmut Bank Connecticut, N.A., as Trustee | Tax Regulatory Agreement Among The Industrial Development Authority of the County of Mohave, Citizens Utilities Company and Shawmut |

| ISSUER | LOAN AGREEMENT | INDENTURE | TAX REGULATORY AGREEMENT |
|--|--|--|---|
| Bonds 1994 Series (Citizens Utilities Company Project) Callable on 11/01/03 @ 101 | | Dated as of September 1, 1994 | Bank Connecticut, N.A., as Trustee Dated as of September 1, 1994 |
| \$10,000,000 The Industrial Development Authority of the County of Mohave Industrial Development Revenue Bonds 1993 Series B (Citizens Utilities Company Project) Callable on 11/15/02 @101 | Loan Agreement between The Industrial Development Authority of the County of Mohave and Citizens Utilities Company dated as of November 1, 1993 | Indenture of Trust between The Industrial Development Authority of the County of Mohave and Shawmut Bank Connecticut, N. A., as Trustee Dated as of November 1, 1993 | Tax Regulatory Agreement Among The Industrial Development Authority of the County of Mohave, Citizens Utilities Company and Shawmut Bank Connecticut, N.A., as Trustee Dated as of November 1, 1993 |
| The Industrial Development Authority of the County of Santa Cruz | | | |
| \$8,200,000 The Industrial Development Authority of the County of Santa Cruz Industrial Development Revenue Bonds 1985 Series (Citizens Utilities Company Project) Callable on 08/01/07 @ 100 | Loan Agreement between The Industrial Development Authority of the County of Santa Cruz and Citizens Utilities Company Dated as of August 1, 1985 | Indenture of Trust among The Industrial Development Authority of the County of Santa Cruz, The Connecticut National Bank, as Trustee and The Valley National Bank of Arizona, as co- Trustee Dated as of August 1, 1985 | None |
| \$12,680,000 The Industrial Development Authority of the County of Santa Cruz Industrial Development Revenue bonds 1988 Series A and 1988 Series B Callable @ par on 30 days notice | Loan Agreement between The Industrial Development Authority of The County of Santa Cruz and Citizens Utilities Company Dated as of September 1, 1988 | Indenture of Trust between The Industrial Development Authority of the County of Santa Cruz and The Connecticut National Bank, as Trustee Dated as of September 1, 1988 | Tax Regulatory Agreement among Citizens Utilities Company, The Industrial Development Authority of the County of Santa Cruz, The Connecticut National Bank, as Trustee Dated as of September 1, 1988 |
| \$8,000,000 The Industrial Development Authority of the County of Santa Cruz Industrial Development Revenue Bonds 1994 Series (Citizens Utilities Company Project) Callable on 11/01/03 @ 101 | Loan Agreement Between The Industrial Development Authority of the County of Santa Cruz and Citizens Utilities Company Dated as of September 1, 1994 | Indenture of Trust between The Industrial Development Authority of the County of Santa Cruz and Shawmut Bank Connecticut, National Association, as Trustee Dated as of September 1, 1994 | Tax Regulatory Agreement Among The Industrial Development Authority of the County of Santa Cruz, Citizens Utilities Company and Shawmut Bank Connecticut, National Association, as Trustee Dated as of September 1, 1994 |

SCHEDULE 6.15SELLER SURETY INSTRUMENTS

| Bond No. | Principal | Obligee | State | Bond Type | Bond Amount | Eff. Date | Exp. Date |
|------------------------|------------------|---------------------------------|-------|-------------------|-------------|-----------|-----------|
| 021257 | Patty L. Webster | Citizens Communications Company | AZ | Notary Public | \$5,000 | 11/10/99 | 11/09/03 |
| 021259 | Mike L. Gibelyou | Citizens Communications Company | AZ | Notary Public | \$5,000 | 12/10/99 | 12/09/03 |
| 93-EC-65527 ARIZONA | Carol J. Cox | Citizens Communications Company | AZ | Notary Public | \$5,000 | 04/04/01 | 04/03/05 |
| 93-CJ-99472 ARIZONA | Irma L. Martinez | Citizens Communications Company | AZ | Notary Public | \$5,000 | 04/01/99 | 03/31/04 |
| 191233 | | Citizens Communications Company | AZ | Use Fuel Tax | \$500 | 07/12/02 | 07/12/03 |
| 191232 | | Citizens Communications Company | AZ | Motor Carrier Tax | \$500 | 07/12/02 | 07/12/03 |

4

ASSET PURCHASE AGREEMENT

Seller Deliveries at Signing

| <u>Section – Deliverable</u> | <u>Tab</u> |
|--|-------------------|
| 4.6 – Environmental Reports..... | A |
| 4.7 – Collective Bargaining Agreements..... | B |
| 4.16 – Capital Expenditures Schedule | C |
| 6.12(b)(iv) – Additional Severance Benefits | D |
| 6.12(d)(iii)(B) – Employees with Southern Union Service | E |
| 6.14(c) – Exempt Facility Operating Protocol | F |

A

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

ADEQ Air Quality Permits and Other Related Information

| No. | Date | Description | Bates No. |
|-----|----------|---|-----------------------|
| 1 | 10/8/02 | Letter from ADEQ to Chris Sumwalt Re: Closure of 8/26/02 Notice of Violation Original violation notice attached. | VPP00001- VPP00009 |
| 2 | 9/3/02 | Letter to ADEQ Jon Marting from Sierra Research Re: Notice of Violation Speaks of why no violation has occurred. | 00010-00049 |
| 3 | 8/26/02 | Letter from ADEQ to Chris Sumwalt Re: Notice of Violation, NOV #60060 | 00050-00055 |
| 4 | 7/22/02 | Letter from Citizens to ADEQ's Air Quality Division Ms. Toopal Re: Compliance with Conditions of Permit No. 1001556 (includes summary exhibits) | 00056-00060 |
| 5 | 6/18/02 | Letter from ADEQ to Mr. Ojeda Re: Air Quality Permit No. 1001556, approved above permit revision (revision exhibits included) | 00061-00073 |
| 6 | 2/1/02 | Letter from Sierra Research to ADEQ, Ms. Nancy Wrona Re: Submittal of Emissions Test Report from December 11 th , 2001 testing (exhibits not included) | 00074-00075 |
| 7 | 11/19/01 | Letter from ADEQ to Mr. Ojeda Re: Air Quality Control Permit No. 100156 Electrical Services - 1209 (permit exhibits included) | 00076-00103 |
| 8 | 11/1/01 | Draft copy of ADEQ Class I Permit Significant Revision No. 1001556 to Permit No. 1000402 Revision Description | 00104-00114 |
| 9 | 11/1/01 | Draft Copy of Technical Review and Evaluation of Application for Significant Revision Permit No. 1001556 | 00115-00120 |
| 10 | 9/17/01 | Letter from ADEQ to Mr. Ojeda Re: Notice of Violation at VPP Description of violation included. | 00121-00129 |
| 11 | 9/10/01 | Letter from ADEQ to Mr. Ojeda Re: Semiannual Compliance Certification Report for the Period from 10/1/00 to 3/31/01 Request for more information from this report. | 00130-00131 |
| 12 | 8/28/01 | Memo from Sierra Research's Nancy Matthews to Mr. Mahadev, ADEQ Air Quality Division Re: Draft of CUC Significant Modification Permit (no exhibits) | 00132 |
| 13 | 8/14/02 | Email from Peter Hyde to SM2 | 00133 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 – VPP 01400

| | | | |
|----|---------|---|-------------|
| | | Re: Nogales proposed operation expansion of power plant | |
| 14 | 8/13/01 | Memo from Sierra Research's Nancy Matthews to ADEQ's Air Quality Division Sudeish Mahadev Re: Application for Significant Revision Includes list of permit activities. | 00134-00135 |
| 15 | 7/13/01 | Letter from Citizens to ADEQ Emission Inventory Team Re: Emissions inventory summary for 2000 (exhibits included) | 00136-00137 |
| 16 | 6/26/01 | ADEQ Notice of Inspection Rights Purpose of Inspection: To determine compliance with a permit issued pursuant to ARS 41-1064, ARS 49-426, and AAC R18-2-302 | 00138 |
| 17 | 6/12/01 | Letter from Sierra Research faxed to Mahadev of ADEQ Air Quality Division Re: Application for a Significant Revision | 00139-00140 |
| 18 | 4/5/01 | Letter from ADEQ to Mr. Ojeda Re: Air Quality Permit No. 1001556 Application for revision was incomplete | 00141 |
| 19 | 3/30/01 | Letter from ADEQ to Chris Sumwalt Re: Citizens/Valencia Plant Facility ID #0-001539 Information submitted has corrected violations from 1/25/01 facility inspections. Handwritten inspection report copy included. | 00142-00145 |
| 20 | 3/19/01 | Letter from Citizens to Nancy Wrona, Air Quality Division Re: Application for Significant Revision, requested documents (documents not included in file) | 00146-00152 |
| 21 | 3/16/01 | Letter from ADEQ to Mr. Ojeda Re: Application for Air Quality Permit No. 1001556, request for more information | 00153 |
| 22 | 1/01 | Application to the ADEQ for Modifications at the Valencia Power Plant in Nogales, AZ (exhibits included) Prepared by Sierra Research | 00154-00178 |
| 23 | 1/21/01 | Completeness Checklist of Application for Air Quality Control Permit Checklist is filled out and complete. | 00179-00184 |
| 24 | 1/19/01 | Letter from Sierra Research to Mr. Bhargava, Air Permits Section ADEQ Re: Application for a Significant Revision: Citizens (no application included) | 00185 |
| 25 | 9/20/00 | Memo from ADEQ, Nancy Wrona to Stakeholders for Excess Emissions Rulemaking Re: Notice of Proposed Rulemaking for Excess Emissions (exhibits included) | 00186-00200 |
| 26 | 5/24/00 | Letter from Ms. Templeton, Terracon to Mr. Roesler, Voluntary Sites Manager ADEQ Re: Voluntary Remediation Activities, expresses Citizens' desire to join program | 00201-00202 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | EPA ID NO AS0001038553 | |
|----|----------|---|-------------|
| 27 | 5/9/00 | Letter from Sierra Research to Wayne Hunt, Air Quality Division, ADEQ Re: Compliance Testing at Citizens VPP (includes test plans for annual source test to be carried out May 24, 2000) | 00203-00240 |
| 28 | 5/2/00 | Letter from ADEQ to Mr. Ojeda Re: Minor Permit Revision #1001233 to Class I Permit #1000402 (exhibit included) | 00241-00243 |
| 29 | 3/00 | Permit Activities for Citizens VPP from 10/7/87 to 3/00 | 00244 |
| 30 | 2/24/00 | Email from Nancy Matthews, Sierra Research to Citizens Re: Application to remove Alco IC engines from permit | 00245 |
| 31 | 2/8/00 | Standard Permit Application Form Revision #1000402 Includes letter to ADEQ and exhibits. | 00246-00254 |
| 32 | 1/24/00 | Letter from Sierra Research to Mr. Ojeda Re: Application for Minor Modification to Remove Alco Diesel Engines from Permit Includes application package | 00255-00261 |
| 33 | 11/19/99 | Letter from ADEQ to Mr. Ojeda Re: Air Quality Control Permit No. 1000402 Includes signed and dated permit exhibits. | 00262-00274 |
| 34 | 11/19/99 | ADEQ Air Quality Class I Permit In full Permit Number 1000402 | 00275-00287 |
| 35 | 7/29/99 | Letter from ADEQ to James Botkin, District Manager Re: Air Quality Control Permit No. 1000402, public issue notice | 00288-00289 |
| 36 | 7/1/99 | Letter from ADEQ to Mr. Ojeda Re: Air Quality Permit No. 1000563 Permit included. | 00290-00298 |
| 37 | 6/20/99 | Letter from Citizens to ADEQ Office of Air Quality Re: Semi-Annual Production Report Permit No. 191209-96 Includes production report for 1/99-6/99, receipts for diesel deliveries, and fuel analyses. | 00299-00313 |
| 38 | 3/12/99 | Letter from Citizens to Mr. Bhargava, Air Permits Section Re: Air Quality Control Permit No. 1000563, Hitachi gas turbine's annual emissions | 00314-00317 |
| 39 | 9/21/98 | Letter from Citizens to Cathy Li, Air Quality Division Re: Draft Title V Permit for Citizens, VPP Includes comments on the draft Title V permit. | 00318-00331 |
| 40 | 9/11/98 | Email from Nancy Matthews, Sierra Research to Citizens Re: Draft Title V Operating Plant, comments to be made | 00332 |
| 41 | 9/11/98 | Letter from ADEQ to Mr. Ojeda | 00333-00334 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | | |
|----|---------|--|-------------|
| | | Re: Air Quality permit No. 1000402, initial draft of permit completed (not included in this file) | |
| 42 | 9/1/98 | Draft Copy of the Technical Review and Evaluation of Application for Air Quality Permit No. 1000402 | 00335-00315 |
| 43 | 9/1/98 | ADEQ Air Quality Class I Permit Permit No. 1000402 | 00353-00365 |
| 44 | 7/13/98 | Draft copy of Air Quality Control Permit No. 1000563 to Mr. Bhargava, Air Permits Section, ADEQ Prepared by Sierra Research | 00366-00372 |
| 45 | 7/2/98 | Letter from ADEQ to Mr. Cook, Plant Superintendent Citizens Re: Air Quality Control Permit No. 1000563, public notice will be posted Includes application for Permit No. 1000563 | 00373-00383 |
| 46 | 6/25/98 | Letter from Sierra Research to Mr. Wayne Hunt, Air Quality Division Re: Submittal of Emissions Test Report, May 1998 Summary included; Full report available on file at VPP in Nogales | 00384-00385 |
| 47 | 3/16/98 | Letter from Sierra Research to Donna Lucchese, Air Quality Specialist Re: Modeling of Citizens VPP Permit #1000563, response to request for additional information on refined modeling analysis in 2/6/98 submittal Exhibits included. | 00386-00408 |
| 48 | 2/6/98 | Letter from Sierra Research to Donna Lucchese, Air Quality Specialist Re: Modeling of Citizens VPP Permit #1000563, response to letter dated 12/9/97 regarding various modeling issues. Exhibits included. | 00409-00422 |
| 49 | 1/19/98 | Letter from Citizens to ADEQ Office of Air Quality Re: Semi-Annual Report, Permit No. 191209-96 Production report from 7/1/97 to 12/31/97 included here. | 00423-00430 |
| 50 | 1/7/98 | Email from Carol Cox to Nancy Matthews Re: Water Injection on Nogales Gas Turbines, can't find files | 00431 |
| 51 | 9/24/97 | Memo from Sierra Research to Mr. Ojeda re: Air Permit for Operation of Gas Turbines in Power Augmentation Mode, ADEQ requests more information to complete the impact analysis | 00432-00433 |
| 52 | 2/28/97 | Letter from Sierra Research to Ms. Wrona, ADEQ Re: Minor Permit Revision No. 1000484 , clarifies conditions of permit | 00434-00436 |
| 53 | 5/21/97 | Letter from ADEQ to Mr. Botkin Re: Request to Test in Power Augmentation Mode, Air Quality Permit No. 1000563 / Significant Revision | 00437 |
| 54 | 2/14/97 | Letter from ADEQ to Mr. Botkin, Citizens Re: Copy of finalized Minor Permit Revision Number 1000484 Permit No. 1000484 included. | 00438-00445 |
| 55 | 2/4/97 | Letter from Sierra Research to Mr. Bhargava, Permits Section Re: ADEQ Permit No. 191209-96 , Citizens | 00446-00453 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | | |
|----|----------|--|-------------|
| | | Revision included. | |
| 56 | 1/24/97 | Standard Permit Application Form Permit No. 191209-96 | 00454 |
| 57 | 1/22/97 | Letter from Sierra Research to Jim Botkin Re: Application to Remove Restriction on Power Augmentation Operation Includes 9/5/96 memo with subject: Draft Application for Water Injection and ADEQ Permit No. 191209-96 draft | 00455-00464 |
| 58 | 1/9/97 | Letter from Sierra Research Nancy Matthews to Kathy Li, Air Quality Division Re: Draft permit for CUC, requests for modifications | 00465- |
| 59 | None | Power Plant Monitoring, Record Keeping and Reporting Requirements Chart | 00466 |
| 60 | 1/9/97 | Turbine Technology Payments Excel Sheet | 00467 |
| 61 | 1/2/97 | Consent Order Docket No. A-1-97 in the matter of: Citizens Utilities Company Valencia Power Plant | 00468-00478 |
| 62 | 12/20/96 | Memo from Sierra Research to VPP managers Re: Summary of New Monitoring, Recordkeeping and Reporting Requirements Includes handwritten comments and handwritten draft of turbine project | 00479-00486 |
| 63 | 12/9/96 | Unsigned copy of No. 61 | 00487-00498 |
| 64 | 10/18/96 | Letter from Sierra Research to Ms. Drishnaswamy, Air Quality Permits Section Re: Air Quality Permit Application for Minor Modification to Citizens Utilities Company VPP, additional information regarding derivation of CO emission rate Includes exhibits. | 00499-00506 |
| 65 | 9/13/96 | Letter from ADEQ to Mr. Botkin Re: Air Quality Permit Application for VPP - Permit #1000402, request for more information in order to perform a technical evaluation | 00507-00508 |
| 66 | 9/13/96 | Attached application for a minor modification on ADEQ Permit #191209-96 Includes permit exhibits. | 00509-00592 |
| 67 | 8/1/96 | Letter from Sierra Research to Mr. Bhargave, Permits Section, ADEQ Re: Amendments to Permit No. 191209-96 Exhibits included. | 00593-00596 |
| 68 | 7/22/96 | Letter from Sierra Research to Mr. Bhargava, ADEQ Re: ADEQ Permit No. 191209-96, request for supplemental materials to file a Class I Permit | 00597-00598 |
| 69 | 7/3/96 | Letter from Citizens to Mr. Bhargava, ADEQ Re: ADEQ Permit No. 191209-96, results of a compliance review of the equipment and operations Includes original letter to ADEQ about Installation Permit No. 45001 | 00599-00604 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | (10/25/88) | |
|----|----------|---|-------------|
| 70 | 7/3/96 | Memo from Sierra Research to Mr. Botkins Re: ADEQ Notice Regarding Incomplete Application, no application fee for permit | 00605-00606 |
| 71 | 7/2/96 | Memo from Sierra Research to Dan Catlin, ADEQ Re: Class I Permit Application Materials for Citizens, Permit No. 191209-96 No exhibits included in file. | 00607 |
| 72 | 5/2/96 | Memo from Sierra Research to Jim Botkins Re: Enclosed Class I Permit Application for VPP, impending permit deadline. No Permit exhibits included. | 00608 |
| 73 | 5/2/96 | Letter from Sierra Research to Mr. Bhargava Re: ADEQ Permit No. 191209-96, meeting deadline to file permit; VPP facility is now a "major source" causing delay | 00609 |
| 74 | 5/3/96 | Completed Class I Permit with attached check and letter of explanation. | 00610-00622 |
| 75 | 11/13/95 | Letter from ADEQ Re: Information Request to Update Our Records Includes ADEQ Annual Inspection Fee Invoice and filled update sheet | 00623-00626 |
| 76 | 10/26/95 | Inter-office Memo from ADEQ Ms. Garon to Mr. North and Ms. Schwab Re: Case Information for VPP PCS #1219-U, informed Citizens about their contaminated soil | 00627 |
| 77 | 11/30/94 | Diesel fuel sample results from 10/94 with sulfur content results From Cleveland Technical Center | 00628 |
| 78 | 9/2/94 | Emissions calculations from Mr. Cook to Mr. Brousard, ADEQ Includes AP-42 Table References | 00629-00631 |
| 79 | 5/17/93 | Inter-office Memo in Citizens to Mr. True from Mr. Mount Re: ADEQ Operation Permit No. 191209-96 No exhibits included | 00632-00635 |
| 80 | 5/5/93 | Operating Permit No. 191209-96 Electric Generation Facility Includes Exhibits. | 00636-00650 |
| 81 | 2/5/93 | Application for Operating Permit No. 4402-94 Includes exhibits. | 00651-00655 |
| 82 | 6/14/99 | ADEQ Air Quality Field Activity Report No. 22129 | 00656 |
| 83 | 5/29/98 | ADEQ Air Quality Field Activity Report No. 19533 Includes Semi-Annual Production Report ADEQ Permit #191209-96 (1/20/96) | 00657-00669 |
| 84 | 4/22/97 | ADEQ Air Quality Field Activity Report No.17318 | 00670-00671 |
| 85 | 5/29/98 | Copy of No. 83, no exhibits. | 00672-00673 |
| 86 | 8/14/94 | ADEQ Air Quality Field Activity Report No.AQD:SRO:3176 | 00674 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

PCB DATA:

PCB MANAGEMENT MEMOS, INFORMATION, AND TEST RESULTS:

| | | | |
|----|--|---|-------------|
| 87 | 1/16/98 | Letter packet from Citizens to Ms. P. France-Isetts, Superfund Division USA EPA, Region VII Re: Response of Citizens to Request for Information: PCB Treatment Inc. Superfund Sites: Kansas City, Missouri, and Kansas City, Kansas Includes information request respond. | 00675-00683 |
| 88 | 1/12/98 | Email from Mr. Ojeda to Carol Cox Re: Length of time for storage, PCB Waste | 00684 |
| 89 | 2/18/94 | Copy of meeting minutes with Jim Botkin leading meeting Purpose: to create a PCB response team | 00685-00686 |
| 90 | 11/24/93 | Inter-office letter from DL True, Citizens Re: PCB Procedures | 00687-00688 |
| 91 | 6/9/92 | Letter to Mr. Curry, Jeffers Electronics from Mr. Jacobus, Citizens Re: Testing results from transformers serving the above building Includes test results. | 00689-00690 |
| 92 | 5/11/92 | Letter to Mr. Kemp, US West Business Resources, Inc. from Mr. Jacobus, Citizens Re: Testing results from one transformer in the above building Building address: Missile Site Road, Tubac, AZ 85640 Includes test results and survey. | 00691-00700 |
| 93 | 12/27/89 | Letter to Mr. Cull, Environmental Engineering Services from Mr. True, Citizens Re: Transformer Oil, Certification of the status of PCB content in the oil cooled transformer Includes Certificate of PCB Compliance | 00701-00707 |
| 94 | 12/14/89 | Copy of No. 93 | 00708-00709 |
| 95 | 6/6/86 | Letter from Environmental International Inc to Mr. Canez, Citizens Re: Disposal of PCB transformers | 00710-00711 |
| 96 | 4/15/85 | Completed "Note Pad" Survey; Disposition of PCB-Contaminated Mineral Oil (up to 5,000 PPM) | 00712-00719 |
| 97 | 8/3/81 | Letter to Mr. Canez from General Electric Mr. Olsen Re: Certification the GE Distribution Transformers contain no detectable PCB's | 00720-00721 |
| 98 | 3/80 | Packaging Instructions for Solid PCB Material | 00722 |
| 99 | 9/19/02, 8/9/02, 8/7/02, 7/18/02, 6/27/02, 5/16/02, | PCB Report EPA Method 8082 | 00723-00783 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | | |
|-----|--|---|-------------|
| | 5/8/02, 5/3/02, 4/19/02, 4/16/02, 4/9/02, 3/18/02, 3/8/02, 3/8/02, 3/7/02, 10/17/01 9/24/01, 9/21/01, 9/17/01, 8/24/01, 8/21/01, 8/16/01, 8/13/01, 7/31/01, 7/03/01, 6/01/01, 5/21/01, 5/03/01, 4/13/01, 4/3/01, 3/21/01, 3/14/01, 1/17/01, 1/16/01, 8/31/98 | | |
| 100 | No date | Santa Cruz Electric Distribution of PCB Samples by PPM Inc. | 00784-00790 |
| 101 | 1/25/94 | PCB Test Report from Sherwood Labs, Inc. | 00791 |
| 102 | 1987 | Santa Cruz Electric Division Summary of 1987 PCB Activity | 00792 |
| 103 | 12/23/87 | PCB Test Results from PPM Lab Services | 00793-00799 |
| 104 | 12/23/87 | PCB Oil Analysis Test Results from PPM Lab Services | 00800 |
| 105 | 12/22/87 | PCB Oil Analysis Test Results from PPM Lab Services | 00801-00808 |
| 106 | 12/22/87 | PCB Oil Analysis Test Results from PPM Lab Services | 00809-00811 |
| 107 | 12/22/87 | PCB Oil Analysis Test Results from PPM Lab Services | 00812-00813 |
| 108 | 11/13/87 | PCB Oil Analysis Test Results from PPM Lab Services | 00814-00833 |
| 109 | 1986 | Santa Cruz Electric Division Summary of 1986 PCB Activity | 00834 |
| 110 | 12/85 | PCB Status (No. of Capacitors) for VPP | 00835 |
| 111 | 1985 | Santa Cruz Electric Division Summary of 1985 PCB Activity | 00836 |
| | | Includes handwritten questions on summary sheet | |
| 112 | 1984 | Kingman PCB Annual Report 1984 | 00837-00843 |
| | | Includes invoices to cover Invoice No. 1167, corresponds to PO No. B179807 and PO No. B179858 | |
| 113 | 7/2/82 | PCB Results from Transformer Consultants | 00844-00845 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | | |
|-----|---------|--|-------------|
| 114 | 4/27/81 | PCB Results from Transformer Consultants | 00846-00847 |
|-----|---------|--|-------------|

General - Nogales Files

EPA FILES:

| | | | |
|-----|---------|---|-------------|
| 115 | 12/7/83 | Letter from Mr. Jacobus, Citizens to Mr. Glassel, EPA Re: TSCA-09-80071-01-WR Includes copy of annual record that shows no PCB Capacitors | 00848-00852 |
| 116 | 3/11/80 | Notice of Noncompliance from EPA to Mr. Petty, Citizens Refer to ENF-7 | 00853-00854 |

INTER-OFFICE MEMOS:

| | | | |
|-----|----------|--|-------------|
| 117 | 6/25/97 | Hazard Communications Training Denny Scanlan Report | 00855-00856 |
| 118 | 11/12/98 | Serious Incident Notification and Reporting Policy | 00857 |
| 119 | 1/21/98 | Breakfast and Learn Presentation - Santa Cruz District Subject: Environment, Safety, and Compliance Recordkeeping | 00858 |
| 120 | 12/23/97 | Subject: Containers for Used Batteries and Fluorescent Tubes and Bulbs | 00859 |
| 121 | 3/18/98 | Compliance and Environment Update Work completed by Carol Cox at Santa Cruz district | 00860 |
| 122 | 4/2/98 | Hazardous Materials Awareness Seminar Brief outline of seminar attended. | 00861 |
| 123 | 1/13/98 | Brief note from Carol Cox re: preliminary PCB reading | 00862 |
| 124 | 1/9/98 | Email from Ana Canez to Carol Cox Re: Testing TXR Oil Safety | 00863 |
| 125 | 5/13/98 | Fax from Carol Cox to Harry Lee re: Health and Safety Issues | 00864 |
| 126 | 5/21/98 | Subject: MIS for EHS | 00865-00867 |
| 127 | 1/16/98 | Water Injection System Operation and Maintenance Questionnaire | 00867 |
| 128 | 9/10/01 | Email from Carol Cox to Alvaro Durazo re: PCB Transformers Gives results from 1998 testing | 00868 |
| 129 | 11/8/99 | Email from Mr. Ojeda to Carol Cox re: Persistent Bioaccumulative Toxic (PBT) Chemicals | 00869-00870 |
| 130 | 11/8/99 | Memo to "Distribution" from Harry Lee re: Persistent Bioaccumulative Toxic (PBT) Chemicals | 00871-00873 |
| 131 | 7/5/95 | Memo to Paul Townsley from David Williams re: Misc. Update | 00874-00880 |
| 132 | 7/3/96 | From Dan McCarthy to Jim Botkin re: Operating Valencia GT's during July, Aug, Sept | 00881-00886 |

COMPLAINTS:

| | | | |
|-----|----------|---|-------------|
| 133 | 11/4/92 | Transformer Oil Spill Includes purchase order for cleanup. | 00887-00888 |
| 134 | 11/24/93 | Memo to "Distribution" to develop PCB handling procedures | 00889 |

DISPOSAL INFORMATION:

| | | | |
|-----|---------|--|-------------|
| 135 | 2/25/81 | Pick up and dispose of 46 capacitors | 00890-00892 |
| 136 | 5/19/87 | Disposal of one drum of category F capacitors by US Ecology. | 00893-00894 |
| 137 | 2/22/88 | Disposal NO. 1210246CT08-B | 00895-00896 |
| 138 | 2/23/88 | Certificate of Disposal for manifest No. 1210246CT08-A | 00897-00905 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | | |
|-----|---------|--|-------------|
| | | Includes certification of decontamination from US Pollution Control, Inc. | |
| 139 | 2/23/88 | Disposal No. 1210246CT08-C; 32,400 lbs. PCB Transformers | 00906-00909 |
| 140 | 7/28/88 | Certificate of Disposal Manifest No. 35826 | 00910 |
| 141 | 7/28/88 | Uniform Hazardous Waste Sheet | 00911 |
| 142 | 12/5/97 | Letter form Laidlan Environmental Services to Citizens Re: Coffeyville Closure | 00912 |
| 143 | 1/23/98 | Citizens Interoffice Procedure Memo: Disposal of Used Transformers and Other Used Electric Equipments Containing Oil | 00913-00918 |
| 144 | 6/23/00 | Western Region Lab re: Mineral Oil Contaminated Gravel Disposal Information | 00919-00920 |
| 145 | 6/16/00 | Waste Management New Waste Approval at Butterfield Station Includes handwritten approval sheet, MSDS, and exhibits. | 00921-00931 |

UNIFORM HAZARDOUS WASTE MANIFEST SHEETS

| | | | |
|-----|--|--|-------------|
| 146 | 7/23/02, 9/21/01, 8/9/01, 6/19/01, 12/19/87 12/15/87 12/14/87 12/10/87 11/6/87, 11/5/87, 7/29/87 | Various UHWM sheets all handwritten with details of specific disposal listed on each sheet | 00932-00950 |
|-----|--|--|-------------|

2000 TIER II INFORMATION SHEETS:

| | | | |
|-----|---------------------|---|-------------|
| 147 | No date | AZSERC Tier II questionnaire | 00951 |
| 148 | No date, 2/26/01 | 2000 Tier II General Information, various sites and dates | 00952-00969 |

SEMI-ANNUAL REPORTS FOR ADEQ:

| | | | |
|-----|----------|--|-------------|
| 149 | 6/13/02 | Compliance Certification for 10/1/01-3/31/02 Exhibits included. | 00970-00975 |
| 150 | 11/13/01 | Compliance Certification for 4/1/01-9/30/01 Exhibits included. | 00976-00981 |
| 151 | 6/7/01 | Compliance Certification for 10/1/00-3/31/01 Exhibits included. | 00982-00987 |
| 152 | 11/8/00 | Compliance Certification for 4/1/00-9/31/00 Exhibits included. | 00988-00992 |
| 153 | 5/11/00 | Compliance Certification for 10/1/99-3/31/00 Exhibits included. | 00993-00997 |
| 154 | 3/29/00 | Letter from Sierra Research to Carol Cox, Citizens Re: 1999 ADEQ Emission Reports Exhibits not included here; on file at VPP | 00998 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | | |
|-----|----------|--|-------------|
| 155 | 1/26/00 | Email form Nancy Matthews, Sierra Research to Carol Cox, Citizens Re: Title V Emission Fee Invoice (why was the fee doubled?) | 00999 |
| 156 | 5/10/00 | Semiannual Compliance Certification Period: 10/31/99-3/31/2000 Air Quality Control Permit No. 1000402 Copy of No. 153. | 01000-01005 |
| 157 | 12/17/99 | Email from Ms. Matthews, Sierra Research to Mr. Ojeda, Citizens Re: EPA Method 9 | 01006 |
| 158 | 12/14/99 | Email from Mr. Ojeda to Ms. Matthews Re: EPA Method 9 | 01007 |
| 159 | 11/9/99 | Email from Ms. Matthews to Carol Cox, Citizens Re: Semi-Annual Emissions Inventory Report | 01008 |
| 160 | 7/13/99 | Memo from Sierra Research to Chris Sumwalt, Nogales Re: Semiannual Report to ADEQ, list materials needed for report | 01009 |
| 161 | 6/20/99 | Letter from Citizens to ADEQ Re: Semi-Annual Production Report Permit No. 191209-96, for 1/1/99-6/30/99 Includes receipts for diesel purchase, emissions report, and fuel analysis. Exhibits not included here; full file available at VPP 14.84.1 | 01010 |
| 162 | 1/19/99 | Letter from Citizens to ADEQ Re: Semi-Annual Production Report Permit No. 191209-96, for 7/1/98-12/31/98 Includes receipts for diesel purchase, emissions report, and fuel analysis. Exhibits not included here; full file available at VPP 14.84.1 | 01011 |
| 163 | 7/10/98 | Letter from Sierra Research to Carol Cox Re: Semiannual Production Report for ADEQ, Turbine 3 having problems and not able to collect all data Includes exhibits. | 01012-01019 |
| 164 | 5/14/98 | Email from Ms. Matthews to Carol Cox Re: CAS Number Entries in CUC 1997 Inventory | 01020 |
| 165 | 3/16/98 | Annual Emissions Inventory Submittal Exhibits included. | 01021-01025 |
| 166 | 3/12/98 | Annual Emissions Inventory Submittal from Sierra Research for Citizens approval. Exhibits included. | 01026-01036 |
| 167 | 7/9/97 | Semi-annual production report for 1/1/97-6/30/97. Exhibits included. | 01037-01041 |
| 168 | 1/20/97 | Semi-annual production report for 7/96-12/96. Exhibits included. | 01042-01044 |
| 169 | 7/7/97 | Production Report at VPP for year of 1997 Exhibits included. | 01045-01050 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | | |
|-----|----------|---|-------------|
| 170 | 1/12/96 | Letter from Citizens to ADEQ Re: Semi-Annual Production Report Permit No. 191209-96, for 7/95-12/95 Includes receipts for diesel purchase, emissions report, and fuel analysis. Exhibits included. | 01051-01069 |
| 171 | 1995 | Arizona Emissions Inventory Management System Survey for VPP and the year 1995 Exhibits included. | 01070-01095 |
| 172 | 1/10/95 | Letter from Citizens to ADEQ Re: Semi-Annual Production Report Permit No. 191209-96, for 7/94-12/94 Includes receipts for diesel purchase, emissions report, and fuel analysis. Exhibits included. | 01096-01106 |
| 173 | 7/7/95 | Letter from Citizens to ADEQ Re: Semi-Annual Production Report Permit No. 191209-96, for 1/95-6/95. No fuel purchases so fuel analysis not included. Exhibits included. | 01107-01112 |
| 174 | 12/26/95 | Copy of Permit No. 191209-96 | 01113-01119 |
| 175 | 12/14/94 | Copy of 7/94 semi-annual report. | 01120-01123 |
| 176 | 8/16/94 | Letter from Citizens to ADEQ Re: Semi-Annual Production Report Permit No. 191209-96, for 7/94 Includes receipts for diesel purchase, emissions report, and fuel analysis. Exhibits included. | 01124-01129 |
| 177 | 7/8/94 | Semi-annual Report for 1/94-6/94 Exhibits included. | 01130-01134 |
| 178 | 1/24/94 | VPP DEQ Operating Report, 7/12/93 | 01135-01140 |

LEAK DETECTION REPORTS (missing data from 1999 and 2000):

| | | | |
|-----|------|-----------------------------------|-------------|
| 179 | 2002 | Evaluation Report from 1/02-7/02 | 01141-01162 |
| 180 | 2001 | Evaluation Report from 1/01-12/01 | 01163-01188 |
| 181 | 1998 | Evaluation Report from 1/98-11/98 | 01189-01209 |
| 182 | 1997 | Evaluation Report from 1/97-12/97 | 01210-01229 |
| 183 | 1996 | Evaluation Report from 1/96-12/96 | 01230-01254 |
| 184 | 1995 | Evaluation Report from 1/95-12/95 | 01255-01279 |

UNSYSTEMATIC PIECES OF FILES FROM VPP:

| | | | |
|-----|---------|---|-------------|
| 185 | No date | A brief history of utilities in Nogales | 01280-01283 |
| 186 | 1/22/02 | Diesel Line Status Report Citizens Energy Services Exhibits included. Prepared by Verde MGT Company | 01284-01306 |
| 187 | 8/22/01 | ADWR Well Report | 01307 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | | |
|-----|----------|--|-------------|
| 188 | 5/14/01 | Backflow Prevention Assembly Test Report for 1741 N. Grand and 1125 Hodges @ Coatimundi | 01308-01312 |
| 189 | 4/6/01 | Leak Survey Report Memo from Jeff Wolf to R. Vallejo 2001 Nogales Section 4 Gas Leak Survey No exhibits included here. | 01313 |
| 190 | 5/3/01 | Letter from ADOT to Citizens Re: Permit No. 57778, Notice of Completion Location B-19, MP2.40 - 2.47 | 01314 |
| 191 | 4/4/01 | System Surveillance Report from Jeff Wolf to R. Vallejo Re: 2001 6" Turbine Line System Surveillance Survey | 01315 |
| 192 | 12/22/00 | Assoc. Laboratories PCB Analysis results as per Emergency Spill | 01316-01320 |
| 193 | 6/02/00 | Oil tests for drums of oil from Sonoita Substation | 01321-01323 |
| 194 | 5/13/00 | Report letter from Citizen's chief financial officer in CT, Mr. DeSantis Re: Underground storage tanks locations | 01324-01331 |
| 195 | 2/10/00 | Letter to Brian Kelly, ADEQ Re: Financial Responsibility for UST's | 01332-0133 |
| 196 | 9/27/99 | Letter from Union Distribution to Mr. Porter, ADEQ Re: Low Sulfur Diesel Fuel Specifications | 01334-01336 |
| 197 | 7/1999 | Underground Fuel Storage Tank System Compliance Report for VPP Included exhibits. Prepared by Verde Company, Inc. | 01337-01348 |
| 198 | 6/3/99 | Form R for the Toxic Release Inventory requirements | 01349-01356 |
| 199 | 4/99 | PCB Document Log from Citizen's VPP Several database sheets | 01357-01364 |
| 200 | 8/98 | Santa Cruz District Food and Feed Lot Transformer Survey | 01365-01367 |
| 201 | 4/20/95 | Letter from ARKWRIGHT to Mr. Colburn Re: Loss Prevention Report | 01368-01370 |
| 202 | 5/12/97 | Turbine Exhaust Gas Test Run Data | 01371-01375 |
| 203 | 4/14/97 | Turbine Upgrade Weekly Progress Report | 01376-01379 |
| 204 | 2/27/97 | Inter-office Citizens Memo Re: Change Order Turbine Upgrade Project | 01380-01381 |
| 205 | 10/19/95 | Exhibits from No. 201 Loss Prevention Report | 01382-01383 |
| 206 | 2/14/95 | Letter from ADEQ Re: UST Financial Responsibility Rules | 01384-01386 |
| 207 | 7/14/94 | Letter from Bill Cox to Mr. Gomez, Nogales Fire Department Re: Oil Spill Cleanup on Escalada Property South of Valencia Substation On Grand Avenue | 01387-01390 |
| 208 | 7/31/89 | CSA Analysis Results for benzene, toluene, ethyl benzene, and total xylene and Hydrocarbon | 01391-01392 |
| 209 | 12/16/87 | Reminder for transformer drums pickup from PPM, Inc. | 01393-01394 |
| 210 | 7/23/02 | Certificate of Recycling for 347 Pound Pole Mounted Transformer Manifest #07182 | 01395-01396 |

VALENCIA POWER PLANT FILES

BATES # VPP 00001 - VPP 01400

| | | | |
|-----|---------|---|-------------|
| 211 | 11/6/87 | US Pollution Control, Inc. Waste Analysis Information Sheets | 01397-01399 |
| 212 | 5/1/81 | Water Quality Analysis - Chemical Analysis from Smith and Smith Environmental Laboratory | 01400 |

Terracon Documents Delivered to Citizens
(Organized and Bates labeled prior to delivery to Citizens)

| <u>No.</u> | <u>Date</u> | <u>Description</u> | <u>Bates No.</u> |
|------------|---------------|--|----------------------|
| 1 | June 21, 1993 | Preliminary evaluation for PCB & TPH sampling at the Escalada Trust Property. | TER-000001-TER000005 |
| 2 | 04/20/00 | Soil sampling results from beneath former radiators at Nogales, AZ | 000006-000024 |
| 3 | 12/01/98 | Includes actual lab results from March 17, 2000. Report from additional phase II site characterization and quarterly groundwater monitoring. Appendix includes actual lab results from 8/98 and 10/98. | 000024-000111 |
| 4 | 04/12/01 | Proposal for 2001 Groundwater Monitoring at Valencia Power Plant, Nogales. | 000113-000117 |
| 5 | 04/16/01 | Proposal for additional soil characterization, work plan preparation, and soil and groundwater remediation at Nogales. | 000118-000131 |
| 6 | 05/17/00 | Contract for Engineering Services between Citizens and Terracon dated May 15, 2000. | 000133-000159 |
| 7 | 06/21/93 | Copy of No. 1, but includes exhibits here. | 000160-000176 |
| | 07/12/93 | VPP Plant site assessment papers (no papers of substance; just fax cover sheets) | 000177-000179 |
| | 06/30/93 | PCB & TPH sampling program for Nogales (includes exhibits) | 000180-000207 |
| | 07/16/93 | Consultant AGMT for VPP oil spill | 000208-000225 |
| 9 | 09/20/93 | Exhibits (log of boring) for Phase II and initial Phase III in Nogales. | 000226-000271 |
| 10 | 12/10/93 | Level II site assessment report for soil boring and monitoring well installation program in Nogales. | 000272-000308 |
| 11 | 10/11/93 | Copy of No. 12, but includes exhibits here. | 000309-000442 |
| 12 | 07/09/93 | Site assessment work plan proposal; prepared for ADEQ, Solid Waste Division, for a possible expansion of Valencia Plant in Nogales. | 000443-000459 |
| 13 | 05/25/93 | Job register sheet for Nogales (handwritten). | 000460-000461 |
| 14 | 11/29/93 | Unsigned contract from Enviro-Drill for hydrocarbon investigation and monitor well installation at Nogales. | 000462-000469 |
| 15 | 06/21/93 | Copy of No. 7 with exhibits. | 000470-000482 |
| 16 | 06/30/93 | Copy of No. 11 | 000483-000508 |
| 17 | 05/27/93 | Site safety and health plan (soil sampling/ characterization for potential PCP contamination) for Nogales. | 000509-000519 |
| 18 | 01/17/94 | Initial Level II site assessment report (follows an investigation of possible 1983 subsurface hydrocarbon contamination) for Nogales. | 000520-000653 |
| 19 | 08/31/94 | Second Phase II assessment and monitoring well installation program in Nogales (includes exhibits). | 000654-000707 |
| 20 | 03/17/94 | Exhibits from Arizona Department of Water Resources concerning well permits in Nogales (two copies) | 000708-000724 |

| <u>No.</u> | <u>Date</u> | <u>Description</u> | <u>Bates No.</u> |
|------------|-------------|--|------------------|
| 21 | 04/12/94 | Safety and health plan (petroleum hydrocarbons anticipated) for location at 1741 Grand Ave. | 000727-000743 |
| 22 | 08/31/94 | Copy of No. 21 | 000744-000786 |
| 23 | 03/02/94 | Report outlining alternatives for remediation of the petroleum hydrocarbon impacted soil in Nogales (exhibits included). | 000787-000849 |
| 24 | 08/08/94 | Report for soil remediation project for Nogales site (exhibits included). | 000851-000922 |
| 25 | 03/27/02 | Exhibits (log of boring). | 000923-000927 |
| | 04/02/02 | Exhibits (log of boring). | 000928-000929 |
| | 08/11/93 | Exhibits (log of boring). | 000930-000935 |
| | 04/12/94 | Exhibits (log of boring). | 000936-000940 |
| | 09/25/01 | Exhibits (log of boring). | 000941-000941 |
| | 04/22/94 | Exhibits (log of boring). | 000942-000947 |
| | 06/14/96 | Exhibits (log of boring). | 000948-000949 |
| | 09/25/01 | Exhibits (log of boring). | 000950-000952 |
| 26 | 07/01/93 | Exhibits (log of boring). | 000953-000994 |
| 27 | 12/31/97 | Revised conceptual remedial action plan for Nogales. | 000996-001011 |
| 28 | 03/25/96 | Signed copy of Time and Expenses Contract (from sample and analysis at Nogales). | 001012-001028 |
| 29 | 11/11/97 | Columbia Analytical Services results. | 001029-001033 |
| 30 | 12/28/98 | Conceptual remedial action plan former waste pit area (MW-9) | 001034-001048 |
| 31 | 03/18/98 | Letter confirming collection tanks (not underground storage tanks) from the city of Nogales. | 001049-001051 |
| 32 | 09/11/96 | Groundwater monitoring well No. MW-9 installation and quarterly groundwater monitoring report (exhibits included). | 001052-001101 |
| 33 | 09/11/96 | Copy of No. 34 | 001102-001152 |
| 34 | 03/30/98 | Subsurface collection tanks letter | 001153-001153 |
| 35 | 07/30/97 | Confirmation of Additional environmental consulting services letter | 001154-001155 |
| 36 | 08/18/97 | Quarterly groundwater monitoring report for July, 1997 (exhibits included). | 001158-001178 |
| 37 | 03/18/98 | Copy of No. 33 | 001179-001179 |
| 38 | 07/16/97 | Quarterly groundwater monitoring report from March, 1997 sampling event (exhibits included). | 001180-001197 |
| 39 | 06/18/97 | Quarterly monitoring report (exhibits included). | 001198-001217 |
| 40 | 07/16/97 | Copy of No. 40 | 001218-001237 |
| 41 | 08/18/97 | Copy of No. 38 | 001238-001263 |
| 42 | 11/21/97 | Quarterly groundwater monitoring report for October, 1997 sampling event (exhibits included). | 001264-001287 |
| 43 | 09/11/96 | Copy of No. 34 | 001288-001338 |
| 44 | 06/02/98 | Collection tanks letter (two copies). | 001339-001342 |
| 45 | 12/31/97 | Copy of No. 9 | 001343-001359 |
| 46 | 11/11/97 | Columbia Analytical Services results. | 001360-001364 |
| 47 | 06/18/97 | Copy of No. 41 | 001365-001383 |
| 48 | 04/19/96 | Job register sheet for Nogales (handwritten). | 001384-001386 |
| 49 | 11/01/96 | Proposal for 1997 ground-water monitoring (two copies). | 001388-001394 |

| <u>No.</u> | <u>Date</u> | <u>Description</u> | <u>Bates No.</u> |
|------------|-------------|--|------------------|
| 50 | 11/11/96 | Copy of No. 34 | 001395-001405 |
| 51 | 11/21/97 | Copy of No. 44 | 001406-001429 |
| 52 | 12/31/97 | Two copies of No. 29 | 001430-001463 |
| 53 | 12/23/96 | Letter requesting invoices from Terracon. | 001464-001464 |
| 54 | 03/30/98 | Letter concerning subsurface collection tanks. | 001465-001465 |
| 55 | 09/26/97 | Letter recommending hydrocarbon product removal and groundwater remediation feasibility. | 001466-001468 |
| 56 | 12/23/96 | Copy of No. 55 | 001469-001469 |
| 57 | 03/30/98 | Copy of No. 56 | 001470-001470 |
| 58 | 09/26/97 | Copy of No. 57 | 001471-001473 |
| 59 | 12/19/97 | Quote/Work order for drilling services (signed). | 001474-001476 |
| 60 | 07/08/98 | Letter of request concerning groundwater monitoring well surface seal | 001477-001477 |
| 61 | 11/21/97 | Copy of No. 44 | 001478-001500 |
| 62 | 04/06/98 | Job registration sheet | 001501-001503 |
| 63 | 05/12/98 | Additional phase II site characterization and quarterly groundwater monitoring report from October, 1998 sampling (exhibits included). | 001504-001519 |
| 64 | 03/30/98 | Copy of No. 56 | 001520-001520 |
| 65 | 07/30/97 | Letter confirming additional environmental consulting services. | 001521-001522 |
| 66 | 03/18/98 | Copy of No. 33 | 001523-001526 |
| 67 | 06/02/98 | Copy of No. 46 | 001527-001528 |
| 68 | 07/31/98 | ACORD certificate of liability insurance. | 001529-001530 |
| 69 | 12/19/97 | Copy of No. 61 | 001531-001533 |
| 70 | 08/12/98 | AZ preliminary 20 day lien notice | 001534-001534 |
| 71 | 06/19/98 | Signed letter re: payment of drilling invoice | 001535-001536 |
| 72 | 07/08/98 | Copy of No. 62 | 001537-001537 |
| 73 | 12/19/97 | Unsigned proposal for additional phase II site characterization | 001538-001541 |
| 74 | 07/17/98 | Signed subcontractor services agreement with Enviro-Drill, Inc. | 001542-001553 |
| 75 | 08/29/97 | fax sheet | 001554-001554 |
| 76 | 08/03/97 | Safety and health plan (petroleum hydrocarbon contamination anticipated) | 001555-001573 |
| 77 | 03/30/98 | Invoice | 001574-001574 |
| 78 | 08/03/97 | Copy of No. 78 | 001575-001593 |
| 79 | 02/05/98 | Job registration sheet | 001594-001596 |
| 80 | 06/11/99 | Confidential Workplan outline | 001597-001603 |
| 81 | 02/18/98 | Columbia Analytical Services results submitted 2/10/98 | 001604-001609 |
| 82 | 05/13/98 | Quarterly groundwater monitoring report from April, 1998 sampling event (exhibits included). | 001610-001631 |
| 83 | 03/06/98 | Quarterly groundwater monitoring report from February, 1998 sampling (exhibits included). | 001632-001652 |
| 84 | 03/06/98 | Copy of No. 85 | 001653-001676 |
| 85 | 05/13/98 | Copy of No. 84 | 001677-001694 |
| 86 | 02/10/99 | Quarterly groundwater monitoring report from December, 1998 sampling (exhibits included). | 001695-001718 |
| 87 | 01/22/98 | Contractor costs for MW-9 clean-up. | 001719-001721 |
| 88 | 01/27/98 | Signed proposal for 1998 groundwater monitoring. | 001722-001724 |
| 89 | 02/10/99 | Copy of No. 88 | 001725-001747 |

| <u>No.</u> | <u>Date</u> | <u>Description</u> | <u>Bates No.</u> |
|------------|-------------|--|------------------|
| 90 | 12/01/98 | Additional phase II site characterization and quarterly groundwater monitoring report for October, 1998 (exhibits included). | 001748-001833 |
| 91 | 4/00-8/00 | Product removal results for a variety of months in the year 2000. | 001834-001869 |
| 92 | 02/20/01 | Email from Sharon Templeton and results concerning December, 2000 reviews of VPP | 001870-001874 |
| 93 | 02/19/01 | Cost proposal for drilling services from Geomechanics Southwest, Inc. | 001875-001879 |
| 94 | 06/24/01 | Workplan for soil and groundwater remediation | 001880-001894 |
| 95 | 08/18/99 | Faxes from Sharon Templeton with various exhibits. | 001895-001901 |
| 96 | 06/28/99 | Confidential draft workplan for soil and groundwater remediation (exhibits included). | 001902-001962 |
| 97 | 10/23/00 | Addendum to 2000 quarterly groundwater monitoring contract for Nogales (exhibits included). | 001964-001990 |
| 98 | 11/27/01 | Cost proposal from Geomechanics Southwest, Inc. for well abandonment in Nogales (exhibits included). | 001991-002005 |
| 99 | 01/30/02 | Request for variance, monitor wells from Geomechanics Southwest, Inc. for Nogales site (exhibits included). | 002006-002037 |
| 100 | 04/12/01 | Proposal for 2001 groundwater monitoring | 002038-002049 |
| 101 | 04/16/01 | Copy of No. 5 | 002050-002062 |
| 102 | 07/31/01 | Exhibits for well abandonment. | 002063-002068 |
| 103 | 10/15/01 | Sample results (testing for chromium) from Columbia Analytical Services. | 002069-002099 |
| 104 | 01/16/02 | Columbia Analytical Services results; first page refers to pipeline excavation. | 002100-002129 |
| 105 | 01/07/00 | Exhibits for MW-5 well abandonment. | 002130-002148 |
| 106 | 04/02/02 | Final report for electromagnetic radiography (EMR) survey at Nogales plant (exhibits included). | 002149-002240 |
| 107 | 01/14/02 | Results from water and product sampling from MW-16, MW-6 and Diesel. | 002241-002268 |
| 108 | 04/20/00 | Report of soil sampling beneath former radiators in Nogales (exhibits included). | 002269-002286 |
| 109 | 02/19/01 | Copy of No. 95 | 002287-002292 |
| 110 | 08/18/99 | Copy of No. 97 | 002293-002299 |
| 111 | 06/08/99 | Results from material tested May 25, 1999 by Friedman & Bruya, Inc. | 002300-002319 |
| 112 | 11/01/01 | Department of water resources well report | 002320-002321 |
| 113 | 07/31/01 | Abandonment of well papers (exhibits included). | 002322-002346 |
| 114 | 01/29/02 | Letter noting intent to drill three well monitors | 002347-002347 |
| 115 | 05/03/00 | Copy from No. 93 | 002348-002349 |
| 116 | 02/20/01 | Copy of No. 94 | 002350-002354 |
| 117 | 04/06/01 | Proposal for soil characterization and soil and groundwater remediation with ADEQ volunteer program | 002355-002367 |
| 118 | 04/19/02 | Letter to ADEQ concerning VPP project status | 002368-002374 |
| 119 | 04/03/02 | EMR information sheet | 002375-002375 |
| 120 | 04/01/02 | Letter from ADEQ re: project status report | 002376-002381 |

| <u>No.</u> | <u>Date</u> | <u>Description</u> | <u>Bates No.</u> |
|------------|-------------|---|------------------|
| 121 | 05/20/02 | Letter re: Terracon Consulting termination | 002382-002383 |
| 122 | 06/06/02 | Transmittal of Citizens May 2002 workplan figures (states that electronic copies are available) | 002384-002399 |
| 123 | 05/13/02 | Letter re: ADEQ comments on project status letter | 002400-002403 |
| 124 | 05/22/02 | Workplan for soil and groundwater remediation, dated November, 1999 (exhibits included) | 002404-002523 |
| 125 | 06/19/00 | Letter summarizing ADEQ meeting | 002524-002530 |
| 126 | 05/11/99 | Letter re: compliance status | 002531-002532 |
| 127 | none | Damage prevention program sheet | 002533-002534 |
| 128 | 08/25/99 | Confidential letter from attorney re: upholding ADEQ standards | 002535-002541 |
| 129 | 10/26/99 | Updated contact list for Citizens | 002542-002543 |
| 130 | 12/29/99 | Proposal for 1999 groundwater monitoring | 002544-002549 |
| 131 | 04/06/99 | Letter re: groundwater remediation standards | 002550-002553 |
| 132 | 05/03/99 | Letter re: groundwater monitoring well MW-9 casing adjustment | 002554-002555 |
| 133 | 09/07/99 | Copy of No. 130 | 002558-002557 |
| 134 | 10/26/99 | Copy of No. 131 | 002565-002566 |
| 135 | 05/11/99 | Copy of No. 128 | 002567-002568 |
| 136 | none | Copy of No. 129 | 002569-002570 |
| 137 | 04/06/99 | Copy of No. 133 | 002571-002572 |
| 138 | 05/03/99 | Copy of No. 134 | 002573-002574 |
| 139 | 05/11/99 | Copy of No. 131 | 002575-002576 |
| 140 | 06/14/99 | Asbestos Analysis results | 002577-002585 |
| 141 | 06/08/99 | Copy of No. 113 | 002586-002594 |
| 142 | 06/14/99 | Copy of No. 142 | 002595-002604 |
| 143 | 06/15/99 | Results from Columbia Analytical Services as submitted June 3, 1999. | 002605-002643 |
| 144 | 07/23/99 | Results from Columbia Analytical Services as submitted July 12, 1999. | 002644-002680 |
| 145 | 07/13/99 | VPP TPH results | 002681-002686 |
| 146 | 05/12/99 | Results from Columbia Analytical Services as submitted May 6, 1999. | 002687-002694 |
| 147 | 06/15/99 | Copy of No. 145 | 002695-002733 |
| 148 | 07/23/99 | Copy of No. 146 | 002734-002770 |
| 149 | 05/12/99 | Copy of No. 148 | 002771-002778 |
| 150 | 08/03/99 | Quarterly groundwater monitoring report from May, 1999 sampling event (exhibits included). | 002779-002804 |
| 151 | 08/03/99 | Copy of No. 152 | 002805-002832 |
| 152 | 09/21/99 | Quarterly groundwater monitoring report from Aug, 1999 sampling event (exhibits included). -Two copies here | 002833-002891 |
| 153 | 01/03/00 | Quarterly groundwater monitoring report from Oct, 1999 sampling event (exhibits included). -Two copies here | 002892-002948 |
| 154 | 02/11/00 | Quarterly groundwater monitoring report from Dec 1999 sampling event (exhibits included). -Two copies here | 002949-002997 |
| 155 | 05/02/00 | Quarterly groundwater monitoring report from March, 2000 sampling event (exhibits included). | 002998-00003052 |
| 156 | 09/21/00 | Quarterly groundwater monitoring report from August, 2000 sampling event (exhibits included). | 003053-003105 |

| <u>No.</u> | <u>Date</u> | <u>Description</u> | <u>Bates No.</u> |
|------------|-------------|--|------------------|
| 157 | 01/09/01 | Quarterly groundwater monitoring report from October, 2000 sampling event (exhibits included).-Two copies | 003106-003171 |
| 158 | 02/22/01 | Quarterly groundwater monitoring report from December, 2000 sampling event (exhibits included).-Two copies | 003172-003223 |
| 159 | 01/27/00 | Letter from ADEQ re: Notice of Intent to abandon a well | 003224-003225 |
| 160 | 04/19/00 | Letter from Terracon re: Project update, remediation project - Two copies | 003226-003236 |
| 161 | 10/26/01 | Quarterly groundwater monitoring report from May, 2001 sampling event (exhibits included). | 003237-003322 |
| 162 | 11/29/01 | Results from Columbia Analytical Services as submitted November, 2001 | 003323-003349 |
| 163 | 11/06/01 | 2nd Qlty monitor (handwritten exhibits) | 003350-003368 |
| 164 | 04/18/02 | Quarterly groundwater monitoring report from November, 2001 sampling event (exhibits included). | 003369-003406 |
| 165 | 11/12/01 | Boring Logs from 9/01 and observations during quarterly groundwater monitoring | 003407-003419 |
| 166 | 11/12/01 | Letter re: observation during quarterly groundwater monitoring in November. | 003420-003424 |
| 167 | 03/11/02 | Final report of EMR survey (exhibits included). | 003425-003442 |
| 168 | 04/15/02 | Preliminary results from Turner Labs on April samples. | 003443-003458 |
| 169 | 01/30/02 | Variance letter and well construction diagram | 003459-003463 |
| 170 | 01/10/02 | Results from Columbia Analytical Services as submitted January, 2002 | 003464-003502 |
| 171 | 01/17/02 | Notice of intention to drill well | 003504-003505 |
| 172 | 03/08/02 | Results from Turner Labs submitted February, 2002 | 003506-003540 |
| 173 | 04/26/02 | Sample receipt and preservation form from Columbia Analytical Services, Inc. | 003542-003597 |
| 174 | 04/24/02 | Chain of custody/Laboratory analysis request form | 003598-003600 |
| 175 | 03/08/02 | Copy of No. 172 | 003601-003635 |
| 176 | 04/26/02 | Copy of No. 173 | 003636-003691 |
| 177 | 04/20/02 | Pictures of site | 003692-003708 |
| 178 | 05/02/02 | Results from Turner Labs submitted May, 2002 | 003709-003738 |
| 179 | 03/27/02 | Log of Boring (various dates in '01, '02, '93-'96) | 003739-003767 |
| 180 | 04/19/02 | Results from Turner Labs submitted March, 2002 | 003768-003802 |
| 181 | 05/02/02 | Report of soil assessment in substation | 003803-003846 |
| 182 | 04/12/02 | Preliminary results from Turner Labs on March, '02 samples. | 003847-003874 |
| 183 | 04/08/02 | Historical data on boring for MW-16 and limits of detection. | 003875-003908 |
| 184 | 12/15/00 | Letter from ADEQ re: review of lab reports | 003912-003912 |
| 185 | 11/06/00 | Letter from ADEQ re: accepted VRP | 003913-003913 |
| 186 | 08/21/00 | yellow pages listings | 003914-003916 |
| 187 | 08/07/00 | ADEQ drinking water system inventory | 003917-003958 |
| 188 | 02/11/00 | ADEQ screening form and PA memo | 003959-003981 |
| 189 | 01/15/97 | fax sheet with no other data | 003982-003982 |
| 190 | 08/25/94 | topographical map of ground water surface | 003983-003983 |
| 191 | 12/20/96 | Photos from site | 003984-004017 |
| 192 | 12/17/96 | ADEQ request for well information | 004018-004019 |
| 193 | 12/16/96 | 1995 annual reports from the city of Nogales | 004020-004021 |
| 194 | 12/01/96 | ADEQ well report | 004022-004039 |

| <u>No.</u> | <u>Date</u> | <u>Description</u> | <u>Bates No.</u> |
|------------|-------------|---|------------------|
| 195 | 11/11/96 | Groundwater monitoring well No. MW-9 installation and quarterly groundwater monitoring report(exhibits included). | 004041-004088 |
| 196 | 03/26/96 | 1995 annual water withdrawal and use report | 004089-004117 |
| 197 | 10/26/95 | Project summary and management plan update | 004118-004122 |
| 198 | 05/24/95 | Conceptual Remedial option report | 004124-004146 |
| 199 | 01/31/95 | Preliminary assessment from Citizens to Premedical Unit Water Program Division | 004147-004188 |
| 200 | 04/16/81 | Water quality analysis | 004189-004189 |
| 201 | 07/12/88 | Installation and warranty manual for fuel tanks | 004190-004198 |
| 202 | 01/23/95 | Preliminary assessment | 004199-004203 |
| 203 | 09/07/94 | Hazardous waste complaint | 004204-004204 |
| 204 | 10/28/94 | Letter re: soil remediation project | 004205-004205 |
| 205 | 03/08/94 | Results of 2nd quarter 1993 groundwater sampling (draft) | 004206-004214 |
| 206 | 07/15/93 | TPH site assessment initiated in letter to ADEQ | 004215-004227 |
| 207 | 03/21/94 | Amended notification for underground storage tanks | 004228-004233 |
| 208 | 06/01/92 | Memo from ADEQ re: facility inspection | 004234-004235 |
| 209 | 05/20/93 | Regulatory compliance program nonvolumetric precision tank system test from UST Management | 004236-004246 |
| 210 | 09/14/89 | List of animal species from Game & Fish Department | 004247-004251 |
| 211 | 08/07/89 | Initial underground storage tank assessment from Western Technolog Inc. | 004252-004275 |
| 212 | 09/07/88 | Nogales Wash & Tributaries Feasibility Report and Environmental Assessment | 004276-004278 |
| 213 | 06/01/88 | OPW 61-SO Overfill Prevention Valve Assembly and Installation Instructions | 004279-004290 |
| 214 | none | MSDS for Brake Cleaner, TM 1807 | 004291-004299 |
| 215 | 09/01/87 | MSDS for inhibited ethylene glycol (340-2 antifreeze) | 004300-004308 |
| 216 | 12/09/94 | Uniform hazardous waste manifest sheet for polychlorinated biphenyls and transformers | 004309-004314 |
| 217 | 04/19/95 | Laboratory results from Sherwood Labs, Inc. from samples dated 4/12/95 indicating PCB content. | 004315-003910 |
| 218 | 07/01/98 | Aerial photos of Nogales | 004319-004333 |
| 219 | 05/08/02 | History of Citizens (handwritten) | 004334-004335 |
| 220 | 04/19/02 | Draft quarterly groundwater monitoring report for November, 2001 sampling event (exhibits included) | 004336-004373 |
| 221 | 05/15/02 | Draft workplan for soil and groundwork remediation (no exhibits) | 004374-004403 |
| 222 | 05/15/02 | Memo re: outlining Site Characterization Report and Conceptual Remedial Workplan | 004404-004513 |
| 223 | 05/15/02 | Site characterization report and conceptual remedial workplan (exhibits included) | 004406-004515 |
| 224 | 04/20/00 | Report of soil sampling beneath former radiators | 004516-004532 |
| 225 | 05/02/02 | Results from Turner Labs as received 4/17/02 for analysis. | 004533-004562 |
| 226 | 04/29/02 | Results from Turner Labs as received 4/2/02 for analysis. | 004563-004589 |
| 227 | 04/19/02 | Memo re: Project status - Citizens VPP | 004590-004597 |

| <u>No.</u> | <u>Date</u> | <u>Description</u> | <u>Bates No.</u> |
|------------|-------------|--|------------------|
| 228 | 04/01/02 | Includes memo and Project Status Report for ADEQ dated 3/4/02 | 004598-004603 |
| 229 | 05/22/02 | Memos concerning and a copy of a November 29, 1999 Workplan for Soil and Groundwater Remediation (exhibits included) | 004604-004649 |
| 230 | 05/15/02 | Copy of memos in No. 222 | 004650-004656 |
| 231 | 12/29/98 | Conceptual remedial action plan for Former waste pit area (MW-9) | 004657-004671 |
| 232 | 10/15/01 | Results from Columbia Analytical Services as submitted 10/2/01 | 004672-004701 |
| 233 | 04/19/02 | Results from Turner Labs as submitted 3/29/02. | 004702-004735 |
| 234 | 01/16/02 | Results from Columbia Analytical Services as submitted 1/9/02 | 004736-004751 |
| 235 | 01/07/00 | Arizona Department of Water Resources sheet re: Notice of intent to abandon well | 004752-004754 |
| 236 | 02/24/00 | Letter and copy of "an annotated copy of the Notice of Intention to Drill a well" | 004755-004759 |
| 237 | 01/07/00 | Memo re: Request for variance, Monitor wells | 004760-004761 |
| 238 | 04/02/02 | Final report of EMR survey (exhibits included). | 004762-004779 |
| 239 | none | Document describing the methodology and protocols for performing EMR surveys. | 004780-004788 |
| 240 | 01/18/02 | Fax with site map describing VPP site and recently found diesel product | 004789-004791 |
| 241 | 01/23/02 | Results from Friedman & Bruya, Inc. as submitted 1/11/02 | 004792-004807 |
| 242 | 05/15/02 | Copy of No. 223 | 004808-004913 |
| 243 | 05/15/02 | Draft of No. 223 | 004914-005018 |
| 244 | 05/15/02 | Draft of Workplan for soil and groundwater remediation | 005019-005053 |
| 245 | 05/15/02 | Copy of No. 244 | 005054-005089 |
| 246 | none | handwritten sheet | 005090-005090 |
| 247 | 05/10/02 | Exhibit sheets labeled "EMR Site Plan Sand Section Views | 005091-005106 |
| 248 | 05/10/02 | Handwritten comments on a copy of No. 247 | 005107-005117 |
| 249 | 05/15/02 | Edited copy of Workplan for soil and groundwater remediation | 005118-005165 |
| 250 | 05/15/02 | Copy of No. 249 | 005166-005213 |
| 251 | 05/15/02 | Copy of No. 249 | 005214-005247 |
| 252 | 05/15/02 | Copy of No. 249 | 005248-005273 |
| 253 | 05/15/02 | Time schedule for 5/02 workplan | 005274-005278 |
| 254 | 05/08/02 | Handwritten edited sections of No. 249 | 005279-005312 |
| 255 | 05/08/02 | Handwritten history of VPP Site | 005313-005315 |
| 256 | 05/02/02 | Handwritten edited sections of No. 249 | 005316-005327 |
| 257 | 05/15/02 | Copy of edited draft of No. 249 | 005328-005360 |
| 258 | 08/01/02 | Binational Nogales Wash United States/Mexico Groundwater Monitoring Program (exhibits included) | 005361-005389 |
| 259 | 05/06/02 | Handwritten edited sections of No. 249 | 005390-005392 |
| 260 | 04/29/02 | Draft of No. 249 | 005393-005446 |
| 261 | 05/20/02 | Letter re: Termination of Terracon services | 005447-005450 |
| 262 | none | Printouts of public files labeled "PUBLIC\ENVIRON\ ENVIRON\PROJECTS\...." | 005451-005461 |

| <u>No.</u> | <u>Date</u> | <u>Description</u> | <u>Bates No.</u> |
|------------|-------------|---|------------------|
| 263 | 06/07/02 | Email from Schimdt to Godley re: Chain of Custody Issues;" Copy of all results in question are included | 005462-005527 |
| 264 | several | Results from Turner Labs from several dates including 4/2/02, 3/25/97, 10/31/97, 1/3/00, 10/18/99, 8/5/99, 4/28/98, 12/22/00, 8/3/00, 7/25/01, 4/3/00 | 005528-005551 |
| 265 | 06/18/02 | Letter to Terracon re: Citizen's Files | 005552-005555 |
| 267 | 06/14/02 | Draft Invoice for Environmental Consulting Service | 005556-005557 |
| 268 | 06/14/02 | Letter to Ms. Schmidt re: response to No. 265 | 005558-005563 |
| 269 | 06/12/02 | Letter to Ms. Goodley re: Citizen's termination of Terracon (includes printout of files) | 005564-005577 |
| 270 | 05/20/02 | Copy of No. 261 | 005578-005579 |
| 271 | 06/06/02 | Copy of emails to Ms. Godley from Ms. Schmidt | 005580-005586 |
| 272 | 05/15/02 | Copy of No. 222 | 005587-005590 |
| 273 | 04/15/02 | Handwritten Terracon Conversation Record | 005591-005592 |
| 274 | 03/13/02 | Email to Ms. Godley | 005593-005593 |
| 275 | 06/18/02 | Copy of No. 265 | 005594-005600 |
| 276 | 06/02/02 | Progress billing for Citizens from Terracon | 005601-005602 |
| 277 | 05/22/02 | Copy of No. 229 | 005603-005642 |
| 278 | 06/06/02 | Emails to Ms. Godley | 005643-005646 |
| 279 | 03/14/02 | Terracon conversation record (handwritten) | 005647-005651 |
| 280 | 03/18/02 | Terracon conversation record (handwritten) | 005652-005652 |
| 281 | 04/29/02 | Terracon conversation record (handwritten) | 005653-005654 |
| 282 | 03/26/02 | Terracon conversation record (handwritten) | 005655-005655 |
| 283 | 03/12/02 | Terracon conversation record (handwritten) | 005656-005668 |
| 284 | 03/12/02 | CU file listing of "Aquifer water quality standards" | 005669-005679 |
| 285 | none | Exhibit sheets labeled "Soil analytical data" | 005680-005681 |
| 286 | 03/04/02 | Letter re: Project Status at VPP | 005682-005686 |
| 287 | 08/21/00 | Handwritten notes from ADEQ file | 005687-005691 |
| 288 | none | Various exhibits and data (not connected to any report) | 005693-005709 |
| 289 | 04/20/00 | Report of soil sampling beneath former radiators | 005710-005726 |
| 290 | 10/26/01 | Quarterly Groundwater Monitoring Report for May, 2001 sampling event (exhibits included) | 005727-005812 |
| 291 | 10/26/01 | Copy of No. 290 | 005813-005902 |
| 292 | 01/09/01 | Quarterly Groundwater Monitoring Report for October, 2000 sampling event (exhibits included) | 005903-005934 |
| 293 | 09/21/00 | Quarterly Groundwater Monitoring Report for August, 2000 sampling event (exhibits included) | 005935-005957 |
| 294 | 05/02/00 | Quarterly Groundwater Monitoring Report for March, 2000 sampling event (exhibits included) | 005958-005984 |
| 295 | 02/22/01 | Quarterly Groundwater Monitoring Report for December, 2000 sampling event (exhibits included) | 005985-006011 |
| 296 | 05/02/02 | DISK: Remedial schedule (xls) and Groundwater Monitoring Report for May, 2002 (doc) | 006012-006012 |
| 297 | 05/02/02 | DISK: Remedial schedule (xls) | 006013-006013 |
| 298 | 05/09/02 | DISK: Workplan for soil and groundwater remediation for May, 2002 (doc) and Feb02 Table of data (doc) | 006014-006014 |
| 299 | 05/02/02 | DISK: Draft workplan for No. 298 | 006015-006015 |
| 300 | various | CD ROM: various files, data sheets and workplans from several years; Folders relate to Terracon project numbers 63997013, 63967031, 63987001 63986817 | 006016-006016 |
| 301 | unknown | CD ROM: Various figures and PDF files | 006017-006017 |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|--|------------------|----------------|-------------------|-------------|---|
| CITIZEN00001 – CITIZEN00007 | ACP/ AWP | Lagas Mears | SBS | 05/20/02 | Letter re: Proposal to Conduct Environmental Services @ the Valencia Power Plant (“VPP”)in Nogales |
| CITIZEN00008 – CITIZEN00012 | ACP/ AWP | SBS | Hardin | 10/07/02 | Letter re: Material regarding U.S. EPA (Region IX) Preliminary Assessment/site Inspection concerning VPP |
| Santa Cruz Files (Citizens Nogales VPP) | | | | | |
| PRIVSC00001 – PRIVSC00010 | AWP | Matthews | Marks | 07/02/96 | Memo re: Revisions to Supplemental Materials for Class I Permit Application for VPP |
| PRIVSC00011 – PRIVSC00017 | AWP | Matthews | Marks | 07/01/96 | Memo re: Source Test Results for Nogales Gas Turbines |
| PRIVSC00018 – PRIVSC00070 | AWP | Matthews | Marks | 05/17/96 | Memo re: Additional Materials for Class I Permit Application for VPP with Attachments to Class I Permit Application for VPP |
| | | | | | Attachments consist of: |

CITIZENS DOCUMENTS .

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------|------------------|---------------|-------------------|-------------|--|
| PRIVSC00071 | AWP | Matthews | Marks | 04/19/96 | <p>Applicable Regulations, Compliance Status, & Monitoring Recordkeeping & Reporting Requirements; Certification of Truth, Accuracy & Completeness, Compliance Plan</p> <p>Summary of Equipment Classifications Under Class I Permitting</p> <p>Fuel Data</p> <p>Site Diagram</p> <p>Manufacturers' Diagrams of Gas Turbines</p> <p>Calculation of Emission</p> <p>Letter re: Test Plan for carrying out emissions testing on turbines @ Nogales plant</p> |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|--|------------------|---------------|-------------------|-------------|--|
| Privileged Material from Jon Weeda files (Citizens/Flagstaff) & Dames & Moore (Conflict of Interest) | | | | | |
| PRIVWEED00001 - PRIVWEED00004 | ACP/ AWP | SBS | Ojeda | 09/16/02 | Letter re: invoice from B&C attached is a 09/11/02 letter from B&C to SBS with invoice from B&C for project # 22733-000 for Task 4, billing period 07/2702 - 08/23/02 |
| PRIVWEED00005 - PRIVWEED00007 | ACP | Weeda | MSM | 09/13/02 | Fax re: Questions that URS prepared for Cox |
| PRIVWEED00008 - PRIVWEED00009 | ACP/ AWP | SBS | Ojeda | 08/09/02 | Letter re: Invoice # 156415 from B&C attached is the 07/22/02 invoice from B&C for project # 22809-00, billing period Inception - 06/28/02 |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| Bates # | Privilege | Author | Recipients | Date | Description |
|----------------------------------|-------------|--------|-------------------------|----------|---|
| PRIVWEED00010 - PRIVWEED00020 | ACP/ AWP | SBS | Ojeda | 08/09/02 | Letter re: Invoice # 156491 from B&C attached is 0808/02 letter from B&C to SBS with 08/07/02 invoice for Project 22773-000, billing period from 06/29/02 - 07/26/02 |
| PRIVWEED00021 - PRIVWEED00029 | ACP/ AWP | SBS | Ojeda | 08/02/02 | Letter re: Request for a executed copy of the B&C Proposal for VPP 06/07/02 B&C proposal is attached to this letter |
| PRIVWEED00030 - PRIVWEED00039 | ACP/ AWP | SBS | Ojeda | 08/02/02 | Letter re: Invoice # 156424 from B&C attached is 07/22/02 letter from B&C to SBS with 07/23/02 Invoice for Project 22773-000, billing period from Inception - 06/28/02 |
| PRIVWEED00040 | ACP/ AWP | Weeda | MSM | 07/29/02 | Letter re: re: contractual work & agreements contains handwritten note "sent July 30, 2002 |
| PRIVWEED00041 - PRIVWEED00042 | ACP | MSM | Ojeda Scott Weeda | 07/03/02 | Letter re: VPP- EPA file from Terracon |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------------------------|------------------|---------------|-------------------|-------------|--|
| PRIVWEED00043 – PRIVWEED00045 | ACP | Buchanan | MSM | 06/21/02 | Letter re: Terracon copying and bates # of Citizen's files |
| PRIVWEED00046 – PRIVWEED00047 | ACP/ AWP | Terracon | Ojeda | 06/14/02 | Invoice # 6387271 for Project # 63997013, for period from 05/05/02 to 06/08/02 |
| PRIVWEED00048 – PRIVWEED00049 | ACP/ AWP | Terracon | Bill Rebecca | 06/14/02 | Draft Invoice for period from 05/05/02 to 06/01/02 |
| PRIVWEED00055 – PRIVWEED00056 | ACP | SBS | Weeda | 05/21/02 | Letter re: proposal to conduct environmental services @ VPP & proposal to conduct limited environmental investigations @ a former manufactured gas plant location in Nogales, AZ |
| PRIVWEED00057 – PRIVWEED00082 | ACP | Islas | SBS | 05/13/02 | Fax with copy of 11/29/01 letter from Jordan of Columbia Analytical Services to Islas with Groundwater Analytical Data results of samples submitted on 11/09/01 |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------------------------|------------------|---------------|------------------------------|-------------|---|
| PRIVWEED00083 - PRIVWEED00084 | ACP/ AWP | Ojeda | Velasco | 04/19/02 | Cover Letter Draft re: response to ADEQ letter of 04/01/02 |
| PRIVWEED00085 - PRIVWEED00086 | ACP/ AWP | Ojeda | Velasco | 04/19/02 | contains handwritten notes "Cover letter Draft received Sheila 04/17/02 Cover Letter Draft re: response to ADEQ letter of 04/01/02 |
| PRIVWEED00087 - PRIVWEED00088 | ACP/ AWP | Ojeda | Velasco | 04/11/02 | contains handwritten notes "Cover letter draft received Rebecca 04/17/02 Cover Letter Draft re: VPP Project Status |
| PRIVWEED00094 - PRIVWEED00098 | ACP/ AWP | ? | Chaberski ADEQ | 03/04/02 | contains handwritten notes "Cover letter 04/11/02 written by Sharon Templeton Letter re: Project Status VPP, Site Code 503660-00 |
| PRIVWEED00105 - PRIVWEED00109 | ACP/ AWP | Ojeda | Chaberski | 02/22/02 | contains handwritten note "Final Draft: Previously Sent" Draft of letter re: Project Status of VPP, Site Code 503660-00 |
| PRIVWEED00110 - PRIVWEED00115 | ACP/ AWP | Templeton | MSM Cox Ojeda Weeda | 02/22/02 | E-mail re: draft of 02/22/02 response letter to ADEQ |

CITIZENS DOCUMENTS .
LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------------------------|------------------|--------------------|-------------------|----------------------|---|
| PRIVWEED00116 - PRIVWEED00117 | ACP | Templeton | Cox | 02/12/02 02/11/02 | E-mail re: 02/07/02 ADEQ letter |
| PRIVWEED00119 - PRIVWEED00147 | ACP | | | 08/01 | Binational Nogales Wash United States/Mexico Groundwater Monitoring Program |
| PRIVWEED00148 - PRIVWEED00161 | ACP | Sharon | Islas | 05/29/01 | Fax re: attaching copy of 04/16/01 letter from Templeton/Spitz of Terracon to Ojeda re: proposal for soil characterization and soil & groundwater Remediation for VPP |
| PRIVWEED00162 - PRIVWEED00166 | ACP | Templeton Spitz | Ojeda | 04/12/02 | Letter re: proposal for 2001 groundwater monitoring for VPP |
| PRIVWEED00167 - PRIVWEED00172 | ACP | Templeton | Ojeda | 02/20/01 02/21/01 | E-mail re: Citizen VPP (Remediation project) attached to e-mail is the 12/22/00 fax cover sheet from Sharon to Cox and 11/17/00 ADEQ letter re: review of workplan and reports for VPP |
| PRIVWEED00173 - PRIVWEED00175 | ACP | Islas Spitz | Marks | 10/23/00 | Letter re: Addendum to 2000 Quarterly groundwater monitoring contract unsigned |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------------------------|------------------|----------------|-------------------|-------------|--|
| PRIVWEED00176 - PRIVWEED00178 | ACP/ AWP | Islas Spitz | Marks | 10/17/00 | Letter re: proposal for Chromium analysis & production well inquiry |
| PRIVWEED00179 - PRIVWEED00205 | ACP | Templeton | Islas | 05/17/00 | Fax with: 05/12/00 VPP Remediation signed Contract (engineer services agreement) 01/17/00 letter from Templeton & Spitz of Terracon to Marks re: revised cost estimate for soil & groundwater Remediation |
| PRIVWEED00206 - PRIVWEED00209 | ACP | Templeton | Cox | 04/27/00 | Fax with: 04/27/00 letter re: Project update - Citizens VPP contains handwritten note "This document is to replace the letter dated 04/17/00" |
| PRIVWEED00210 - PRIVWEED00217 | ACP | Templeton | Islas | 03/27/00 | Fax with: 01/17/00 letter from Templeton/Spitz to Marks re: revised cost estimate for soil & groundwater Remediation for VPP |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------------------------|------------------|-----------------|-------------------|-------------|---|
| PRIVWEED00218 - PRIVWEED00223 | ACP/ AWP | Marks | McCarthy | 02/04/00 | Fax re: VPP Remediation with: 02/04/00 fax from Lee to Marks re: Nogales Remediation |
| PRIVWEED00224 - PRIVWEED00229 | ACP | Islas Spitz | Ojeda | 12/29/99 | Letter re: proposal for 1999 groundwater monitoring |
| PRIVWEED00230 | ACP | Citizens | Terracon | 03/30/98 | Shipping Invoice re: Project Fee |
| PRIVWEED00231 - PRIVWEED00233 | ACP | Islas LeMarr | Cox | 01/21/98 | Letter re: proposal for environmental consulting services UST removal activities, VPP |
| PRIVWEED00234 - PRIVWEED00236 | ACP | Islas LeMarr | Cox | 01/21/98 | Original of Letter re: proposal for environmental consulting services UST removal activities, VPP |
| PRIVWEED00237 - PRIVWEED00253 | ACP | Terracon | | 12/31/97 | Revised Conceptual Remedial Action Plan for VPP, Project # 63967031 |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------------------------|------------------|------------------|-------------------|-------------|---|
| PRIVWEED00254 - PRIVWEED00257 | ACP | Islas Spitz | Ojeda | 12/19/97 | Letter re: proposal for additional Phase II site characterization for VPP |
| PRIVWEED00258 - PRIVWEED00274 | ACP | Terracon | Citizens | 11/19/97 | Third Quarter Groundwater Monitoring of 9 Wells @ VPP contains handwritten note to Paul |
| PRIVWEED00275 | ACP | Botkin | Ojeda | 11/17/97 | E-mail re: update of activities from phone calls with Seagrave |
| PRIVWEED00276 | ACP/ COI | Carlson | Botkin | 10/29/97 | Memo re: environmental regulatory services contains handwritten notes |
| PRIVWEED00277 - PRIVWEED00294 | COI | Dames & Moore | Citizens | 09/12/97 | Emergency Response Plan |
| PRIVWEED00295 - PRIVWEED00308 | COI | Dames & Moore | Citizens | 09/05/97 | Environmental Compliance Calendar |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------------------------|------------------|------------------|-------------------|-------------|---|
| PRIVWEED00309 - PRIVWEED00315 | COI | Dames & Moore | Citizens | 09/05/97 | Draft of Universal Waste Management Procedure |
| PRIVWEED00316 - PRIVWEED00324 | COI | Dames & Moore | Citizens | Undated | Draft of Hazardous Waste Management Procedure |
| PRIVWEED00325 - PRIVWEED00328 | COI | Dames & Moore | Citizens | Undated | Draft of Environmental Recordkeeping Procedure |
| PRIVWEED00329 - PRIVWEED00334 | COI | Dames & Moore | Citizens | Undated | Draft of Inspection Procedure |
| PRIVWEED00335 - PRIVWEED00339 | COI | Dames & Moore | Citizens | Undated | Draft of Agency Inspection Procedure |
| PRIVWEED00340 - PRIVWEED00362 | COI | Dames & Moore | Citizens | Undated | Draft of PCB Management Procedure |

CITIZENS DOCUMENTS .

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------------------------|------------------|------------------|-------------------|-------------|---|
| PRIVWEED00363 - PRIVWEED00365 | COI | Dames & Moore | Citizens | Undated | Draft of Used Oil Management Procedures |
| PRIVWEED00366 - PRIVWEED00374 | COI | Dames & Moore | Citizens | Undated | Table 1 - Action Item Summary |
| PRIVWEED00375 - PRIVWEED00398 | COI | Dames & Moore | Citizens | 08/29/97 | Draft Spill Prevention Control & Countermeasure Plan |
| PRIVWEED00399 - PRIVWEED00437 | COI | Dames & Moore | Citizens | 08/29/97 | Draft Hazard Communication Plan |
| PRIVWEED00438 - PRIVWEED00467 | COI | Dames & Moore | Citizens | 07/22/97 | Proposal Environmental Services |
| PRIVWEED00468 - PRIVWEED00485 | COI | Dames & Moore | Citizens | 06/18/97 | Quarterly Monitoring Report Project # 63967031 |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------------------------|------------------|------------------|--------------------------|-------------|---|
| PRIVWEED00486- PRIVWEED00487 | ACP | Islas Spitz | Townsley | 02/13/98 | Letter re: clarification of proposed additional Phase II site characterization contains handwritten notes to Ernesto |
| PRIVWEED00488 - PRIVWEED00503 | COI | Dames & Moore | Citizens | 05/22/97 | Proposal Environmental Compliance and Audit |
| PRIVWEED00504- PRIVWEED00510 | ACP | Citizens | Tom F. Bob W. Bill | 05/19/97 | Fax coversheet with 05/08/97 memo from Torpey to Botkin re: issues identified and recommendations contains handwritten notes |
| PRIVWEED00511 - PRIVWEED00527 | ACP | Ojeda | Dow | 03/25/96 | Letter re: Sample and Analysis VPP contract contains signed copy of time & expense contract (construction services agreement dated 04/02/96 between Citizens & Terracon) |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|---------------------------------|------------------|---------------|---------------------|-------------|--|
| Material from Bill Cox files | | | | | |
| PRIVCOX00001 – PRIVCOX00002 | AWP | Cox | Weeda | 09/02/02 | Fax re: Kantor Substation Clean-up attached is 08-30-02 Daily Construction Report |
| PRIVCOX00003 – PRIVCOX00004 | AWP | Cox | Ojeda | 07/22/02 | Fax re: review of Terracon Invoice #6387356 attached is 07/15/02 invoice #6387356 |
| PRIVCOX00019 – PRIVCOX00021 | AWP | Cox | Ojeda, MSM | 06/25/02 | Fax re: review of invoice Attached is 06/14/02 Terracon invoice # 6387271 |
| PRIVCOX00022 | AWP | Cox | Brown & Caldwell | 06/21/02 | Transmittal Memorandum re: Draft Quality Assurance Project and Sampling Analysis Plan (Attachments referred to in transmittal not attached) |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|--------------------------------|------------------|---------------|--|-------------|---|
| PRIVCOX00023 - PRIVCOX00027 | ACP/ AWP | MSM | Godley, Scott, Ojeda, Weeda, Cox | 06/18/02 | Fax and letter to Godley re: return of all Citizens files |
| PRIVCOX00030 - PRIVCOX00031 | AWP | MSM | Godley | 06/18/02 | Letter re: return of Citizens' files |
| PRIVCOX00034 - PRIVCOX00036 | ACP | Godley | SBS | 06/14/02 | Fax and letter re: response to 06/12/02 letter |
| PRIVCOX00037 - PRIVCOX00041 | AWP | Cox | Brown & Caldwell | 06/12/02 | Transmittal sheet re: Production Well Abandonment Attached is 06/06/02 fax from Tim Porter to Cox with Cost Proposal - Drilling Services - Well Abandonment |
| PRIVCOX00042 - PRIVCOX00043 | ACP/ AWP | SBS | Mears | 06/07/02 | Letter re: hand deliver of records received from Terracon |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|--------------------------------|------------------|---------------|------------------------------|-------------|---|
| PRIVCOX00051 - PRIVCOX00053 | ACP | Cox | Ojeda, MSM | 06/04/02 | Fax re: review of invoice coversheet Attached is Terracon Invoice # 6387245 re: VPP |
| PRIVCOX00061 | ACP | SBS | Ojeda | 05/30/02 | Letter re: 02/26/02 & 04/24/02 Groundwater Sampling Events no documents attached to this letter |
| PRIVCOX00062 | ACP | SBS | Mears | 05/28/02 | Letter re: 11/29/99 enclosing Workplan for Soil and Groundwater Remediation for VPP no documents attached to letter |
| PRIVCOX00064 - PRIVCOX00101 | AWP | Terracon | MSM | 05/22/02 | Letter re: Forward copy of Terracons' 11/29/99 Confidential Workplan for Soil and Groundwater Remediation Terracon Project 63997013 |
| PRIVCOX00104 | AWP | Ojeda | Spitz Templeton Godley | 05/20/02 | Letter re: Terracon Consulting/termination |

CITIZENS DOCUMENTS .

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|--------------------------------|------------------|---------------|-------------------|-------------|---|
| PRIVCOX00107 – PRIVCOX00119 | AWP | Terracon | Ojeda | 04/16/01 | Letter/proposal for Soil Characterization for VPP |
| PRIVCOX00120 – PRIVCOX00122 | AWP | Islas | Marks | 10/23/00 | Letter re: addendum to 2000 Quarterly Groundwater Monitoring Contract on Valencia Power Plant |
| PRIVCOX00123 – PRIVCOX00126 | AWP | Islas | Cox | 10/23/00 | Fax coversheet Attached is Addendum to 2000 Quarterly Groundwater Monitoring Contract re VPP |
| PRIVCOX00127 – PRIVCOX00129 | AWP | Islas | Marks | 10/17/00 | Letter re Proposal for Chromium Analysis and Production Well Inquiry re VPP |
| PRIVCOX00130 – PRIVCOX00133 | AWP | Islas | Cox | 10/17/00 | Fax with 10/17/00 letter re: proposal for Chromium Analysis and Production Well Inquiry |
| PRIVCOX00139 – PRIVCOX00140 | ACP | Cox | Templeton | 08/29/00 | Terracon Project 63997013 Fax and letter of recommendation for Templeton to ADOT |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|-----------------------------------|------------------|---------------|---|-------------|--|
| PRIVCOX00141 - PRIVCOX00142 | ACP | Martz | Cox | 08/29/00 | Fax with copy of example letter of recommendation for Sharon Templeton |
| PRIVCOX00144 | ACP | Templeton | Cox | 08/22/00 | Fax Re: return phone call |
| PRIVCOX00150 - PRIVCOX00152 | ACP | Martz | Marks | 06/19/00 | Letter re: Terracons' letter to ADEQ |
| PRIVCOX00153 - PRIVCOX00156 | ACP | Martz | Cox | 06/19/00 | Fax re: revised letter summarizing Terracons' meeting with ADEQ |
| PRIVCOX00157 | ACP | Lee | Ojeda Templeton Cox | 02/28/00 | Fax re: confirm meeting @ Nogales |
| PRIVCOX00158 - PRIVCOX00163(a) | ACP/ AWP | Marks | McCarthy Ojeda Orosel Cox Lee | 02/04/00 | Fax re: VPP remediation attached: 02/04/00 Memo from Marks to Lee re: Nogales Remediation contains handwritten notes |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|--------------------------------|------------------|---------------|-------------------|-------------|---|
| PRIVCOX00164 | ACP | Cox | Marks | 01/17/00 | Letter re: VPP Cooling Towers contains fax post-it note to Templeton |
| PRIVCOX00165 – PRIVCOX00172 | ACP | Templeton | Cox | 01/17/00 | Fax re: copy of final version of 01/17/00 cost estimate for soil & groundwater remediation for VPP |
| PRIVCOX00173 – PRIVCOX00177 | ACP | Templeton | Cox | 01/17/00 | Fax re: added charges for excavation, backfilling & compaction to the revised cost estimate – draft |
| PRIVCOX00178 – PRIVCOX00184 | ACP | Templeton | Cox | 01/11/00 | Fax re: revision to soil and groundwater remediation costs attached: 01/11/00 draft of revised cost estimate for soil & groundwater remediation |
| PRIVCOX00187 | ACP | Cox | Marks | 12/16/99 | Letter re: response to Harrys' request in regards to removal of cooling towers @ VPP |
| PRIVCOX00188 | ACP | Cox | Lee | 12/14/99 | E-mail re: removal cost estimate |

CITIZENS DOCUMENTS
LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|--------------------------------|------------------|------------------|-------------------|-------------|--|
| PRIVCOX00189 – PRIVCOX00195 | ACP | Cox | Templeton | 12/08/99 | Fax re: copy of 11/29/99 cost estimate |
| PRIVCOX00196 – PRIVCOX00201 | ACP/ AWP | Marks | Islas | 08/25/99 | Letter re: 07/08/99 draft report |
| PRIVCOX00276 – PRIVCOX00284 | ACP/ AWP | ? | ? | 10/30/97 | Table 1 Action Item Summary contains handwritten note "Bill, Please mark up what you've done" |
| PRIVCOX00285 – PRIVCOX00307 | COI | Dames & Moore | Citizens | 08/29/97 | Draft Spill Prevention Control and Countermeasure Plan |
| PRIVCOX00308 – PRIVCOX00330 | COI | Dames & Moore | Citizens | 08/29/97 | Draft Spill Prevention Control and Countermeasure Plan contains handwritten notes |
| PRIVCOX00331 – PRIVCOX00353 | COI | Dames & Moore | Citizens | 08/29/97 | Draft Spill Prevention Control and Countermeasure Plan |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|--------------------------------|------------------|------------------|-------------------|-------------|--|
| PRIVCOX00354 - PRIVCOX00422 | COI | Dames & Moore | Citizens | 07/27/97 | Draft Environmental Audit Action Plan |
| PRIVCOX00423 - PRIVCOX00491 | COI | Dames & Moore | Citizens | 07/27/97 | Draft Environmental Audit Action Plan contains handwritten notes |
| PRIVCOX00492 - PRIVCOX00561 | COI | Dames & Moore | Citizens | 07/27/97 | Draft Environmental Audit Action Plan |
| PRIVCOX00562 - PRIVCOX00563 | ACP | Botkin | Ojeda | 06/13/97 | Memo re: environmental issues/progress report |
| PRIVCOX00564 - PRIVCOX00565 | ACP | Cox | Shah Labs | 06/11/97 | Fax re: Haz. Mat. Testing |
| PRIVCOX00566 - PRIVCOX00567 | ACP | Cox | Turner | 06/11/97 | Fax re: Haz. Mat. Testing |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|--------------------------------|------------------|---------------|-------------------|-------------|---|
| PRIVCOX00568 – PRIVCOX00569 | ACP | Cox | Genung | 06/11/97 | Fax re: Haz Mat. Testing contains handwritten post-it fax note |
| PRIVCOX00570 | ACP | Cox | Tweet | 06/11/97 | Fax re: Haz Mat. Testing |
| PRIVCOX00571 – PRIVCOX00572 | ACP | Cox | Emmett | 06/11/97 | Fax re: Haz Mat. Testing |
| PRIVCOX00573 – PRIVCOX00574 | ACP | Cox | Islas | 06/11/97 | Fax re: Haz Mat. Testing |
| PRIVCOX00575 | ACP | Cox | Citizens | 06/02/97 | Hazardous Material Inventory contains handwritten notes |
| PRIVCOX00576 | ACP | Cox | Citizens | 06/02/97 | Hazardous Material Inventory |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|--------------------------------|------------------|---------------|-------------------|-------------|--|
| PRIVCOX00577 - PRIVCOX00584 | ACP | True | Marks | 03/03/95 | Memo re: copy of info sent to ADEQ attached : 02/17/95 Fax from Cox to ADEQ 12/09/94 uniform hazardous waste material 11/28/94 Memo from S.D. Myers re: PCB XFM removal info. 10/20/94 Sherwood Labs on oil in drums testing |
| PRIVCOX00585 - PRIVCOX00591 | ACP | Cox | Schwab | 02/17/95 | Fax re: information requested during site visit attached is : 12/09/94 uniform hazardous waste material 11/28/94 Memo from S.D. Myers re: PCB XFM removal info. 10/20/94 Sherwood Labs Report # H4102015 on oil in drums testing |
| PRIVCOX00592 - PRIVCOX00603 | ACP | Cox | Marks | 02/09/95 | Fax re: conversation and information requested attached: Business cards of Aden's Karen Schwab & Linda L. Burgess |

CITIZENS DOCUMENTS

LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| Bates # | Privilege | Author | Recipients | Date | Description |
|--------------------------------|-----------|--------|------------|--|---|
| PRIVCOX00604 - PRIVCOX00615 | ACP | True | Cox | 02/09/95 | 02/07/95 Cox conversation with ADEQ reps 12/19/94 Letter from Wallin to Cox re: soil remediation project; Escalada Trust Property 02/07/95 Cook conversation with ADEQ reps 02/07/95 Williams conversation with ADEQ reps. 12/09/94 uniform hazardous waste manifest requested but not delivered 11/28/94 Memo from Myers with PCB XFM removal info. as requested - not delivered 10/20/94 Sherwood Labs Report # H4102014 of oil tested in drums |
| PRIVCOX00616 - PRIVCOX00628 | ACP | ? | ? | 08/19/94 09/30/93 08/17/94 09/09/93 06/16/-- | Maps: Site Plan -- Monitoring Well Locations |

CITIZENS DOCUMENTS
LOG OF PRIVILEGED DOCUMENTS
PROVIDED TO BUYER

| <i>Bates #</i> | <i>Privilege</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|----------------------------------|------------------|---------------|-------------------|-------------|--|
| | | | | | Monitoring Well #'s 1, 2, 3 – Construction Diagram |
| | | | | | Terracons MW-4, MW-5, MW-6, MW-7, MW-8 |
| | | | | | Turner/CAS Lab Analytical Report |
| | | | | | Bolin Lab Report - #20 Wells |
| Files from Kingman | | | | | |
| PRIVKING00001 – PRIVKING00008 | ACP | Lagas | SBS | 05/20/02 | Letter re: Proposal to Conduct Environmental Services @ VPP |

JON WEEDA FILES
BATES # WEED 00001 - WEED 00757

SONOITA SPILL:

| No. | Date | Description | Bates No. |
|------------|-------------|---|---------------------|
| 1 | 7/00 | Handwritten outline of events leading to and coming from the Sonoita Spill | WEED00001-WEED00002 |
| 2 | 8/02/00 | Invoice from Waste MGT for special wasted and fuel surcharge. Total: \$394.85 | 00003-00005 |
| 3 | 7/11/00 | Invoice from Chemical Transportation, Inc. from Butterfield Station | 00006-00015 |
| 4 | 6/02/00 | Analysis results from SPMYERS Handwritten label of "Oil tests for the 2 drums of oil from the Sonoita Substation." | 00016-00017 |
| 5 | 6/19/00 | Waste MGT Decision for Western Region Lab, Butterfield Station "Approved" | 00018-00020 |
| 6 | 6/22/00 | Letter to Ms. Clowes, Waste MGT from Mr. Ojeda, Citizens Re: Authorizing Bill Cox to sign profiles and manifests for waste removal and disposal. | 00021-00022 |
| 7 | 6/16/00 | Waste MGT Profile; Re: Mineral Oil Contaminated Gravel from Blown Bushing and Transformer Includes MSDS and testing analysis results. | 00023-00036 |
| 8 | 5/26/00 | Preliminary Inspection Report on TC#10, Sonoita | 00037 |

ADEQ FILES:

| | | | |
|----|---------|---|-------------|
| 9 | 8/12/02 | Letter from ADEQ to Mr. Ojeda, Citizens Re: Voluntary Remediation Program's Review of <i>Groundwater Sampling and Analysis Plan</i> and <i>Quality Assurance Project Plan</i> , Citizens VPP. Site Code: 503660-00 | 00038-00040 |
| 10 | 5/22/02 | Letter from ADEQ to Mr. Ojeda Re: Voluntary Remediation Program's Comments on Citizens VPP Letter <i>Project Status - Citizens Valencia Power Plant, Site Code 503660-00</i> | 00041-00044 |
| 11 | 5/15/02 | Letter from Citizen's to ADEQ's Mr. Velasco, Voluntary Remediation Specialist Re: Site Characterization Report and Conceptual Remediation Workplan Exhibits not included. | 00045-00046 |
| 12 | 4/1/02 | Letter from ADEQ to Mr. Ojeda Re: Citizens VPP Citizens VRP <i>Project Status Report</i> has not been approved. | 00047-00048 |
| 13 | 3/4/02 | Letter from Citizens to Ms. Chaberski, ADEQ Re: Project Status - Citizens VPP Includes brief project status report . | 00049-00052 |
| 14 | 2/7/02 | Letter from ADEQ to Mr. Ojeda Re: Project Status, Citizens VPP Request for Project Status Report | 00053 |

JON WEEDA FILES
BATES # WEED 00001 - WEED 00757

URS:

(Provided to URS from Weeda files.)

| | | | |
|----|-----------------|--|-------------|
| 15 | No Date | Environmental Questionnaire ASTM 1527-97 URSGWC Phase I ESA Questionnaire Not completed. | 00054-00056 |
| 16 | No Date | Phase I Environmental Site Assessment Site Reconnaissance Questionnaire Not completed. | 00057-00068 |
| 17 | 9/18/02 | Handwritten note saying "items given to buyer during their Kingman site visit" Does not specify which items that is, but Site Plans follow this file. | 00069 |
| 18 | No Date | Site Plan Computer Drawings of Nogales, AZ: Figure 1 Monitor Well Locations: Figure 2 Potential Release Areas: Figure 3 | 00070-00072 |
| 19 | No Date | Citizens Phase I Site Assessments Property Information Necessary for Site Visits (Santa Cruz and Mohave County - Electrical) | 00073-00075 |
| 20 | 9/6/02 | Instructions for teams to complete site visits | 00076-00078 |
| 21 | 8/23/02 | F&W Draft; List of owned real property Includes bolded sections reflecting property that Citizens reports it owns, but was not accounted for in the FATCAO title abstracts. | 00079-00086 |
| 22 | 4/12/02 | Listing of Arizona Electric Operations with Document Descriptions Marked as "Confidential." | 00087-00090 |
| 23 | 9/6/02 | Fax from Dinah Jasensky to Jon Weeda Re: Document List | 00091-00092 |
| 24 | 6/23/98 | Proposal entitled PERMANENT CLOSURE OF 2 USTS INITIAL SITE CHARACTERIZATION: ADEQ CLOSURE #E1549 Exhibits included. Prepared by USTank MGT | 00093-00128 |
| 25 | No Date | Computer drawn site plans of Mohave Electric Operations Center in Lake Havasu, AZ Labeled as AZ107 | 00129-00135 |
| 26 | Various Or None | A series of various Citizens Site Plans (computer drawings) Labeled as AZ108 | 00136-00172 |
| 27 | 6/1/98 | Letter from ADEQ to Mr. DeJulio, Citizens Re: CASE CLOSURE for LUST File #2546.01, #2546.02, Facility ID#0-001550, Mohave County (10k gasoline UST overfill area, and Gasoline/diesel dispenser piping area) Includes a file entitled PERMANENT CLOSURE OF 2 USTS ENVIRONMENTAL SITE ASSESSMENT (9/23/98) | 00173-00203 |
| 28 | 1/1/98 | MSDS for RP CAPTAN (V), Mineral Spirits Non-Exempt, and Val-Tex | 00204-00229 |

JON WEEDA FILES
BATES # WEED 00001 - WEED 00757

UST:

| | | | |
|----|----------|--|-------------|
| 29 | 6/1/98 | Copy of letter from No. 27 (no exhibits included) | 00230-00232 |
| 30 | 1/29/02 | Booklet from EPA entitled, "Straight Talk on Tanks: Leak Detection Methods for Petroleum Underground Storage Tanks and Piping." | 00233-00238 |
| 31 | 1/23/98 | Letter from Barnett and Shore Contractors, LLC to Bill Cox Re: REMOVAL OF TWO 1,000-GALLON USTS AT THE CITIZENS UTILITIES FACILITY ON GRAND AVE, NOGALES Asking if tanks were commissioned by ADEQ Includes estimate from contractor. | 00239-00248 |
| 32 | 12/28/88 | Analysis results from Western Technologies Inc, to Mr. Lindsey at Southern Union Gas Company in Flagstaff, AZ Results for hydrocarbons with EPA Method 418.1 | 00249-00250 |
| 33 | 11/10/88 | Estimate to "remove old gasoline tank and fixtures" Includes a copy of No 32 Includes a letter dated 10/18/88 from Lindsey Petroleum Service Co with an estimate to remove UST for \$3550. | 00251-00261 |

EMR:

| | | | |
|----|---------|---|-------------|
| 34 | No Date | Description sheet for EMR Inspections for Chromium and Arsenic for Citizens | 00262 |
| 35 | 4/2/02 | Final Report entitled "EMR Survey" Prepared for Citizens Energy Services, Nogales Exhibits included. Prepared by Detection Sciences, Inc. Report No. J407-02 | 00263-00281 |
| 36 | 3/11/02 | Final Report entitled "EMR Survey" Prepared for Citizens Energy Services, Nogales Exhibits included. Prepared by Detection Sciences, Inc. Report No. J407-02 | 00282-00300 |
| 37 | 1/21/02 | Letter from Detection Services Co. to Terracon Consultants Re: EMR Survey Proposal; Diesel Contamination at VPP, Nogales | 00301-00310 |

SULFUR DIESEL INFORMATION:

| | | | |
|----|---------|---|--------------|
| 38 | 9/27/01 | MSDS for low sulfur diesel fuel | 00311-00314 |
| 39 | 5/22/01 | Product Application Sheet for 76 Diesel #2 LS | 00315 |
| 40 | 9/26/01 | Email from Mr. Ojeda to Ms. Weber Re: Requesting more information on sulfur content Includes material from "Section 5 on Quality" in response to email. | 00316- 00325 |
| 41 | 5/25/01 | Contract from Union Distributing Company of Tuscon Re: Diesel Fuel Contract with Citizens | 00326-00329 |

JON WEEDA FILES
BATES # WEED 00001 - WEED 00757

KANTOR SPILL:

| | | | |
|----|----------|--|-------------|
| 42 | No Date | Template from Southwest Hazard Control with subject "Authorized Waste Agent" | 00330 |
| 43 | 10/9/02 | Email from Mr. Souther to Mr. Weeda Re: authorization letter | 00331 |
| 44 | 10/9/02 | Letter from Citizens to Amy Post, Allied Waste Re: Authorized Waste Agent, SHC is under contract with Citizens | 00332-00333 |
| 45 | 9/12/02 | Analytical results from Precision Analytical Laboratories For fuel hydrocarbons and PCBs | 00334-00336 |
| 46 | 9/10/02 | Analytical results from Precision Analytical Laboratories For fuel hydrocarbons Includes handwritten sheet with notes about Fire Cantor Substation, Ernie, and Denny | 00337-00338 |
| 47 | 9/2/02 | Report from Bill Cox on 8/30/02 clean-up | 00339-00340 |
| 48 | 2/23/98 | MSDS from UNOCAL Transformer Oil 10 | 00341-00349 |
| 49 | 10/15/96 | Analytical results from Analytical ChemTech International, Inc. Re: Dissolved Gas-in-Oil Analysis and Physical and Chemical Tests | 00350 |

MISCILANEOUS RECORDS:

| | | | |
|----|----------|--|-------------|
| 50 | 4/25/02 | Seven photos from Bill Cox showing 2 USTs being removed. | 00351-00353 |
| 51 | 4/10/02 | Comments from Bill Cox to Jon Weeda Re: Source of MW-16 contamination Includes Site Plan for VPP, Nogales from Western Technologies (and photos) | 00354-00361 |
| 52 | 2/3/02 | Invoice from Verde for work from 1/8-1/22/02 Totals \$8,900 Invoice from Verde for work from 11/29-12/26/01 Totals \$3,586.70 | 00362-00363 |
| 53 | 1/25/02 | Email from Bill Cox to Nogales MGT Re: EMR Survey of Diesel Contamination at VPP, introduction letter | 00364 |
| 54 | 1/23/02 | Analytical results from Friedman & Bruya from MW-16, MW-6 and Diesel From Terracon files. | 00365-00380 |
| 55 | 1/18/02 | Letter from Friedman & Bruya, Inc. to Mr. Mack, Terracon Re: Findings from 1/15/02 report from Friedman and Bruya | 00381-00382 |
| 56 | 1/22/02 | Diesel Line Status Report Prepared for Citizens VPP, Nogales Exhibits included. Prepared by Verde MGT Company, LLC | 00383-00408 |
| 57 | 1/4/02 | Analytical results from Columbia Analytical Services Tested for Total Chromium as submitted 11/9/01 | 00409-00434 |
| 58 | 12/21/01 | Printed sheets from the Internet with subtitle, "Petroleum Liability" | 00435-00442 |

JON WEEDA FILES
BATES # WEED 00001 – WEED 00757

| | | | |
|----|----------|--|-------------|
| 59 | 8/27/01 | Notice of Intention to Drill Monitor/Piezometer Well in Santa Cruz Signed and dated with exhibits. | 00443-00447 |
| 60 | 2/11/00 | Letter from ADEQ to Ms. Johnson, Arizona Project Officer Re: Site Screening Form and PA Memo for Citizens VPP, Nogales Completed exhibits included. | 00448-00471 |
| 61 | 12/31/97 | Notification of PCB Activity from EPA at Citizens VPP | 00472 |
| 62 | 1/26/98 | Letter from Bill Cox to Mr. Townsely, Arizona Electric Division Re: Proposals for UST removal No exhibits included. | 00473 |
| 63 | 11/18/97 | Terracon's summary of ADEQ's Minimums (HBGL res. and non-res.) | 00474-00475 |
| 64 | 1/5/95 | Letter from ADEQ to Mr. Gordan Cook, Citizens Re: Preliminary Assessment – Citizens Utilities, investigation pending | 00476-00477 |

MISCELLANEOUS ENVIRONMENTAL AGENCIES DOCUMENTS (from "the book"):

| | | | |
|----|----------|---|-------------|
| 65 | 12/15/00 | Letter from ADEQ to Mr. Ojeda, Citizens Re: Review of Laboratory Reports, Voluntary Remediation Program Application for Citizens VPP Review of 6/96, 8/98, and 6/99 reports with discussion. | 000478 |
| 66 | 11/6/00 | Letter from ADEQ to Mr. Ojeda Re: Voluntary Remediation Program Application for Citizens VPP, application accepted | 00479 |
| 67 | 2/11/00 | Letter from Ms. Hessler, ADEQ to Ms. Johnson, Arizona Project Officer Re: Site Screening Form and PA Memo, enclosed | 00480-00496 |
| 68 | 11/28/97 | Letter from Mr. Carty, ADEQ to Ms. Johnson, Arizona Project Officer Re: Site Planned for Consultation No exhibits included. | 00497 |
| 69 | 1/23/97 | Memo from Ms. Hessler, ADEQ to Mr. Homberg, Project Manager Re: Citizens CERCLIS Site, preliminary assessment ongoing Includes list of documents provided by CU. | 00498-00501 |
| 70 | 12/17/96 | Letter from ADEQ, Ms. Hessler to Mr. Randall, Valle Verde Water Company Re: Request for well information, from June 1995 | 00502 |
| 71 | 12/16/96 | Letter from ADWR to Ms. Hessler Re: Annual Water Reports 1995 report included. | 00503-00504 |
| 72 | 6/25/97 | Contact Report for Valle Verde Water Company regarding Number of Active Wells and Connections at Citizens, Nogales | 00505 |
| 73 | 1/23/95 | Letter from Citizens to Water Program Division Re: Preliminary Assessment (illegible) | 00506-00507 |
| 74 | 1/5/95 | Letter from ADEQ Mr. Carty to Mr. Cook, Citizens Re: Preliminary Assessment, complete questionnaire (not found in file) | 00508-00510 |
| 75 | 10/28/94 | Letter from ADEQ Mr. Wallin to Mr. Bill Cox, Citizens | 00511 |

JON WEEDA FILES
BATES # WEED 00001 - WEED 00757

| | | | |
|----|---------------------------------|--|-------------|
| | | Re: Soil Remediation Project, Escalada Trust Property, Terracon Project No. 63947026 No further activities due to clean up. | |
| 76 | 9/7/94 | ADEQ Hazardous Waste Complaints, Incidents, Referral Sheet <i>File # 94-244</i> made by John Bates | 00512 |
| 77 | 3/8/94 | Letter from the Earth Technology Corporation to ADEQ's Mr. Badri Re: Results of second quarter 1993 groundwater sampling at Nogales Exhibits included. | 00513-00521 |
| 78 | 7/15/93 | Letter from Citizens to ADEQ's Ms. Ross Re: TPH Site Assessment Includes Terracon's Site Assessment Work Plan Proposal dated 7/9/93 | 00522-00582 |
| 79 | 9/11/96 | Groundwater Monitoring Well No. MW-9 Installation and Quarterly Groundwater Monitoring Report Exhibits included. | 00583-00613 |
| 80 | 1/15/97 | Testing information from Bill Cox to Ms. Hessler, ADEQ Re: Potentiometric map of groundwater surface (8/25/94), Conceptual Remediation option report (5/24/95), ADWR Info. Pkg Reg.#55-540056 thru 60, Reg. #55-542842 thru 45, Reg. #55-557427 | 00614-00637 |
| 81 | 8/00 | ADEQ Drinking water System Inventory Data Sheets (includes various companies and properties around Santa Cruz county) | 00638-00679 |
| 82 | Various | Site/Well Statistical Information including basin, date drilled, elevation, well depth, etc. | 00680-00695 |
| 83 | No Date | Citizens VPP Document Log (very outdated and incomplete) | 00697-00699 |
| 84 | 8/21/00 | Internet printout of local Nogales hospital | 00700-00702 |
| 85 | 7/14/94 | Computer Generated Map of Owner Mr. Frank Randall's property with "proposed area" and "existing franchise" listed. | 00703 |
| 86 | Various | MSDS for various items used in Nogales | 00704-00721 |
| 87 | 1/17/97 | Email from Ms. Hessler to Gloria ? Re: ADWR Registration Numbers for Citizens Includes GPS Survey | 00722 |
| 88 | 6/23/95 | Uniform Hazardous Waste Manifest sheet, completed for PCB | 00734-00736 |
| 89 | 6/8/95 | Memo to DS Myers from Mr. Williams Re: List of PCB transformers to remove and destroy | 00737 |
| 90 | 6/22/95, 4/19/95, 4/17/95 | Test reports from Sherwood Labs, Inc. #HS041210, #HS041211, #HS041013 | 00738-00742 |
| 91 | 9/7/88 | Nogales Wash and Tributaries (US Army Corps of Eng.) | 00743-00757 |

INDEX OF DUE DILIGENCE DOCUMENTS

Bates No. Range DUE DILIGENCE 01 through DUE DILIGENCE 05

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|--------------------|
| 1. | | Citizens Acquisition - Due Diligence Questionnaire and Responses (responses prepared by John Weeda/Citizens) | DUE DILIGENCE 01-2 |
| 2. | 09/12/02 | URS Questions and Responses (responses prepared by John Weeda/Citizens) | DUE DILIGENCE 03-5 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| 1. | | Folder entitled "Citizens Energy Services Valencia Plan Diesel Line Leak" | COX00001 |
| 2. | 08/22/01 | Arizona Department of Water Resources Well Report | 00002 |
| 3. | 04/19/99 | Telephone Directory search results for Harry Lee | 00003 |
| 4. | 04/19/99 | Telephone Directory search results for Elizabeth Torpey | 00004 |
| 5. | 03/12/99 | Letter from Douglas E. Schneider/The WLB Group to Bill Cox (signed by Bill Cox) re proposal for services and enclosing Standard Conditions | 00005-6 |
| 6. | 03/04/99 | Fax letter from Douglas E. Schneider/The WLB Group to Bill Cox re proposal for services and enclosing Standard Conditions | 00007-9 |
| 7. | 06/02/98 | A.G.E. Contracting, Inc. proposal to Bill Cox Re tank containment area | 00010 |
| 8. | 05/10/99 | Transmittal from Bill Cox to Citizens Energy Services transmitting seven letters | 00011 |
| 9. | undated | Contact list | 00012 |
| 10. | undated | Post-it note entitled "collection tanks" | 00013 |
| 11. | 05/11/99 | Fax cover sheet from Harry Lee to Bill Cox | 00014 |
| 12. | 06/02/98 | Letter from William G. Islas/Terracon to Bill Cox re conversations with DEQ personnel re two subsurface collection tanks located at the Valencia Power Plant. | 00015-16 |
| 13. | 03/30/98 | Letter from William G. Islas/Terracon to Bill Cox re conversations with DEQ re two subsurface collection tanks located at the Valencia Power Plant re removal and submission of report to DEQ. | 00017 |
| 14. | 06/02/98 | Fax from William G. Islas/Terracon to Bill Cox attaching a draft of 6/2/98 letter re conversations with ADEQ re subsurface collection tanks. | 00018-20 |
| 15. | 05/30/98 | Letter from Bill Cox to Ernesto Ojeda advising that the containment constructed around the two 50,000 gal. tanks is sufficient to satisfy ADEQ requirements with the exception of a small area of exposed dirt around older tank. | 00021 |
| 16. | 03/30/98 | Letter from Bill Cox to Ernesto Ojeda | 00022-23 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | provides list of ongoing HASMAT and ADEQ projects he is presently managing. | |
| 17. | 03/24/98 | Fax cover sheet from Bill Cox to Bill Islas/Terracon attaching a sign copy of letter from Nogales Fire Department. | 00024 |
| 18. | 03/18/98 | Letter from Jesus M. Gomez/City of Nogales to Bill Cox confirming that the tanks are in fact collection tanks from the turbines and a garage area and are not underground storage tanks. | 00025 |
| 19. | 03/23/98 | Fax from Bill Cox to Bill Islas/Terracon enclosing a copy of letter from the Nogales Fire Department | 00026-27 |
| 20. | 03/17/98 | Letter from Bill Cox to Paul Townsley/Citizens Utilities Company providing information on bids for removal and disposal of two underground collection tanks at the Valencia Power Plant. | 00028-29 |
| 21. | 03/16/98 | Letter from Bill Cox to Ernest Ojeda re ADEQ requirements for containment of liquids being stored into aboveground storage tanks. | 00030 |
| 22. | 01/26/98 | Letter from Bill Cox to Paul Townsley re obtaining proposals from engineering firm and one contractor for the removal of two 1,000 gal. underground storage tanks; has not yet determined how ADEQ will treat removal. | 00031 |
| 23. | 01/23/98 | Proposal from Barnett & Shore Contractors, L.L.C. re removal of underground storage tanks. | 00032-41 |
| 24. | 12/19/97 | Letter from William G. Islas/Terracon to Ernesto Ojeda re proposal to conduct a Phase II site characterization of the Valencia Power Plant | 00042-45 |
| 25. | 01/21/98 | Letter from William G. Islas/Terracon to Bill Cox re proposal to provide environmental consulting services during the removal of two underground storage tanks located at the Valencia Power Plant. | 00046-48 |
| 26. | 12/31/97 | Terracon's revised conceptual remedial action plan for the Valencia Power Plant. | 00049-64 |
| 27. | 04/19/99 | Transmittal from Bill Cox to Citizens Energy Services transmitting one letter | 00065 |
| 28. | 04/06/99 | Letter from William G. Islas/Terracon to Bill Cox re groundwater remediation standards at | 00066-67 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| No. | Date | Description | Bates Nos. |
|------------|-------------|---|-------------------|
| | | the Valencia Power Plan. | |
| 29. | 04/19/99 | Transmittal from Bill Cox to Terracon attaching addendum indicating monitoring well elevations. | 00068-70 |
| 30. | 04/08/99 | Fax from Doug/The WLB Group to Bill Cox attaching well site info. | 00071-75 |
| 31. | 04/02/99 | Faxed letter from William G. Islas/Terracon to Bill Cox re groundwater remediation standards. | 00076-78 |
| 32. | 12/28/98 | Fax from Bill Cox to Mike Harrington/The WLB Group re enclosing fax from Terracon re wells with request to review work and call with estimate. | 00079 |
| 33. | 12/28/98 | Fax from William Islas/Terracon to Bill Cox attaching documents for monitoring wells. | 00080-82 |
| 34. | 12/09/98 | Transmittal from Terracon to Bill Cox transmitting draft of conceptual remedial action plan. | 00083-98 |
| 35. | 12/08/98 | Terracon invoice in the amount of \$4,480. | 00099 |
| 36. | 08/11/98 | Arizona preliminary 20-day lien notice filed by Enviro-Drill, Inc. | 00100 |
| 37. | 07/17/98 | Letter of transmittal from Terracon to Bill Cox transmitting map | 00101-102 |
| 38. | 07/13/98 | Letter from K. McNeeley/Arizona Department of Water Resources enclosing a copy of annotated notice of intention to drill well with accompanying documents re registration #55-569352. | 00103-110 |
| 39. | 07/13/98 | Letter from K. McNeeley/Arizona Department of Water Resources enclosing a copy of annotated notice of intention to drill well with accompanying documents re registration #55-569354. | 00111-118 |
| 40. | 07/13/98 | Letter from K. McNeeley/Arizona Department of Water Resources enclosing a copy of annotated notice of intention to drill well with accompanying documents re registration #55-569353. | 00119-126 |
| 41. | 07/13/98 | Letter from K. McNeeley/Arizona Department of Water Resources enclosing a copy of annotated notice of intention to drill well with accompanying documents re registration #55-569355. | 00127-134 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| 42. | 07/13/98 | Letter from K. McNeeley/Arizona Department of Water Resources enclosing a copy of annotated notice of intention to drill well with accompanying documents re registration #55-569356. | 00135-142 |
| 43. | 07/13/98 | Letter from K. McNeeley/Arizona Department of Water Resources enclosing a copy of annotated notice of intention to drill well with accompanying documents re registration #55-569357. | 00143-150 |
| 44. | 06/15/98 | Notice of Intention to Drill/Monitor/Piezometer Well | 00151-164 |
| 45. | 02/13/98 | Letter from Islas/Terracon to Citizens Utilities re clarification of proposed additional Phase II - Site Characterization at the Valencia Power Plant. | 00165-166 |
| 46. | 02/13/98 | Fax from Islas/Terracon to Bill Cox enclosing draft letter dated 2/13/98 re clarification of proposed additional Phase II - Site Characterization. | 00167-169 |
| 47. | 12/19/97 | Letter from William G. Islas/Terracon to Ernesto Ojeda presenting proposal to conduct a Phase II - Site Characterization. | 00170-173 |
| 48. | 09/26/97 | Letter from Islas/Terracon to Bill Cox re recommendations for hydrocarbon product removal and groundwater remediation feasibility. | 00174-176 |
| 49. | 07/30/97 | Letter from Islas/Terracon to Bill Cox confirming additional environmental services to be performed at the Valencia Power Plant. | 00177-178 |
| 50. | 01/15/97 | Transmittal from Bill Cox to ADEQ enclosing maps and registrations. | 00179 |
| 51. | 12/26/96 | Letter from Bill Cox to Jim Botkin re ADEQ site visit on 12/20/96. | 00180-181 |
| 52. | 11/08/96 | Invoice from Terracon in the amount of \$10,250. | 00182 |
| 53. | 09/10/96 | Fax from Lyle Tweet/Terracon to Bill Cox enclosing draft of quarterly groundwater monitoring report. | 00183-194 |
| 54. | 08/28/96 | Fax from Lyle Tweet/Terracon to Bill Cox enclosing draft of quarterly groundwater monitoring report. | 00195-207 |
| 55. | | Letter from Allen Kane/Arizona Department | 00208-212 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | of Water Resources to Citizens Utilities enclosing annotated copy of Notice of Intention to Drill re registration #55-5557427. | |
| 56. | 05/17/96 | Letter from Gregory Rzonca/Terracon to Bill Cox enclosing resume for reference. | 00213-215 |
| 57. | 05/16/96 | Letter from James Botkin/Citizens Utility to Sharon Masek/Arizona Department of Water Resources providing letter of authorization for Bill Cox to execute the applications necessary for installing the wells. | 00216 |
| 58. | 05/16/96 | Letter from James Botkin/Citizens Utility to Sharon Masek/Arizona Department of Water Resources providing letter of authorization for Bill Cox to execute the applications necessary for installing the wells with Post-it note to Rick Dow/Terracon. | 00217 |
| 59. | 05/09/96 | Phone message from Sharon Masek to Jim Botkin requesting authorization letter to Bill Cox so he can sign for monitor well. | 00218 |
| 60. | undated | Business card for Gregory Rzonca. | 00219-220 |
| 61. | 04/19/96 | Transmittal from Rick Dow/Terracon to Bill Cox enclosing copies of drilling permit variance letter and well diagram. | 00221-228 |
| 62. | 03/25/96 | Letter from Ernest Ojeda to Richard Dow enclosing signed copy of time and expenses contract. | 00229 |
| 63. | 03/15/96 | Transmittal from Lyle Tweet to Bill Cox re requirement not to furnish performance bond. | 00230 |
| 64. | 03/18/96 | Certificate of Insurance issued by Terracon. | 00231 |
| 65. | 03/15/96 | Certificate of Insurance from Terra Insurance Company to Terracon. | 00232 |
| 66. | 03/13/96 | Transmittal from Bill Cox to Terracon re transmitting construction services agreement. | 00233-249 |
| 67. | 01/14/96 | Transmittal from Terracon to Bill Cox re revised construction service agreement with note from Bill Cox to Ernest Ojeda indicating no problems with the comments Terracon wishes to add and words they wish to delete. | 00250 |
| 68. | 01/19/96 | Transmittal from Rick Dow to Bill Cox enclosing modifications to contract | 00251-255 |
| 69. | 01/14/96 | Letter from Richard Dow to Jim Botkin re proposal re groundwater monitoring and additional soil sampling at the Valencia Power | 00256-257 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | Plant. | |
| 70. | 10/26/95 | ADEQ interoffice memorandum from Debra Garron to Karen Schwab re closing solid waste file based on conversation with Bill Cox | 00258 |
| 71. | 08/11/95 | Letter from James Botkin to Bill Cox authorizing Cox to proceed with handling of Valencia Power Plant soil testing with Terracon in accordance with 8/7/95 letter. | 00259 |
| 72. | 08/07/95 | Letter from Richard Dow to Jim Botkin re proposal for groundwater monitoring and additional soil sampling at the Valencia Power Plant. | 00260-261 |
| 73. | 08/07/95 | Letter from Richard Dow to Jim Botkin re proposal for groundwater monitoring and additional soil sampling at the Valencia Power Plant. | 00262-263 |
| 74. | 07/12/95 | Fax from Bill Cox to Dennis True requesting that he review draft letter from Terracon and comment. | 00264 |
| 75. | 07/11/95 | Fax from Rick Dow to Bill Cox re draft of groundwater monitoring and additional soil sampling at the Valencia Power Plant. | 00265-268 |
| 76. | 05/16/95 | Fax from Bill Cox to Dennis True enclosing latest draft of Terracon's letter to accompany latest report. | 00269 |
| 77. | 05/15/95 | Fax from Rick Dow to Bill Cox enclosing a draft of proposal re engineering services at the Valencia Power Plant. | 00270-273 |
| 78. | 05/11/95 | Fax Cover Sheet from Bill Cox to Dennis True enclosing preliminary draft of cover letter for report dated 3/20/95. | 00274 |
| 79. | 05/10/95 | Fax from Rick Dow to Bill Cox enclosing draft of cover letter to report. | 00275-278 |
| 80. | | Business card from Mary E. Hessler of Arizona Department of Environmental Quality | 00279 |
| 81. | undated | Folder entitled "Citizens Energy Services Valencia Power Plant Diesel Line Leak 3" | 00280 |
| 82. | 04/02/02 | Final report - Electromagnetic Radiography Survey for Valencia Power Plant prepared by Detection Sciences, Inc. | 00281-299 |
| 83. | 03/11/02 | Internet Web Site re Weiss Associates - about us. | 00300-302 |
| 84. | 03/11/02 | Internet Web Site re Weiss Associates - | 00303-305 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| No. | Date | Description | Bates Nos. |
|------------|-------------|---|-------------------|
| | | services. | |
| 85. | 03/26/02 | Invoice from Chemical Transportation, Inc. to Citizens in the amount of \$2,170.29. | 00306-307 |
| 86. | 02/25/02 | Diversified Design and Construction invoice in the amount of \$2,060.63. | 00308-318 |
| 87. | 02/27/02 | E-mail from William Islas to Bill Cox attaching historic data tables for re historic diesel product observations at the Valencia Power Plant. | 00319-321 |
| 88. | 02/18/02 | Letter from Richard McNerney/Verde Management Co. to Bill Cox enclosing official Tracer Research Corp. report for underground fuel lines. | 00322 |
| 89. | 01/08-09/02 | Tracer tight leak test of underground piping. | 00323-342 |
| 90. | undated | Handwritten note re electrical lines and diesel supply lines. | 00343 |
| 91. | 01/00/02 | Valencia Power Plant – intersection of electrical lines and diesel supply lines. | 00344 |
| 92. | 01/00/02 | Valencia Power Plant – intersection of fire main and diesel supply lines. | 00345 |
| 93. | 01/24/02 | Invoice from Verde in the amount of \$8,900. | 00346 |
| 94. | 01/24/02 | Invoice from Verde in the amount of \$3,586.70. | 00347 |
| 95. | 01/22/02 | Verde diesel line status report. | 00348-372 |
| 96. | 01/23/02 | Straight bill of lading from Chemical Transportation. | 00373 |
| 97. | 01/02/02 | Chemical Transportation status report. | 00374 |
| 98. | 12/18/01 | Invoice from D.L.O. Plumbing in the amount of \$2,019.85. | 00375 |
| 99. | undated | Handwritten drawing re diesel lines. | 00376 |
| 100. | 09/20/96 | Site plan drawing. | 00377 |
| 101. | | Business card for Dr. Aka G. Finci/Detection Sciences, Inc. | 00378 |
| 102. | | Business card for David Bradfield/Detection Sciences, Inc. | 00379 |
| 103. | 04/19/02 | E-mail from Daniel Stanfield to Bill Cox attaching information relating to EMR inspection for chromium and arsenic. | 00380-381 |
| 104. | 04/10/02 | Fax cover sheet from Bill Cox to John Weeda re diesel leak. | 00382 |
| 105. | undated | Aerial photograph. | 00383 |
| 106. | 08/07/85 | Report of findings – initial underground storage tank assessment. | 00384-389 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| 107. | 04/05/02 | Fax from Landis Corp. to Bill Cox enclosing aerial photograph and inquiring is this the right building. | 00390-391 |
| 108. | 04/03/02 | Fax from Landis Corp. to Bill Cox enclosing aerial photographs. | 00392-394 |
| 109. | 02/12/02 | Letter of transmittal from William Islas to Bill Cox enclosing variance letter and well construction diagram. | 00395 |
| 110. | 01/30/02 | Letter from Timm Porter/Geomechanics Southwest, Inc. re request to Arizona Department of Water Resources re construction variance relating to notice of intent to drill three monitor wells. | 00396-397 |
| 111. | 01/29/02 | Letter from Frank Corkhill/Arizona Department of Water Resources to Ernest Ojeda requesting additional information to be submitted. | 00398 |
| 112. | 01/25/02 | Series of e-mails between Bill Cox and Dr. Finci advising that report is acceptable and requested to go forward with all arrangements to perform work. | 00399-400 |
| 113. | 01/25/02 | E-mail from Bill Cox to Dr. Finci advising that report is acceptable and to go forward with all arrangements to perform work with post-it note indicating fax to John Weeda on 1/25/02. | 00401 |
| 114. | 01/22/02 | UPS internet shipping receipt from Citizens Energy to Terracon. | 00402 |
| 115. | 01/23/02 | E-mail from William Islas to Bill Cox re EMR survey proposal. | 00403 |
| 116. | 01/21/02 | Letter from Detection Sciences, Inc. to Terracon re the proposal to perform electromagnetic radiograph survey. | 00404-406 |
| 117. | 01/23/02 | Fax transmittal from William Islas to Bill Cox attaching letter from Friedman & Bruya Analytical Lab report re product comparison samples. | 00407 |
| 118. | 01/14/02 | Letter from Kurt Johnson/Friedman & Bruya to David Mack/Terracon attaching results from testing of material submitted on 1/11/02. | 00408-421 |
| 119. | 01/18/02 | Letter from Michelle Trevino Costales to David Mack re comparison of material present in samples. | 00422 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| 120. | 01/18/02 | Fax from Terracon to Bill Cox re 1/18/02 letter from Friedman & Bruya re comparison of material. | 00423-424 |
| 121. | 01/18/02 | Fax from Terracon to Bill Cox attaching Columbia Analytical Services report. | 00425-460 |
| 122. | | E-mail from William Islas to Bill Cox enclosing documents received from Detection Sciences re EMR survey methodology and protocols. | 00461-471 |
| 123. | 01/14/02 | Fax from William Islas to Bill Cox enclosing 1/14/02 letter from Kurt Johnson re results of testing material. | 00472-476 |
| 124. | 01/10/02 | Fax from Bill Cox to John Weeda attaching certification showing that the line going to B Turban passed both biometric and leak detection testing. | 00477-479 |
| 125. | 12/19-20/01 | Handwritten note re Valencia Power Plant diesel line testing. | 00480 |
| 126. | 01/07/02 | Fax from Terracon to Bill Cox attaching draft of summary of preliminary analytical results. | 00481-482 |
| 127. | 01/04/02 | Fax from Terracon to Bill Cox re Columbia Analytical Services report. | 00483-509 |
| 128. | 01/02/02 | E-mail from Bill Cox to Ernesto Ojeda re information from tracer test indicating one positive location for a leak. | 00510 |
| 129. | 12/28/01 | Fax cover sheet from Bill Cox to Norma enclosing results Ernie asked to be faxed. | 00511 |
| 130. | 12/28/01 | Series of e-mails between Ernesto Ojeda and Bill Cox re Valencia Power Plant diesel line testing. | 00512-513 |
| 131. | 12/28/01 | E-mail from Bill Cox to Ernesto Ojeda re diesel line testing indicating that they are below the EPA Federal Standard Testing Limits for this type of test but it failed according to the acurite pipeline tester expanded operation range. | 00514 |
| 132. | 12/28/01 | Fax from Compliance Management Inc. to Bill Cox enclosing line and leak detector test results. | 00515-521 |
| 133. | 12/26/01 | Fax from Compliance Management to Bill Cox enclosing tank and line test certificate and line and leak detector test results. | 00522-524 |
| 134. | 12/21/01 | Fax from Chemical Transportation to Bill Cox | 00525-529 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | re enclosing Waste Management's generators waste profile sheet. | |
| 135. | 12/21/01 | Fax from Cynthia Clowes/Waste Management to Bill Cox requesting that the analytical be attached to the completed profile, review, sign and date and return. | 00530-532 |
| 136. | 11/12/01 | Letter from William Islas to Bill Cox re observations during quarterly groundwater monitoring. | 00533 |
| 137. | | Folder entitled "Citizens Energy Services Valencia Power Plant Diesel Line Leak 2" | 00534 |
| 138. | undated | Aerial photographs. | 00535-543 |
| 139. | 05/17/00 | Transmittal from Terracon to Craig Marks enclosing original contract for engineering services dated 5/15/00. | 00544-569 |
| 140. | 04/26/00 | Letter from Mike Walbert/Power Engineers, Inc. to Sharon Templeton/Terracon enclosing calculations and assumptions for oil containment. | 00570-572 |
| 141. | undated | Document log and documents picked up from ADEQ by Terracon. | 00573-595 |
| 142. | 01/27/00 | Letter from Monica Ortez/Arizona Department of Water Resources to Citizens Utilities enclosing copy of notice of intent to abandon well re registration #55-542843. | 00596-601 |
| 143. | 05/22/00 | Letter from Frank Corkhill/Arizona Department of Water Resources to John Purcell/Geomechanics Southwest, Inc. approving request for variances. | 00602-611 |
| 144. | 01/23/98 | Santa Cruz District - disposal of used transformers and other used electric equipment containing oil. | 00612-618 |
| 145. | 11/05/97 | Fax from Bill Cox to Jim Web enclosing test results for remaining 12 barrels of transformer oil to be disposed. | 00619-620 |
| 146. | 11/12/97 | Fax from Bill Cox to Jim Web re test results for 22 barrels of transformer oil to be disposed. | 00621-623 |
| 147. | 07/08/99 | Fax from Terracon to Bill Cox re extension of pipelines. | 00624-625 |
| 148. | 07/06/99 | Fax from Bill Cox to Sharon Templeton/Terracon re draft work plan for soil and groundwater remediation. [note | 00626-643 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | indicating attorney work product - SBS] | |
| 149. | 02/22/00 | Letter of transmittal from Islas to Cox enclosing quarterly report. | 00644 |
| 150. | 10/26/00 | E-mail from Ernesto Ojeda to Bill Cox enclosing draft of letter Sharon needs before she meets with ADEQ. | 00645 |
| 151. | 10/25/00 | E-mail from Bill Cox to Ernesto Ojeda enclosing draft of letter Sharon needs before she meets with ADEQ. | 00646 |
| 152. | 10/18/00 | Letter from Ernesto Ojeda to Sharon Templeton re closure of the Valencia Power Plant oil sump. | 00647 |
| 153. | 10/18/00 | Letter from Ernesto Ojeda to Sharon Templeton re closure of the Valencia Power Plant oil sump. | 00648 |
| 154. | 07/25/00 | Fax from Sharon Templeton/Terracon to Bill Cox and Ernesto Ojeda enclosing application and remediation agreement with the Arizona Department of Environmental Quality. | 00649-676 |
| 155. | 07/25/00 | E-mail from Sharon Templeton to Bill Cox re finishing up VRP application. | 00677 |
| 156. | 07/19/00 | E-mail from Bill Cox to Ernesto Ojeda re conversation with Sharon from Terracon re VRP application. | 00678 |
| 157. | 07/11/00 | E-mail from Sharon Templeton to Bill Cox and Ernesto Ojeda re the outstanding containment issues at the Cantor and Canaz(?) substations. | 00679 |
| 158. | 07/11/00 | E-mail from Sharon Templeton to Bill Cox advising that she has not heard anything new from ADEQ and has scheduled a call with Mike Walbert. | 00680 |
| 159. | 06/13/00 | Fax from Sharon Templeton/Terracon to Bill Cox enclosing Senate Bill 1454. | 00681-721 |
| 160. | 05/26/00 | Letter from Ernesto Ojeda to Al Roesler/Arizona Department of Environmental Quality advising that Citizen intends to apply for participation in the newly established voluntary remediation program. | 00722-723 |
| 161. | undated | Post-it note entitled "ADEQ VRP Start" | 00721 (??) |
| 162. | 05/24/00 | Second page of letter to Al Roesler with handwritten changes. | 00724 |
| 163. | 06/13/00 | Letter from Sharon Templeton/Terracon to | 00725-726 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | Arizona Department of Environmental Quality writing on behalf of Citizens re application for participation in the voluntary remediation program. | |
| 164. | 06/09/00 | E-mail from Sharon Templeton to Bill Cox re meeting at ADEQ. | 00727 |
| 165. | 05/30/00 | E-mail from Sharon Templeton to Bill Cox re scheduling appointment with ADEQ. | 00728 |
| 166. | 05/30/00 | Fax from Sharon Templeton/Terracon to Bill Cox re appointment with ADEQ. | 00729 |
| 167. | 04/27/00 | Fax from Sharon Templeton/Terracon to Bill Cox indicating this letter is to replace the 4/17/00 letter. | 00730 |
| 168. | 04/27/00 | Letter from Sharon Templeton/Terracon to Craig Marks providing a synopsis on project issues and remediation plans. | 00731-733 |
| 169. | 04/19/00 | Fax from Sharon Templeton to Bill Cox enclosing 4/19/00 letter re synopsis of project issues and remediation plans. | 00734-737 |
| 170. | 04/05/00 | Series of e-mails between Sharon Templeton, Harry Lee, Bill Cox, and Ernesto Ojeda re conversation with Mike Walbert of Power Engineers. | 00738 |
| 171. | 04/04/00 | Fax from Sharon Templeton to Ernesto Ojeda and Bill Cox enclosing information re spill kits. | 00739-742 |
| 172. | 03/31/00 | Fax from Harry Lee to Ojeda, Deni Scanlon, Bill Cox and Sharon Templeton re meeting to discuss Terracon's SPCC recommendations. | 00743 |
| 173. | 03/27/00 | Letter from Sharon Templeton/Terracon to Harry Lee re SPCC site visits and the preliminary results. | 00744-748 |
| 174. | 10/26/99 | Fax from Harry Lee to Ojeda, Marks, Thomas, Templeton and Cox re 10/28/99 meeting at Nogales discussion latest draft report. | 00749-750 |
| 175. | 09/21/99 | Fax from Sharon Templeton/Terracon to Bill Cox re document routing dilemma and the final work plan. | 00751 |
| 176. | 08/23/99 | Letter from Bill Cox to Harry Lee re reports prepared by Terracon to cover hazard material situations beginning in 1993. | 00752-754 |
| 177. | 07/15/99 | Memorandum from Maxwell Enterline to Bill Cox, Bill Islas and Sharon Templeton re | 00755-757 |

DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | summary tables with results for TPH-EPA method 8015, EPA method 8260, and EPA method 8310. | |
| 178. | 06/04/99 | Transmittal from Bill Cox to Terracon enclosing sample of pipe removed from original generator building. | 00758 |
| 179. | 05/11/99 | Letter from Craig Marks to Bill Cox requesting his assistance in completing the legal analysis re the compliance with environmental laws and requirements at Citizens' facilities in Nogales. | 00759 |
| 180. | | Folder entitled "Valencia Plant Oil Spill". | 00760 |
| 181. | undated | Handwritten note re a Valencia oil spill communication. | 00761 |
| 182. | | Handwritten note re Valencia oil spill latest costs. | 00762-763 |
| 183. | | Handwritten note re contaminated bore ends. | 00764 |
| 184. | | Handwritten note re Valencia oil spill budget. | 00765 |
| 185. | undated | Photographs. | 00766-772 |
| 186. | 10/05/92 | Valencia plant expansion drawings - grading and paving plan. | 00773-774 |
| 187. | 11/30/93 | Level II site assessment work plan prepared by Terracon Consultants. | 00775-782 |
| 188. | | Photographs | 00783-784 |
| 189. | 07/02/93 | Proposed soil boring locations prepared by Terracon. | 00785-803 |
| 190. | 07/21/93 | Soil boring/groundwater monitoring well installation/sample collection waste oil and potential polychlorinated biphenyl contamination prepared by Terracon. | 00804-820 |
| 191. | 06/30/93 | PCB and TPH sampling program prepared by Terracon. | 00821-846 |
| 192. | 06/21/93 | Preliminary evaluation - PCB and TPH sampling program. | 00847-861 |
| 193. | 04/15/93 | Letter from Richard Murray/In-Situ Fixation Company enclosing copy of current company brochure re services to offer. | 00862-870 |
| 194. | 05/12/95 | Transmittal from Bill Cox to Pacific Industrial Pipeline enclosing change order no. 1. | 00871 |
| 195. | 05/09/95 | Memorandum from D.L. True to Bill Cox re change order no. 1 for Pacific Industrial Pipeline Company. | 00872 |
| 196. | 05/02/95 | Change Order no. 1 for Pacific Industrial | 00873 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | Pipeline Company. | |
| 197. | 07/26/94 | Bill Cox daily construction report. | 00874 |
| 198. | 07/18/94 | Bill Cox daily construction report. | 00875 |
| 199. | 07/13/94 | Bill Cox daily construction report. | 00876 |
| 200. | 07/11/94 | Bill Cox daily construction report. | 00877 |
| 201. | 07/10/94 | Bill Cox daily construction report. | 00878 |
| 202. | 07/09/94 | Bill Cox daily construction report. | 00879 |
| 203. | 07/08/94 | Bill Cox daily construction report. | 00880 |
| 204. | 07/07/94 | Bill Cox daily construction report. | 00881 |
| 205. | 07/06/94 | Bill Cox daily construction report. | 00882 |
| 206. | 07/05/94 | Bill Cox daily construction report. | 00883 |
| 207. | 07/03/94 | Bill Cox daily construction report. | 00884 |
| 208. | 07/02/94 | Bill Cox daily construction report. | 00885 |
| 209. | 07/01/94 | Bill Cox daily construction report. | 00886 |
| 210. | 06/29/94 | Bill Cox daily construction report. | 00887 |
| 211. | 06/28/94 | Bill Cox daily construction report. | 00888 |
| 212. | 06/24/94 | Bill Cox daily construction report. | 00889 |
| 213. | 04/26/94 | Bill Cox daily construction report. | 00890 |
| 214. | 04/22/94 | Bill Cox daily construction report. | 00891 |
| 215. | 04/14/94 | Bill Cox daily construction report. | 00892 |
| 216. | 04/13/94 | Bill Cox daily construction report. | 00893 |
| 217. | 04/12/94 | Bill Cox daily construction report. | 00894 |
| 218. | 12/29/93 | Bill Cox daily construction report. | 00895 |
| 219. | 12/07/93 | Bill Cox daily construction report. | 00896 |
| 220. | 08/17/93 | Bill Cox daily construction report. | 00897 |
| 221. | 08/16/93 | Bill Cox daily construction report. | 00898 |
| 222. | 08/13/93 | Bill Cox daily construction report. | 00899 |
| 223. | 08/12/93 | Bill Cox daily construction report. | 00900 |
| 224. | 08/11/93 | Bill Cox daily construction report. | 00901 |
| 225. | 07/30/93 | Bill Cox daily construction report. | 00902 |
| 226. | 07/29/93 | Bill Cox daily construction report. | 00903 |
| 227. | 07/28/93 | Bill Cox daily construction report. | 00904 |
| 228. | 07/27/93 | Bill Cox daily construction report. | 00905 |
| 229. | 07/26/93 | Bill Cox daily construction report. | 00906 |
| 230. | 03/27/95 | Invoice from Terracon in the amount of \$520. | 00907 |
| 231. | 02/27/95 | Fax from Rick Dow to Bill re changes to portions of the remedial option report. | 00908-911 |
| 232. | 02/21/95 | Fax from Rick Dow to Bill Cox enclosing a draft remedial option report. | 00912-925 |
| 233. | 12/19/94 | Letter from Bob Wallin/Arizona Department of Environmental Quality to Bill Cox re soil remediation projection re change to 10/28/94 letter re closure of remedial action at the | 00926 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | Escalada Trust Property. | |
| 234. | Undated | Copies of business cards of Karen Schwab and Linda Burgess/Arizona Department of Environmental Quality with post-in note to Dennis True that these came on site. | 00927 |
| 235. | 12/19/94 | Copies of business cards of Karen Schwab and Linda Burgess/Arizona Department of Environmental Quality. | 00928 |
| 236. | 12/19/94 | Letter from Bob Wallin to Bill Cox re review of final report on the remediation petroleum contaminated soil at the Escalada Trust Property and the site is considered closed. | 00929 |
| 237. | | Handwritten note re call with Bob Wallin. | 00930 |
| 238. | 11/28/94 | Fax from D.L. True to Bill Cox re draft letter in response to 11/22/94 memorandum. (printed on fax copy paper, starting to degrade) | 00933-934 |
| 239. | 11/22/94 | Letter from Bill Cox to Dennis True enclosing the proposal from Terracon for well monitoring. | 00935 |
| 240. | 11/08/94 | Letter from Richard Dow/Terracon to Bill Cox re quarterly monitoring for the Valencia Power Plant. | 00936-941 |
| 241. | 11/10/94 | Letter from Cox to Escalada regarding letter from ADEQ re cleanup of oil on his property | 00942 |
| 242. | 10/28/94 | Letter from Bob Wallin/ADEQ to Cox regarding final report on remediation of contaminated sole on Escalada Trust property | 00943 |
| 243. | 08/25/94 | Unconditional Waiver and Release re Santa Cruz Excavating | 00944 |
| 244. | 069/09/94 | Letter from Richard Dow/Terracon to Bill Cox re estimated expenditures for work that has been completed, but not invoices | 00945 |
| 245. | 09/07/94 | Transmittal from Rick Dow to Bill Cox regarding transmittal letter with accompanied report to ADEQ | 00946 |
| 246. | 09/02/94 | Transmittal from Rick Dow to ADEQ re assessment report | 00947 |
| 247. | 08/17/94 | Fax from John Mann/Southwest Soil Remediation to Bill Cox attaching copy of purchase order from American Fence | 00948-949 |
| 248. | | Post It Note entitled "Santa Cruz Excavating" | 00950 |
| 249. | 08/15/94 | Purchase Order No. 043021 to Santa Cruz to | 00951-958 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | provide labor and equipment to excavate and backfill contaminated soil site of Escalada property with attachments | |
| 250. | | Post It Note entitled "WLB Group" | 00959 |
| 251. | 08/04/94 | Purchase Order No. 043023 to WLB Group to provide professional services to locate additional monitoring wells and plot same on Valencia master plan | 00960 |
| 252. | 08/03/94 | Purchase Order No. 041995 to WLB Group to provide professional services to locate additional monitoring wells and plot same on Valencia master plan | 00961 |
| 253. | 07/14/94 | Letter from Bill Cox to Jesus Gomez/Nogales Fire Department re update of activities pertaining to remediation of contaminated soil found on Escalada property | 00962-963 |
| 254. | 07/13/94 | City of Nogales Utility Billing Account Service Order | 00964 |
| 255. | | Post It Note entitled "WLB Group" | 00965 |
| 256. | 07/11/94 | Purchase Order No. 041995 to WLB Group to provide professional services to locate additional monitoring wells and plot same on Valencia master plan | 00966 |
| 257. | 06/30/94 | City of Nogales form re use of fire hydrant and payment of deposit | 00967 |
| 258. | 12/15/94 | Invoice No. 6334340 from Terracon in the amount of \$5,175.00 with handwritten notes | 00968 |
| 259. | 10/06/94 | Invoice No. 6334034 from Terracon in the amount of \$5,635.00 with handwritten notes | 00969 |
| 260. | 08/16/94 | Invoice No. 6333820 from Terracon in the amount of \$52,140.00 with handwritten notes | 00970 |
| 261. | 06/16/94 | Invoice No. 6333684 from Terracon in the amount of \$12,475.00 with handwritten notes | 00971 |
| 262. | 03/02/94 | Invoice No. 6333262 from Terracon in the amount of \$10,025.00 with handwritten notes | 00972 |
| 263. | | Post It Note entitled "Terracon" | 00973 |
| 264. | 05/10/94 | Purchase Order NO. D-01385 re provision of professional services re site assessment, labor for remediation, consultant assessment of area II | 00974 |
| 265. | 04/14/94 | Invoice No. 6333458 from Terracon in the amount of \$2,400.00 with handwritten notes | 00975 |
| 266. | 04/08/94 | Letter from Bill Cox to Dennis True enclosing | 00976-979 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | recommendation from Terracon regarding remediation | |
| 267. | 03/21/94 | Letter from Richard Dow/Terracon to Bill Cox regarding remedial option recommendation for Escalada property | 00980-982 |
| 268. | 03/17/94 | Letter from Ellen Kane/Arizona Department of Water Resources to Citizens enclosing annotated copy of Notice of Intention to Drill re Registration No. 55-542842 through 55-542845 | 00983-992 |
| 269. | 03/21/94 | Draft letter from Richard Dow/Terracon to Bill Cox regarding remedial option recommendation for Escalada property | 00993-995 |
| 270. | 03/01/94 | Check No. 0601345 from Terracon to Arizona Department of Water Resources in the amount of \$40.00 | 00996 |
| 271. | 02/28/94 | Letter from Bill Cox to Arizona Department of Water Resources enclosing permit applications for emplacement of borings and monitor wells | 00997-1016 |
| 272. | 02/23/94 | Transmittal from Rick Dow to Bill Cox enclosing draft remedial option report | 1017 |
| 273. | 02/14/94 | Draft letter from Dennis True to Arizona Department of Water Resources enclosing permit applications for emplacement of borings and monitor wells | 1018 |
| 274. | 02/14/94 | Letter from Dennis True to Arizona Department of Water Resources enclosing permit applications for emplacement of borings and monitor wells | 1019-1024 |
| 275. | 02/07/94 | Letter from Suzanne Shields/Pima Count Solid Waste Management to Bill Cox regarding Board policy on the importation of out of county waste | 1025 |
| 276. | 01/18/94 | Memorandum from Huckelberry/Pima County to Suzanne Shields regarding modifications to out of count waste | 1026 |
| 277. | 01/17/94 | Memorandum from Huckelberry/Pima County to Pima County Board of Supervisors regarding modifications to out of count waste | 1027-29 |
| 278. | | Handwritten note to Bill regarding purchase order | 1030 |
| 279. | 02/07/94 | Purchase Order to Terracon regarding | 1031 |

DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | professional services for additional site assessment of Area I and contract labor for remediation of Area II and consultant agreement for Area II | |
| 280. | | Pages 14 through 17 of report | 1032-1035 |
| 281. | 02/01/94 | Improvement/Replacement Order No. 102A re remediation of contaminated soil | 1036-1037 |
| 282. | 01/17/94 | Letter from Dennis True to Robert Wallin/Arizona Department of Water Resources enclosing Level II Site Assessment Report | 1038 |
| 283. | 01/17/94 | Letter from Dennis True to Jesus Gomez/City of Nogales Fire Department enclosing Level II Site Assessment Report | 1039-1040 |
| 284. | 01/17/94 | Interoffice Correspondence from D. L. True to M. Mount enclosing copies of correspondence sent to local and state agencies regarding 1983 oil spill clean-up | 1041 |
| 285. | 01/17/94 | Draft letter from Dennis True to Robert Wallin/Arizona Department of Water Resources enclosing Level II Site Assessment Report | 1042 |
| 286. | 01/17/94 | Draft letter from Dennis True to Jesus Gomez/City of Nogales Fire Department enclosing Level II Site Assessment Report | 1043 |
| 287. | 01/17/94 | Draft letter from D. L. True to M. Mount enclosing copies of correspondence sent to local and state agencies regarding 1983 oil spill clean-up | 1044 |
| 288. | 08/31/93 | Purchase Order No. D041740 to Terracon re provision of additional services necessary to complete subsoil evaluation | 1045 |
| 289. | 08/24/93 | Letter from Richard Dow to Bill Cox re project costs to date of Phase II Assessment | 1046 |
| 290. | 08/27/93 | Handwritten Purchase Order to Terracon re provision of additional services necessary to complete subsoil evaluation | 1047 |
| 291. | 08/24/93 | Letter from Richard Dow to Bill Cox re project costs to date of Phase II Assessment | 1048 |
| 292. | | Draft consultant services agreement | 1049-1062 |
| 293. | 07/27/93 | Letter from Ellen Kane/Arizona Department of Water Resources to Citizens enclosing annotated copy of Notice of Intention to Drill | 1064-1067 |

DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | re Registration No. 55-540056 | |
| 294. | 07/27/93 | Letter from Ellen Kane/Arizona Department of Water Resources to Citizens enclosing annotated copy of Notice of Intention to Drill re Registration No. 55-540057 through 55-540060 | 1068-1077 |
| 295. | 07/22/93 | Purchase Order No. D041725 to Hazardous Materials Publishing re manifest | 1078 |
| 296. | | Handwritten note regarding new IO for Valencia Plant | 1079 |
| 297. | 07/19/93 | Fax from Bill Cox to Richard Dow re legal description for plant | 1080-1081 |
| 298. | 07/16/93 | Transmittal from Bill Box to Terracon transmitting consultant services agreement | 1082 |
| 299. | 07/09/93 | Draft consultant services agreement | 1083-1098 |
| 300. | 07/15/93 | Letter from Dennis True to ADEQ TPH site assesement | 1099-1100 |
| 301. | 07/15/93 | Letter from Dennis Ture to ADEQ enclosing permit applications for emplacement of borings and monitor wells | 1101-1110 |
| 302. | 07/15/93 | Interoffice correspondence from Dennis True to El Callison enclosing IO No. 2387E and Purchase Order No. D041722 re completion of site assessment | 1111-1113 |
| 303. | 07/12/93 | Purchase Order No. D041722 to Terracon re performing subsoil characterization study per work plan | 1114-1115 |
| 304. | 07/02/93 | Draft letter to ADEQ re TPH site assesement | 1116 |
| 305. | | AEQ - Special Waste Report/Update | 1117-1119 |
| 306. | 01/93 | Best Management Practices for the Transportation, Storage, Treatment and Disposal of Petroleum Contaminated Soil | 1120-1130 |
| 307. | 06/28/93 | Letter from Bill Cox to John Bates/Terracon regarding description of Valencia Plant to better prepare proposal for compliance audit | 1131-1132 |
| 308. | 06/21/93 | Letter from W. W. Turner/Turner/CAS Laboratories to John Bates. Terracon enclosing result of sample submitted on June 9, 1993 | 1133-1135 |
| 309. | 05/25/93 | Purchase Order No. D041707 to Terracon to conduct soil characterization study | 1136 |
| 310. | 05/28/93 | Letter from John Bates/Terracon to Dennis True re scope of work re soil characterization | 1137-1140 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| 311. | | Folder entitled "Bill Cox 2-8-95 PCB Info/ADEQ" | 1141 |
| 312. | | Installation and Warranty Manual for Underground Storage Tanks | 1142-1149 |
| 313. | 05/20/93 | USTank Management Regulatory Compliance Program - Nonvolumetric Precision Tank System Test | 1150-1158 |
| 314. | | OPW Instructions - Assembly and Installation Instructions for overfill prevention valve | 1159-1170 |
| 315. | 07/18/88 | Photographs and description | 1171-1172 |
| 316. | 08/07/89 | Western Technologies Report of Findings - Initial Underground Storage Tank Assesment | 1173-1196 |
| 317. | 10/07/93 | Terracon Monitoring Well and Soil Boring Locations with Turner/CAS Laboratories analytical report | 1197-1215 |
| 318. | 04/16/81 | Smith & Smith Environmental Laboratory - Water Quality Analysis - Chemical | 1216 |
| 319. | 06/13/88 | Valencia Power Plant - Plot Plan | 1217 |
| 320. | 02/14/95 | Letter from Tara Roesler/ADEQ to Underground Storage Tank Owner regarding statement of financial responsibility | 1218-1220 |
| 321. | 02/17/95 | Transmittal from Richard Dow to Karen Schwab/ADEQ transmittaing Phase II Monitoring Well Installation, Phase II Soil Boring and Monitoring Well Installation, Remedial Option Report and Soil Remediation Report | 1221 |
| 322. | 02/17/95 | ADEQ Annual Registration Fee Invoice | 1222-1225 |
| 323. | 02/10/95 | Fax from Barbara/SD Myers to David Williams regarding certificate of destruction of transformers | 1226-1234 |
| 324. | | Handwritten notes | 1235-1236 |
| 325. | 07/11/00 | Invoice No. 17947 from Chemical Transportation in the amount of 1,025.70 with handwritten note | 1237 |
| 326. | 07/11/00 | Invoice No. 17947 from Chemical Transportation in the amount of 1,025.70 | 1238 |
| 327. | 05/25/00 | Purchase Order and Straight Bill of Lading from Chemical Transportation | 1239-1240 |
| 328. | 06/26/00 | Purchase Order and Straight Bill of Lading from Chemical Transportation | 1241-1242 |
| 329. | 06/26/00 | Straight bill of Lading - Original | 1243 |
| 330. | 07/05/00 | Waste Management information regarding | 1244 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | waste delivered to WMI Butterfield Landfill | |
| 331. | 07/05/00 | Straight Bill of Lading | 1245 |
| 332. | 07/05/00 | Chemical Transportation Status Report | 1246 |
| 333. | | Folder entitled "Citizens Utilities Company Haz. Mat. Disposal & Remediation | 1247 |
| 334. | | Photographs (11) | 1248-1259 |
| 335. | 03/20/98 | Uniform Hazardous Waste Manifest | 1260 |
| 336. | 02/05/98 | Uniform Hazardous Waste Manifest | 1261-1269 |
| 337. | 01/05/98 | Fax from William Islas to Bill Cox attaching environmental compliance documents | 1270-1280 |
| 338. | 01/19/98 | Shipping Order from Citizens to Demenno | 1281 |
| 339. | 02/09/98 | Letter from James Jerozal/Laidlaw Environmental to Citizens enclosing certificate of disposal and detailed report | 1282-1284 |
| 340. | 09/19/97 | Uniform Hazardous Manifest | 1285-1290 |
| 341. | 11/17/97 | Invoice/Customer Pickup Ticket from Thermo Fluids re transformer oil | 1291 |
| 342. | 01/02/98 | Statement of Account from Chemical Transport | 1292 |
| 343. | 12/31/97 | Invoice No. 3158 from Santa Cruz Excavating in the amount of \$385.00 | 1293 |
| 344. | 11/14/97 | Letter from Tom Jones/Chemical Transportation to Citizens regarding audit of financial records | 1294 |
| 345. | 10/31/97 | Invoice No. 2282 from Chemical Transportation in the amount of \$10,723.40 and accompanying documents | 1295-1309 |
| 346. | 11/14/97 | Statement of Account from Chemical Transportation | 1310 |
| 347. | 11/13/97 | Invoice No. 3119 from Santa Cruz Excavating in the amount of \$1,620.00 | 1311 |
| 348. | 09/30/97 | Invoice No. 1766 from Chemical Transportation in the amount of \$3,262.00 and accompanying documents | 1312-1320 |
| 349. | 09/10/97 | Uniform Hazardous Manifest | 1321 |
| 350. | 09/10/97 | Uniform Hazardous Manifest | 1322 |
| 351. | 09/10/97 | Uniform Hazardous Manifest | 1323 |
| 352. | 09/10/97 | Uniform Hazardous Manifest | 1324 |
| 353. | 09/10/97 | Uniform Hazardous Manifest | 1325 |
| 354. | 09/10/97 | Uniform Hazardous Manifest | 1326 |
| 355. | | Handwritten note regarding transformer, soil and date removed | 1327 |
| 356. | 09/10/97 | Straight Bill of Lading - No. 0310 | 1328 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| 357. | 09/10/97 | Straight Bill of Lading – No. 0241 | 1329 |
| 358. | | Federal Land Disposal Restriction Notification Form | 1330 |
| 359. | 09/10/97 | Uniform Hazardous Manifest | 1331-1132 |
| 360. | | Handwritten note regarding Haz Mat projects | 1333 |
| 361. | 07/12/93 | Uniform Hazardous Manifest | 1334 |
| 362. | 1997 | Environmental Regulatory Services – RegReview published by Dames & Moore | 1335-1336 |
| 363. | | Draft Environmental Audit Action Plan – Responses by Citizens | 1337-1343 |
| 364. | 06/25/97 | Hazard Communications Training – Denny Scanlan Report | 1344-1345 |
| 365. | 05/08/97 | Environmental and OSHA Issues – Beth Torpy | 1346-1347 |
| 366. | 1997 | Environmental Regulatory Services – RegReview published by Dames & Moore | 1348-1349 |
| 367. | | Copies of business cards of Linda Palumbo, Taran Doty and Julianne Claybaugh | 1350 |
| 368. | 05/30/97 | Fax from Dan McCarthy to Ernesto Ojeda, Jim Botkin and John Rogers enclosing letter from Linda Palumbo to Dan McCarthy regarding compliance audit | 1351-1357 |
| 369. | 02/23/98 | Fax from David Emmett/Chemical Transportation to Bill Cox enclosing letter from Emmett to Carol Cox re 2000 gallons of petroleum contaminated water vacuumed and transported for recycling from Nogales | 1358-1360 |
| 370. | 12/29/97 | Letter from David Emmett/Chemical Transportation to Bill Cox regarding proposal for transportation, site services and recycling of petroleum contaminated water | 1361 |
| 371. | 01/01/98 | Certificate of Insurance from Terra Insurance to Terracon | 1362 |
| 372. | 12/18/97 | Fax from Paul Townsley to Bill Cox requesting information to respond to EPA | 1363 |
| 373. | 11/10/97 | Letter from United States Environmental Protection Agency re potential liability | 1364-1377 |
| 374. | 12/18/97 | Fax from Paul Townsley to Bill Cox requesting information to respond to EPA | 1378 |
| 375. | 11/10/97 | Letter from United States Environmental Protection Agency re potential liability | 1379-1392 |
| 376. | | Handwritten note regarding 1993 Terracon report | 1393 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| 377. | 07/97 | Terracon Quarterly Groundwater Monitoring Report with handwritten note from Bill Cox to Paul | 1395-1411 |
| 378. | 11/18/97 | Fax from Bill Cox to Paul Townsley re Terracon's summary of ADEQ's remediation minimums | 1412-1414 |
| 379. | 09/24/97 | Fax from Bill Cox to Jim Webb/Thermo Fluids enclosing test results for 11 barrels of transformer oil | 1415-1417 |
| 380. | 09/22/97 | Fax from Shannon Ramirez/Chemical Transportation to Bill Cox enclosing Citizen orphan drum investigation record with note to disregard first fax | 1418-1421 |
| 381. | | Post It Note entitled "Chemical Transportation Proposal" | 1422 |
| 382. | 09/03/97 | Chemical Transportation proposal | 1423-1424 |
| 383. | 09/15/97 | Fax from David Emmett/Chemical Transportation to Bill Cox enclosing September 3, 1997 proposal | 1425-1427 |
| 384. | 09/10/97 | Straight Bill of Lading No. 0310 | 1428 |
| 385. | 09/10/97 | Straight Bill of Lading No. 0241 | 1429 |
| 386. | 09/10/97 | Uniform Hazardous Waste Manifest | 1430 |
| 387. | 09/10/97 | Uniform Hazardous Waste Manifest | 1431-1432 |
| 388. | 09/10/97 | Uniform Hazardous Waste Manifest | 1433 |
| 389. | 09/10/97 | Uniform Hazardous Waste Manifest | 1434 |
| 390. | | Federal Land Disposal Restriction Notification Form | 1435 |
| 391. | 09/10/97 | Uniform Hazardous Waste Manifest | 1436 |
| 392. | | Federal Land Disposal Restriction Notification form | 1437 |
| 393. | 09/05/97 | Sherwood Labs, Inc. Test Report No. 6 | 1438-1441 |
| 394. | 09/03/97 | Chemical Transportation proposal | 1442-1443 |
| 395. | 09/03/97 | Fax from David Emmett/Chemical Transportation to Bill Cox enclosing September 3, 1997 proposal | 1444-1446 |
| 396. | 08/08/97 | Fax from Bill Cox to Shannon Ramirez enclosing material safety data sheets | 1447-1451 |
| 397. | 08/05/97 | Fax from Bill Cox to Shannon Ramirez re material safety data sheets | 1452 |
| 398. | 08/04/97 | Fax from Shannon Ramirez to Bill Cox enclosing August 4, 1997 from David Emmett to Jim Botkin regarding drum investigation | 1453-1458 |
| 399. | 06/11/97 | Hazardous Material Inventory re Valencia | 1459 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------------|---|-------------------|
| | | Plant | |
| 400. | 07/11/97 | Letter from Bill Cox to Jim Botkin enclosing bid analysis for testing of the accumulated hazardous materials being stored at the Valencia Plant | 1460-1461 |
| 401. | 07/03/97 | Letter from Jeffrey McGuire/Atel to Bill Cox re proposal for hazardous materials testing | 1462-1463 |
| 402. | 07/02/97 | Letter from William Islas/Terracon to Bill Cox re proposal for hazardous material characterization | 1464-1468 |
| 403. | 07/02/97 | Duplicate of 1464-1468 | 1469-1473 |
| 404. | 06/27/97 | Letter from Stanley Turney/Terracon to Bill Cox regarding replacement of Lyle Tweet by Robert Pavlicek | 1474-1476 |
| 405. | 06/25/97 | Letter from William Islas/Terracon to Bill Cox re proposal for hazardous material disposal | 1477-1481 |
| 406. | 06/25/97 | Duplicate of 1477-1481 | 1482-1486 |
| 407. | 06/18/97 | Letter from David Emmett/Chemical Transportation to Bill Cox re summary of costs related to investigative study | 1487-1488 |
| 408. | 06/16/97 | Quote from Aqualab for analytical services | 1489-1493 |
| 409. | 05/07/97 | Letter from Wilma Molitor/ADEQ to Carol Cox re assignment of EPA ID number | 1494 |
| 410. | 05/08/97 | Memo to file regarding conversation between Beth Torpy and Robert Verville/ADEQ re used oil and anti-freeze | 1495 |
| 411. | 05/08/97 | Memorandum from Beth Torpy to Jim Botkin regarding evaluation of environmental and OSHA issues at Nogales | 1496-1500 |
| 412. | | Memo to file regarding telephone conversation between Beth Torpy and Anita Pritchard/ADEQ regarding waste oil and anti-freeze | 1501 |
| 413. | | Folder entitled "Citizens Energy Services Cooling Towers Job #00-03-002 | 1502 |
| 414. | 03/13/00-03/17/00 | Weekly time sheet for David M. Cenac (Bill Cox & Associates | 1503 |
| 415. | 03/13/00 | Daily Construction Report | 1504 |
| 416. | 03/06/00-03/10/00 | Weekly time sheet for David M. Cenac (Bill Cox & Associates | 1505 |
| 417. | 03/10/00 | Daily Construction Report | 1506 |
| 418. | 03/09/00 | Daily Construction Report | 1507 |
| 419. | 03/08/00 | Daily Construction Report | 1508 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-----------------------|--|-------------------|
| 420. | 03/01/00- 03/03/00 | Weekly time sheet for David M. Cenac (Bill Cox & Associates | 1509 |
| 421. | 03/02/00 | Daily Construction Report | 1510 |
| 422. | 03/01/00 | Daily Construction Report | 1511 |
| 423. | 02/29/00 | Daily Construction Report | 1512 |
| 424. | 02/28/00 | Daily Construction Report | 1513 |
| 425. | 02/25/00 | David M. Cenac work schedule | 1514 |
| 426. | 02/24/00 | David M. Cenac work schedule | 1515 |
| 427. | 02/23/00 | David M. Cenac work schedule | 1516 |
| 428. | 02/22/00 | David M. Cenac work schedule | 1517 |
| 429. | 02/21/00 | David M. Cenac work schedule | 1518 |
| 430. | | Display Cost Planning: WBS Element Overview | 1519 |
| 431. | 03/08/00 | Revised Quote from MP Environmental & Trucking Services | 1520 |
| 432. | 03/08/00 | Quote from MP Environmental & Trucking Services | 1521-1522 |
| 433. | 03/06/00 | Quote from MP Environmental & Trucking Services | 1523 |
| 434. | 02/29/00 | Quote from Hansen Trucking | 1524 |
| 435. | 02/22/00 | Proposal from Environmental Management Systems re transportation and disposal | 1525-1526 |
| 436. | 02/18/00 | Diversified budgetary price for demolition of the cooling towers | 1527-1528 |
| 437. | 03/13/00 | Transmittal from Bill Cox to Terracon transmitting Waste Management Profile form | 1529-1533 |
| 438. | | Handwritten note re funding for removal | 1534 |
| 439. | | Folder entitled "Citizens Utilities Company Pole Yard Haz Mat Investigation | 1535 |
| 440. | 08/21/97 | Invoice No. 3084 from Santa Cruz Excavating in the amount of \$4,915.29 and accompanying documents | 1536-1538 |
| 441. | 07/01/97 | Invoice No. 6370669 from Terracon in the amount of \$2,252.75 | 1539 |
| 442. | 07/22/95 | Handwritten note regarding Pole Yard and SCE Costs | 1540 |
| 443. | | Handwritten note regarding Pole Yard and SCE Costs | 1541 |
| 444. | 05/27/97 | Invoice No. 7415 from J.D.'s Sand & Gravel | 1542 |
| 445. | | Handwritten note regarding Pole Yard | 1543-1544 |
| 446. | | Photographs (4) | 1545-1548 |
| 447. | 06/16/97 | Letter of Transmittal from William Islas to Bill Cox re Phase II Soil Sampling Activities | 1549 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | Report | |
| 448. | 06/06/97 | Fax from Stan Turney to Bill Cox re Pole Yard assessment | 1550 |
| 449. | 05/30/97 | Fax from Lyle Tweet to Cox transmitting May 30, 1997 Phase II Soil Sampling Activities report | 1551-1567 |
| 450. | 05/15/97 | Letter from Tracy Dutton/Columbia Analytical to Spence Hammond/Terracon enclosing results of samples submitted on May 8, 1997 | 1568-1573 |
| 451. | 05/12/97 | Fax from Bill Cox to Spence Hammond re layouts | 1574-1576 |
| 452. | | Folder entitled "Irrigation Well - Amado Transformer Oil Spill O.I. #595" | 1577 |
| 453. | | Photographs (24) | 1578-1583 |
| 454. | 10/15/93 | Fax from Rick Dow to Bill Cox re Citizens Spill Identification and Response Procedures for Leaking Electrical Transformers | 1584-1587 |
| 455. | 10/22/93 | Terracon Level III Site Remediation Report - Removal and Disposal of PCB Contaminated Soil | 1588-1606 |
| 456. | | Handwritten note re Decker oil spill | 1606A |
| 457. | 11/30/93 | Letter from Eugene Cetwinski/Emcon Associates to R. L. Kanemasu/Terracon re Emcon's concerns relating to protocols followed to develop Terracon's Level III Site remediation report | 1607 |
| 458. | 11/23/93 | Letter from Vince Mancus/EPA to Rick Dow stating that based on completed an appropriately signed Uniform Hazardous Waste Manifest's all precautions for handling and storing material have been adhered to and the EPA considers matter closed | 1608 |
| 459. | 11/15/93 | Letter from Richard Dow to Bill Cox in response to letter from EMCON Associates | 1609-1610 |
| 460. | 11/16/93 | Letter from R. L. Kanemasu to John Bates in response to November 5, 1993 letter from EMCON | 1611-1612 |
| 461. | 11/05/93 | Letter from John Bates/EMCON to Bill Cox re concerns about Terracon's Level III Site Remediation report | 1613-1617 |
| 462. | 11/16/93 | Fax from Rick Dow to Bill Cox re letters to him and EMCON | 1618 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| 463. | 11/15/93 | Letter from Richard Dow to Bill Cox in response to letter from EMCON Associates | 1619-1620 |
| 464. | 11/15/93 | Letter from R. L. Kanemasu to John Bates enclosing letter to Citizens in response to EMCON's concerns | 1621-1622 |
| 465. | 11/15/93 | Fax from Rick Dow to Bill Cox enclosing letter to Bill Cox re EMCON's concerns | 1624-1625 |
| 466. | 11/05/93 | Letter from John Bates/EMCON to Bill Cox re concerns about Terracon's Level III Site Remediation report | 1626-1630 |
| 467. | 11/04/93 | USEcology Certificate of Receipt and Disposal | 1631 |
| 468. | 10/13/93 | Uniform Hazardous Waste Manifest | 1632 |
| 469. | 11/05/93 | Letter from Dennis True to John Bates enclosing Level III Site Remediation Report | 1633 |
| 470. | 10/26/93 | Transmittal from Bill Cox to John Bates re Level III Site Remediation report | 1634 |
| 471. | 10/26/93 | Transmittal from Bill Cox to John Bates re Level III Site Remediation report | 1635 |
| 472. | 10/26/93 | Transmittal from Bill Cox to Ted Decker re Level III Site Remediation report | 1636 |
| 473. | 10/15/93 | Purchase Order No. D041816 to Turner/CAS re testing of oil samples for PCB's | 1637 |
| 474. | 10/15/93 | Purchase Order to Turner/CAS re testing of oil samples for PCB's | 1638 |
| 475. | 10/13/98 | Invoice NO. 030394 from Turner/CAS in the amount of \$300 | 1639 |
| 476. | 10/15/93 | Fax from Southwest Hazard to Bill Cox re proposal and standard contract | 1641-1643 |
| 477. | 10/13/93 | Uniform Hazardous Waste Manifest | 1644 |
| 478. | 10/13/93 | Uniform Hazardous Waste Manifest | 1645 |
| 479. | 10/12/93 | Letter from W. W. Turner to Bill Cox enclosing results of samples submitted on October 6, 1993 | 1646-1650 |
| 480. | 10/12/93 | Purchase Order No. D041809 to Terracon for monitoring and reporting on transformer oil spill | 1651 |
| 481. | 10/08/93 | Letter from Richard Dow to Bill Cox re Phase III Remediation proposal | 1653-1656 |
| 482. | 10/11/93 | Purchase Order to Terracon re monitoring and reporting on transformer oil spill and accompanying documents | 1657-1660 |
| 483. | 10/12/93 | Fax from Terracon to Bill Cox re general ID # | 1661 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| 484. | 10/12/93 | USEcology PCB Waste Disposal Information Form | 1662-1663 |
| 485. | | Handwritten note regarding Southwest Hazard Control | 1664 |
| 486. | 10/08/93 | Fax from Rick Dow to Bill Cox enclosing October 8, 1995 proposal from Terracon re Phase III Remediation | 1665-1667 |
| 487. | 10/08/93 | Fax from Donna Riveria/Turner to Bill Cox preliminary results | 1668-1671 |
| 488. | 10/06/93 | Turner Chain of Custody/Laboratory Analysis Request Form | 1672 |
| 489. | 10/06/93 | Duplicate of 1672 | 1673 |
| 490. | 10/05/93 | Letter from John Bates/EMCON to Dennis True downed power pole | 1674-1675 |
| 491. | | Folder entitled "Sonoita Sub-Station Oil Spill 3-22-03" | 1676 |
| 492. | 07/09/93 | Photograph | 1677-1678 |
| 493. | 08/03/71 | Sonoita Substation conduit, cable and lighting plan | 1679 |
| 494. | 07/12/93 | Uniform Hazardous Waste Manifest and Certificate of Receipt and Disposal | 1680-1681 |
| 495. | 07/12/93 | Uniform Hazardous Waste Manifest and Certificate of Receipt and Disposal | 1682-1683 |
| 496. | 07/12/93 | Uniform Hazardous Waste Manifest and Certificate of Receipt and Disposal | 1684-1685 |
| 497. | 07/12/93 | Uniform Hazardous Waste Manifest and Certificate of Receipt and Disposal | 1686-1687 |
| 498. | 07/12/93 | Uniform Hazardous Waste Manifest and Certificate of Receipt and Disposal | 1688-1689 |
| 499. | 07/22/93 | Uniform Hazardous Waste Manifest and Certificate of Receipt and Disposal | 1690-1691 |
| 500. | | Uniform Hazardous Waste Manifest | 1692-1693 |
| 501. | 07/12/93 | Uniform Hazardous Waste Manifest | 1694 |
| 502. | 07/12/93 | Uniform Hazardous Waste Manifest | 1695 |
| 503. | 07/12/93 | Uniform Hazardous Waste Manifest | 1696 |
| 504. | 07/12/93 | Uniform Hazardous Waste Manifest | 1697 |
| 505. | 07/12/93 | Uniform Hazardous Waste Manifest | 1698 |
| 506. | 07/22/93 | Uniform Hazardous Waste Manifest | 1699 |
| 507. | 07/12/93 | Uniform Hazardous Waste Manifest | 1700 |
| 508. | 07/12/93 | Uniform Hazardous Waste Manifest | 1701 |
| 509. | 07/12/93 | Uniform Hazardous Waste Manifest | 1702 |
| 510. | 07/12/93 | Uniform Hazardous Waste Manifest | 1703 |
| 511. | 07/12/93 | Uniform Hazardous Waste Manifest | 1704 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| 512. | | Uniform Hazardous Waste Manifest | 1705 |
| 513. | 07/08/93 | Purchase Order No. D041721 to American Fence re erecting of fence | 1706 |
| 514. | 06/28/93 | Purchase Order No. D41605 to Chemical Disposal re material removal at Sonoita Substation | 1707 |
| 515. | 04/06/93 | USEcology PCB Waste Disposal Information Form | 1708 |
| 516. | | Folder entitled "Transformer & Regulator Disposal | 1709 |
| 517. | | Photographs (16) | 1710-1713 |
| 518. | | Handwritten note re regulator information | 1714 |
| 519. | | Handwritten note re transformer information | 1715 |
| 520. | 04/27/93 | Bill Cox A/E estimate re transformer and regulator disposal | 1716 |
| 521. | 04/07/93 | Memorandum to file regarding equipment being evaluated for disposal | 1717 |
| 522. | 04/12/93 | SD Myers' proposal for transportation of material to be disposed | 1718-1726 |
| 523. | | Brochure entitled "Disposal - Additional Cost Items" | 1727-1730 |
| 524. | 04/20/93 | Letter from Scott Munk/USPCI re proposal for removal, transportation and disposal of transformers and regulators | 1731-1732 |
| 525. | 04/19/99 | Quotation from APTUS for disposal of transformers and regulators | 1733-1748 |
| 526. | 04/12/93 | Quotation from APTUS for disposal of transformers and regulators | 1749-1760 |
| 527. | | Information regarding APTUS in Coffeyville, Kansas and quotation clarifications | 1761-1762 |
| 528. | | APTUS Shipping Guidelines for preparation and disposal of material | 1763-1770 |
| 529. | | APTUS information re transformer decommissioning with note on back | 1771-1771A |
| 530. | | APTUS Chemical Detoxification service | 1772 |
| 531. | | APTUS Instructions for completing waste profile sheet | 1773-1774 |
| 532. | | APTUS credit and business information form | 1775 |
| 533. | 03/12/93 | APTUS Hazardous or Toxic Waste Management Service Agreement | 1776-1783 |
| 534. | 04/12/93 | APTUS Hazardous or Toxic Waste Management Service Agreement | 1784-1791 |
| 535. | | Handwritten note re APTUS bid review | 1791A |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| 536. | | Handwritten note re Solomon Corp and Sherwood Labs | 1792 |
| 537. | 09/02/93 | Bill Cox Daily Construction Report | 1793 |
| 538. | 09/01/93 | Bill Cox Daily Construction Report | 1794 |
| 539. | 08/31/93 | Bill Cox Daily Construction Report | 1795 |
| 540. | 08/19/93 | Bill Cox Daily Construction Report | 1796 |
| 541. | | Bill Cox Daily Construction Report (blank) | 1797 |
| 542. | 10/08/93 | SD Myers Invoice No. 0085992 in the amount of \$28,783.87 | 1798 |
| 543. | 08/19/93 | Uniform Hazardous Waste Manifest | 1799 |
| 544. | 08/19/93 | Uniform Hazardous Waste Manifest | 1800 |
| 545. | 09/02/93 | Straight Bill of Lading | 1801 |
| 546. | 09/03/93 | Material Recovery In-House Continuation/Lab Sheet | 1802 |
| 547. | 09/02/93 | Straight Bill of Lading | 1803 |
| 548. | 09/03/93 | Material Recovery In-House Continuation/Lab Sheet | 1804 |
| 549. | 09/02/93 | Straight Bill of Lading | 1805 |
| 550. | 09/03/93 | Material Recovery In-House Continuation/Lab Sheet | 1806 |
| 551. | 09/15/93 | The WLB Group Field Work Order Form No. 1341 | 1807 |
| 552. | 09/02/93 | Straight Bill of Lading | 1808 |
| 553. | 09/03/93 | Shipping Discrepancy Form | 1809 |
| 554. | 09/03/93 | Material Recovery In-House Continuation/Lab Sheet | 1810 |
| 555. | 09/02/93 | Straight Bill of Lading | 1811 |
| 556. | 09/03/93 | Shipping Discrepancy Form | 1812 |
| 557. | 09/03/93 | Material Recovery In-House Continuation/Lab Sheet | 1813 |
| 558. | 09/02/93 | Straight Bill of Lading | 1814 |
| 559. | 09/03/93 | Shipping Discrepancy Form | 1815 |
| 560. | 09/03/93 | Material Recovery In-House Continuation/Lab Sheet | 1816 |
| 561. | 09/02/93 | Memorandum re bill of lading being issued | 1817 |
| 562. | 09/02/93 | Memorandum re bill of lading being issued | 1818 |
| 563. | 09/02/93 | Memorandum re bill of lading being issued | 1819 |
| 564. | 09/01/93 | Document entitled "Citizen's Utility Company Heading Pages" | 1820 |
| 565. | 08/19/93 | Uniform Hazardous Waste Manifest | 1821-1824 |
| 566. | 08/19/93 | Uniform Hazardous Waste Manifest | 1825-1828 |
| 567. | 05/14/93 | Purchase Order No. D041703 to SD Myers for removal and total destruction of all equipment | 1829 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | listed on Exhibit B | |
| 568. | 07/07/93 | Fax Transmittal Memo to Tom Szyman/SD Myers from Bill Cox enclosing copy of Purchase Order | 1831 |
| 569. | 05/14/93 | Purchase Order No. D041703 to SD Myers for removal and total destruction of all equipment listed on Exhibit B and copy of SD Myers proposal | 1829-1836 |
| 570. | 06/15/93 | Retirement Order No. 841X | 1837-1838 |
| 571. | 04/07/93 | Fax from Bill Cox to Szyman/SD Myers re material being evaluated for disposal | 1839-1840 |
| 572. | 04/07/93 | Fax from Bill Cox to Bill Noel/APTUS re material being evaluated for disposal | 1841-1842 |
| 573. | 04/07/93 | Fax from Bill Cox to David McCarthy/USPCI re material being evaluated for disposal | 1843-1844 |
| 574. | 04/01/93 | Fax from Bill Cox to Szyman/SD Myers transformer and regulator disposal with handwritten note | 1845 |
| 575. | 04/01/93 | Fax from Bill Cox to Bill Noel/APTUS transformer and regulator disposal | 1846 |
| 576. | | List of equipment being evaluated for disposal with handwritten notes and Bill Cox business card at top | 1847 |
| 577. | 12/15/89 | Memorandum from Dennis Scanlan regarding equipment to be evaluated for disposal | 1848 |
| 578. | | Folder entitled "Citizens Utilities Hazardous Material Disposal" | 1849 |
| 579. | 04/29/99 | Straight Bill of Lading NO. 01237 | 1850 |
| 580. | 10/14/96 | Letter from Bill Cox to Ernesto Ojeda re request for proposals for various projects | 1851-1852 |
| 581. | 09/23/96 | Letter from Ernesto Ojeda to Bill Cox re request for proposals for various projects | 1853-1854 |
| 582. | 05/15/02 | Letter from Shiela Schmidt/Jennings, Strouss to Ernest Ojeda enclosing copy of Site Characterization Report and Conceptual Remedial Workplan | 1855-1889 |
| 583. | 04/19/02 | Letter from Ernesto Ojeda to Juan Velasco/ADEQ in response to April 1, 2002 re Valencia Power Plant project status | 1890-1891 |
| 584. | 03/04/02 | First page of letter to Catherine Chaberski/ADEQ re project status | 1892 |
| 585. | 03/04/02 | Letter from Ernesto Ojeda to Catherine Chaberski/ADEQ in response to February 7, | 1893-1897 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | 2002 letter re project status | |
| 586. | | Detection Sciences – EMR Inspection for Chromium and Arsenic for Valencia Power Plant | 1898 |
| 587. | 04/07/02 | Email between Bill Cox and Sharon Templeton/Terracon re new letter to ADEQ | 1899 |
| 588. | 04/01/02 | Letter from Juan Velasco/ADEQ to Ernesto Ojeda advising that progress report cannot be approved as it does not present schedule of activities | 1900 |
| 589. | 04/03/02 | Email from Cathy Rader/Jennings, Strouss re conference call | 1901 |
| 590. | 03/15/02 | Email from John Weeda to Ernesto Ojeda re conference call re EMR surveys | 1902 |
| 591. | 04/02/02 | Email from Bill Cox to Cathy Rader re time for conference call | 1903 |
| 592. | 04/02/02 | Email from Rebecca Godley to Cathy Rader re time for conference call | 1904 |
| 593. | 04/02/02 | Email from John Weeda to Cathy Rader re time for conference call | 1905 |
| 594. | 04/02/02 | Email from Shiela Schmidt to Cathy Rader re time for conference call | 1906 |
| 595. | 04/02/02 | Email from Ernesto Ojeda to Cathy Rader re time for conference call | 1907 |
| 596. | 03/10/02 | Email from Bill Cox to Chris Sumwalt re product form for bailing MW-6 and MW-12 | 1908-1909 |
| 597. | 03/04/02 | Letter from Ernesto Ojeda to Catherine Chaberski/ADEQ in response to February 7, 2002 letter re project status | 1910-1913 |
| 598. | 02/22/02 | Email from Sharon Templeton to Bill Cox re draft of ADEQ response letter | 1914-1919 |
| 599. | 02/21/02 | Email from Sharon Templeton to Scott McCoy re ADEQ response letter | 1920 |
| 600. | 02/12/02 | Series of emails between Sharon Templeton and Bill Cox re response to ADEQ letter dated February 7, 2002 | 1921-1922 |
| 601. | 02/14/02 | Services of emails between Sharon Templeton and Bill Cox re response to ADEQ letter dated February 7, 2002 | 1923-1924 |
| 602. | 02/12/02 | Series of emails between Sharon Templeton and Bill Cox re response to ADEQ letter dated February 7, 2002 | 1925-1926 |
| 603. | 02/11/02 | Email from Bill Cox to Sharon Templeton re | 1927 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| No. | Date | Description | Bates Nos. |
|------------|-------------|---|-------------------|
| | | response to ADEQ letter dated February 7, 2002 | |
| 604. | 02/07/02 | Letter from Catherine Chaberski/ADEQ to Ernesto Ojeda requesting written project status report | 1928 |
| 605. | 05/26/00 | Letter from Ernesto Ojeda to Al Roesler/ADEQ re status of voluntary remediation program | 1929-1930 |
| 606. | 06/19/00 | Letter from Verie Martz/Terracon to Craig Marks re project update re remediation program | 1931-1933 |
| 607. | 11/06/00 | Letter from Alan Roesler/ADEQ to Ernesto Ojeda re acceptance of application into the Voluntary Remediation Program | 1934 |
| 608. | 11/17/00 | Letter from Catherine Chaberski/ADEQ to Ernesto Ojeda providing future recommended actions | 1935-1936 |
| 609. | 12/15/00 | Letter from Jeff Ernde/ADEQ to Ernesto Ojeda re laboratory reports and remediation is require prior to closure | 1937 |
| 610. | 11/17/00 | 2 nd page of letter from Jeff Ernde/ADEQ to Ernesto Ojeda re review of file | 1938 |
| 611. | 02/10/01 | 1 st page of letter from ADEQ to Sharon Templeton providing additional information on the voluntary remediation program | 1939 |
| 612. | 03/14/01 | Letter from Catherine Chaberski/ADEQ to Sharon Templeton re change in project manager | 1940 |
| 613. | 06/06/01 | Letter from Catherine Chaberski/ADEQ to Sharon Templeton advising that Juan Velasco is specialist in charge of project | 1941 |
| 614. | 11/28/01 | Letter of Transmittal from William Islas/Terracon to Bill Cox transmitting well abandonment applications | 1942-1946 |
| 615. | 11/15/01 | Letter of Transmittal from William Islas/Terracon to Bill Cox transmitting letter re observations during quarterly groundwater monitoring | 1947-1948 |
| 616. | 11/01/01 | Fax from Carol Cox to William Islas/Terracon attaching well report with handwritten note to disregard previous fax | 1949-1951 |
| 617. | 09/19/01 | Fax from William Islas/Terracon to Bill Cox re well locations | 1952-1953 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| No. | Date | Description | Bates Nos. |
|------------|-------------|---|-------------------|
| 618. | 08/29/01 | Fax from Ritchie Bump/Terracon to Bill Cox re various documents obtained from ADEQ | 1954-1967 |
| 619. | 08/29/01 | Email from Bill Cox to Ernesto Ojeda re meeting with ADEQ and no discussion re chromium | 1968 |
| 620. | 08/14/01 | Fax from William Islas to Bill Cox enclosing draft workplan and Figure 6 | 1969-1985 |
| 621. | 08/09/01 | Fax from William Islas to Bill Cox re historic groundwater analytical results | 1986-1987 |
| 622. | 08/15/01 | Fax from Williams Islas to Bill Cox enclosing chromium data table | 1988-1991 |
| 623. | 07/05/01 | Series of emails between Bill Cox and Sharon Templeton re decision from ADEQ on what needs to be done | 1992-1993 |
| 624. | 07/15/01 | Series of emails between Bill Cox and Sharon Templeton re decision from ADEQ | 1994-1995 |
| 625. | 06/06/01 | Letter from Catherine Chaberski/ADEQ to Sharon Templeton re Juan Velasco is specialist | 1996 |
| 626. | 06/29/01 | Email from Bill Cox to Sharon Templeton re decision from ADEQ | 1997 |
| 627. | 06/11/01 | Fax from Sharon Templeton to Ernesto Ojeda & Bill Cox re new project manager | 1998 |
| 628. | 06/05/01 | Series of emails between Bill Cox and Sharon Templeton re generator waste profile form | 1999-2000 |
| 629. | 06/05/01 | Emails between Bill Cox and Sharon Templeton regarding generator waste profile form | 2001 |
| 630. | 05/16/01 | Letter from Cynthia Clowes/Waste Management to Bill Cox re notification of expiration of profile | 2002-2003 |
| 631. | 05/25/01 | Email from Sharon Templeton to Ernesto Ojeda and Bill Cox re placement of Jeff Emde by Juan Velasco | 2004 |
| 632. | 04/16/01 | Proposal by Terracon re soil characterization and soil and groundwater remediation program | 2005-2017 |
| 633. | 05/09/01 | Email from Sharon Templeton to Bill Cox regarding workplan and remediation | 2018 |
| 634. | 04/26/01 | Transmittal from Bill Cox to Citizens enclosing Terracon proposal for services | 2019-2033 |
| 635. | 04/24/01 | Series of emails between Bill Cox and Ernesto Ojeda regarding status of remediation and expansion | 2034 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| 636. | 04/24/01 | Email from Bill Cox to Ernesto Ojeda re status of remediation | 2035 |
| 637. | 04/16/01 | Email from Sharon Templeton to Bill Cox re review of Citizens proposal | 2036 |
| 638. | 04/12/01 | Email from Sharon Templeton to Bill Cox re completion of groundwater monitoring and prescreening of groundwater for remediation | 2037 |
| 639. | 04/12/01 | Fax from Sharon Templeton to Bill Cox and Ernesto Ojeda attaching proposal for groundwater monitoring, prescreening of groundwater for remediation activities and monitoring of proposed wells | 2038-2042 |
| 640. | 03/15/01 | Fax from Sharon Templeton to Bill Cox and Ernesto Ojeda regarding replacement of Jeff Emde by Juan Valasco and enclosing ADEQ's letter | 2043-2044 |
| 641. | 03/19/01 | Email from Sharon Templeton to Bill Cox re Terracon insurance | 2045 |
| 642. | 03/16/01 | Email from Sharon Templeton to Ernest Ojeda regarding conversation with new project manager at ADEQ | 2046 |
| 643. | 03/15/01 | Email from Sharon Templeton to Ernesto Ojeda re replacement of project manager at ADEQ | 2047 |
| 644. | 02/22/01 | Email from Ernesto Ojeda to Sharon Templeton re proceeding with additional wells | 2048 |
| 645. | 02/22/01 | Emails between Bill Cox and Sharon Templeton proceeding with res. soil remed. and risk assessment for evap. pond area. | 2049 |
| 646. | 02/22/01 | Emails between Sharon Templeton and Bill Cox regarding Ernesto's responses to previous emails | 2050 |
| 647. | 02/22/01 | Email from Bill Cox to Sharon Templeton inquiring whether her questions were answered | 2051 |
| 648. | 02/21/01 | Series of emails between Sharon Templeton, Bill Cox and Ernesto Ojeda regarding remediation project and various questions | 2052-2054 |
| 649. | 02/20/01 | Series of emails between Sharon Templeton and Ernesto Ojeda regarding remediation project | 2055-2057 |
| 650. | 02/20/01 | Email from Sharon Templeton to Ernesto Ojeda regarding remediation project (proposal) | 2058-2059 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | for additional drilling and monitoring) | |
| 651. | 02/17/01 | Emails between Ernesto Ojeda and Bill Cox re possible changes to project | 2060 |
| 652. | 02/16/01 | Email from Bill Cox to Ernesto Ojeda re possible changes to project | 2061 |
| 653. | 02/16/01 | Fax from Sharon Templeton to Ernesto Ojeda & Bill Cox enclosing letter from ADEQ outlining new fees for the voluntary remediation program | 2062 |
| 654. | 02/10/01 | Letter from Catherine Chaberski/ADEQ to Sharon Templeton regarding new fees | 2063-2064 |
| 655. | 02/15/01 | Series of emails between Bill Cox and Sharon Templeton re resolving arsenic issues and discussing the workplan | 2065-2066 |
| 656. | 02/13/01 | Series of emails between Bill Cox and Ernesto Ojeda re resolution of arsenic issues | 2067 |
| 657. | 02/09/01 | Email from Sharon Templeton to Bill Cox re arsenic issues | 2068 |
| 658. | 02/08/01 | Email from Bill Cox to Sharon Templeton re status of additional testing | 2069 |
| 659. | 01/17/01 | Email from Sharon Templeton to Bill Cox re completion of workplan with requested changes | 2070 |
| 660. | 02/07/01 | Email from Sharon Templeton to Bill Cox re phone call | 2071 |
| 661. | 12/22/00 | Fax from Sharon Templeton to Bill Cox enclosing November 17, 2000 letter from ADEQ re review of documents submitted with application | 2072-2074 |
| 662. | 12/15/00 | Fax from Sharon Templeton to Bill Cox enclosing December 15, 200 letter from ADEQ re based on results of lab report, further remediation will be required prior to closure | 2075-2076 |
| 663. | 12/04/00 | Emails between Sharon Templeton and Bill Cox re meeting for application | 2077 |
| 664. | 12/04/00 | Emails between Sharon Templeton and Bill Cox re meeting for application | 2078 |
| 665. | 11/27/00 | Email from Ernesto Ojeda to Sharon Templeton requesting response to ADEQ | 2079 |
| 666. | 11/26/00 | Email from Bill Cox to Sharon Templeton re availability | 2080 |
| 667. | 11/22/00 | Email from Sharon Templeton to Ernesto | 2081 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | Ojeda re letter from ADEQ re review and comments on application | |
| 668. | 11/15/00 | Email from Ernesto Ojeda to Sharon Templeton re sending copy of workplan to Jim Rogers | 2082 |
| 669. | 11/15/00 | Email from Sharon Templeton to Bill Cox re sending copy of workplan to Jim Rogers | 2083 |
| 670. | 11/06/00 | Letter from Alan Roesler/ADEQ to Ernesto Ojeda re acceptance of application into Voluntary Remediation Program | 2084 |
| 671. | 03/26/02 | Invoice No. 34214 from Chemical Transportation in the amount of \$2,170.29 and accompanying documents | 2085-2099 |
| 672. | 02/20/02 | Letter from Arizona Department of Water Resources to Citizens enclosing annotated copy of Notice of Intention to Drill re Registration No. 55-590744 | 2100-2114 |
| 673. | 01/15/02 | Letter of Transmittal from William Islas/Terracon to Bill Cox enclosing notice of intention to drill and well applications | 2115-2118 |
| 674. | 09/05/01 | Fax from Bill Cox to William Islas/Terracon enclosing well permits for remediation | 2119-2135 |
| 675. | 08/14/01 | Letter from Arizona Department of Water Resources to Citizens enclosing annotated copy of Notice of Intention to Drill re Registration No. 55-588287 | 2136-2141 |
| 676. | 08/14/01 | Letter from Arizona Department of Water Resources to Citizens enclosing annotated copy of Notice of Intention to Drill re Registration No. 55-588286 | 2142-2147 |
| 677. | 08/14/01 | Letter from Arizona Department of Water Resources to Citizens enclosing annotated copy of Notice of Intention to Drill re Registration No. 55-588285 | 2148-2153 |
| 678. | 08/14/01 | Letter from Arizona Department of Water Resources to Citizens enclosing annotated copy of Notice of Intention to Drill re Registration No. 55-588284 | 2154-2159 |
| 679. | 05/06/02 | Invoice No. A032*a06 from Verde in the amount of \$2,150.00 | 2160 |
| 680. | 05/06/02 | Letter from Verde Management to Carol Cox enclosing invoice and photographs of tanks after delivery | 2161-2162 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| 681. | 05/06/02 | Letter from Verde Management to Carol Cox enclosing invoice and photographs of tanks after delivery | 2163-2164 |
| 682. | 04/25/02 | Transmittal from Bill Cox to Citizens Communication enclosing photographs re removal of tanks | 2165-2167 |
| 683. | 04/12/02 | Proposal by Verde Management re disposal of tanks | 2168 |
| 684. | 04/12/02 | Proposal by Verde Management re disposal of tanks | 2169 |
| 685. | 04/17/02 | General Terms and Conditions in connection with Verde Management proposal | 2170 |
| 686. | | Handwritten note re luts oil and empty at pole yard | 2171 |
| 687. | 02/28/02 | Invoice No. A032*B01 from Verde Management in the amount of \$4,809.28 | 2172 |
| 688. | 03/04/02 | Thermo Fluids Certificate of Recycling re oil water mixture | 2173 |
| 689. | 02/11/02 | Email from Bill Cox to Ana Bustamante re tank removal | 2174 |
| 690. | 02/11/01 | Letter from Verde Management to Bill Cox re receipt of signed contract from Citizens | 2175 |
| 691. | 01/24/02 | Letter from Verde Management to Bill Cox enclosing proposal to clean out and removal storage tanks | 2176-2178 |
| 692. | 01/14/02 | Email from Bill Cox to Ernesto Ojeda re removal of tank | 2179 |
| 693. | | Handwritten note regarding information to response to bids | 2180 |
| 694. | 05/12/99 | Proposal by Southwest Hazard Control for removal of storage tanks and materials | 2181-2182 |
| 695. | 05/03/99 | Letter from Verde Management to Bill Cox enclosing proposal for UST testing | 2183-2184 |
| 696. | | Business card for Bill Cox and faxed to Roy Truman at Southwest Hazard | 2185 |
| 697. | 04/19/00 | Proposal from Southwest Hazard for transport and disposal of previously removed USTs | 2186 |
| 698. | 02/24/98 | Proposal from Southwest Hazard for UST removal | 2187-2188 |
| 699. | 02/20/98 | Proposal from Oracle Environment for removal of storage tanks | 2189-2195 |
| 700. | 03/11/98 | Proposal by Environmental Response for removal of storage tanks | 2196-2199 |

**DOCUMENTS
FROM BILL COX & ASSOCIATES
BATES #COX00001 - 00941**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| 701. | 02/16/98 | Proposal by Arrowhead Fuel Systems re removal of storage tanks | 2200-2201 |
| 702. | 01/23/98 | Proposal from Barnett and Shore Contractors for removal of storage tanks | 2202-2210 |
| 703. | 03/06/02 | Information regarding spill containment | 2211-2212 |
| 704. | 03/11/02 | Invoice No. 2471 from TYCO Enterprises in the amount of \$3,373.92 | 2213-2214 |
| 705. | 03/11/02 | Information from TYCO re delivery of tank | 2215 |
| 706. | | Horizontal Tank Calibration Chart prepared by Tyco | 2216-2217 |
| 707. | 02/28/02 | Fax from TYCO to Citizens 1k tank drawing | 2218-2219 |
| 708. | 02/25/02 | Purchase Order No. 4500057902 to TYCO for tank | 2220-2222 |
| 709. | 05/29/01 | Proposal from Millennium Enterprises for spill containment berm | 2223 |
| 710. | 05/24/01 | Quotation by TYCO for tank | 2224 |
| 711. | 01/16/02 | Email from Bill Cox to Chris Sumwalt re collection tank for turbines | 2225 |
| 712. | 05/29/01 | Fax from Millennium Enterprises re collection tank containment | 2226 |
| 713. | 05/29/01 | Email from Thomas @ Inforonics to Bill Cox re information for containment | 2227 |
| 714. | | Handwritten note re double wall tank with alarm system | 2228 |
| 715. | 05/17/01 | Email from Sharon Templeton to Bill Cox re containment systems | 2229 |
| 716. | | | |

EPA FILES**BATE STAMP INDEX**

| No. | Date | Description | Bates Number |
|------------|-------------|---|---------------------|
| 1 | 10/7/02 | Letter re: material receipt regarding EPA Preliminary Site Assessment | EPA00100-EPA00101 |
| 2 | none | Old version of Table of Contents for EPA material | 00102-00105 |
| 3 | 4/16/81 | 1981 Pit Analysis from Smith & Smith Lab | 00106-00106 |
| 4 | 7/12/88 | Manual for XERXES Underground Storage Tanks | 00107-00120 |
| 5 | 12/9/94 | Uniform Hazardous Waste Manifest form | 00121-00130 |
| 6 | none | Phoenix area map | 00131-00131 |
| 7 | 12/29/93 | Notification for Underground Storage Tanks | 00132-00137 |
| 8 | various | MSDS sheets for various chemicals | 00138-00155 |
| 9 | 1/3/94 | OPW Instructions | 00156-00167 |
| 10 | 9/7/88 | Nogales Wash & Tributaries Assessment | 00168-00170 |
| 11 | 8/7/89 | Report of Findings Initial Underground Storage Tank Assessment | 00171-00195 |
| 12 | 9/14/89 | Game and Fish Department response of species list | 00196-00198 |
| 13 | 6/12/05 | Census Data for 1990 Santa Cruz County (handwritten) | 00199-00200 |
| 14 | 5/20/93 | Regulatory Compliance Program Nonvolumetric Precision Tank System Test from USTank MGT. | 00201-00209 |
| 15 | 6/1/92 | ADEQ Inter-office Memo re: Facility Inspection | 00210-00211 |
| 16 | 7/9/93 | Site Assessment Work Plan Proposal from Terracon | 00212-00222 |
| 17 | 7/15/93 | Letter to ADEQ from Citizen's re: TPH Site Assessment | 00223-00224 |
| 18 | 3/8/94 | Partial report from Earth Technology Corp. to ADEQ | 00225-00226 |
| 19 | 7/1/93 | Chromium results (charts) from July 1993 Quarterly Sampling Report | 00227-00228 |
| 20 | 9/7/94 | Complaint as listed by ADEQ | 00229-00235 |
| 21 | 1/31/95 | Citizen's response to ADEQ's survey | 00236-00277 |
| 22 | 2/9/95 | Copy of No. 21 | 00278-00289 |
| 23 | 2/9/95 | Copy of conversation and information as requested by Citizens from Bill Cox & Assoc. | 00290-00294 |
| 24 | 5/24/95 | Conceptual Remedial Option Report from Terracon | 00295-00317 |
| 25 | 9/30/95 | Nogales Wash Project Summary and MGT Plan | 00318-00321 |
| 26 | 12/16/96 | Annual Reports 1995 (handwritten) | 00322-00324 |
| 27 | 4/1/96 | ADWR 1995 Annual Water Withdrawal and Use Report for City of Nogales, Valle Verde Water Co. with results | 00325-00370 |
| 28 | 9/11/96 | Groundwater Monitoring Well No. 9 Installation and Quarterly Groundwater Monitoring Report from Terracon | 00371-00417 |
| 29 | 12/17/96 | Letter from ADEQ re: Request for well information | 00418-00419 |
| 30 | 1/23/97 | Memo to Citizens from Nogales Wash Water Quality Assurance Revolving Fund Project Area re: CERCLIS Site | 00420-00458 |
| 31 | 3/9/99 | Complaint as taken by Mike Foster | 00459-00483 |
| 32 | 2/11/00 | ADEQ Site Screening Form and PA Memo | 00484-00503 |
| 33 | 12/15/00 | Letter (from ADEQ) and exhibits re: Review of Laboratory Reports, Voluntary Remediation Program Application | 00504-00550 |
| 34 | 9/9/01 | Review of ADEQ Files and Terracon's comments | 00551-00563 |

DOCUMENTS FROM BILL COX'S FILES
 Re: USEPA/ADEQ PA/SI CONDUCTED AT
 VALENCIA POWER PLANT

BATES # EPA00001 – EPA00449

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates No.</i> |
|------------|--------------------------|---|------------------------|
| 1. | Undated | <p>Miscellaneous Legal Descriptions with untitled Report</p> <p>Note: The report looks like it is a Well Report produced by ADEQ and contains numerous handwritten notes & is not real legible (see #2)</p> | EPA00001 – EPA00011 |
| 2. | Undated | <p>Groundwater Quality Database – ADEQ Well Report Created by the: Hydrologic Support and Assessment Section, Hydrologic Analysis Unit</p> <p>Note: This report contains handwritten notes</p> | 00012 – 00028 |
| 3. | Various | <p>Material Safety Data Sheets from:</p> <p>Curtis Industries for Brake Cleaner TM 1807, #83997</p> <p>Dupont for TMS Solvent Azeotrope</p> <p>BASF for Inhibited Ethylene Glycol, 340-2 Antifreeze</p> <p>U.S. Dept. of Labor for PANCO 759, Panther CR-140, Panther 399</p> <p>Amrep for R-363 & RP-33</p> | 00029 – 000046 |
| 4. | 12/09/94 06/23/95 | <p>Uniform Hazardous Waste Manifest from Citizens for S.D. Myers, Inc as Transporter</p> <p>*in addition to the manifest the package contains the following:</p> <p>04/17/95 Shewood Labs Test Report #6 (1 page)</p> <p>Citizens Memo from SD Myers (“Myers”) to David R. Williams (“Williams”) Re: request for removal and destruction of PCB Transformers (contains handwritten notes)</p> <p>06/22/95 Print-out of Status Scheduled #69367</p> <p>04/26/96 Citizens Memo from Mike Yocum (Yocum”) to Williams re: Quote on price and pick-up of Barrels of Oil (attached is a copy of the 04/19/95 Sherwood Labs Test Report #6)</p> | 00047 - 00056 |

DOCUMENTS FROM BILL COX'S FILES
 Re: USEPA/ADEQ PA/SI CONDUCTED AT
 VALENCIA POWER PLANT

BATES # EPA00001 - EPA00449

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates No.</i> |
|------------|------------------------------------|---|------------------|
| 5. | 04/16/81 | 1981 Pit Analysis from Smith & Smith Environmental Lab for Specimen # 5041-001 (contains handwritten note "Evap. Pit Analysis") | 00057 |
| 6. | 02/88 06/88 (revised) | Pamphlet for the Assembly and Installation for OPW 61-SO Overfill Prevention Valve | 00058 - 00069 |
| 7. | 07/12/98 | Xerxes™ Century -Cast Underground Storage Tanks Installation and Warranty Manual (contains the handwritten note "delivered 07-12-88 & #20 Fuel Tanks and hand-drawn diagram) | 00070 - 00078 |
| 8. | 03/88 09/07/88 (revised) | US Army of Corp of Engineers- Los Angeles District Report on Nogales Wash & Tributaries for Nogales, AZ | 00079 - 00081 |
| 9. | 08/07/89 | Western Technologies, Inc Report of Findings - Initial Underground Storage's Tank Assessment (contains handwritten note "Fuel Tank Removal #20) | 00082 - 00106 |
| 10. | 09/14/89 | Letter from Bruce K. Plamer, Nongame Habitat Specialist of the State of Arizona Game & Fish Department to Michael E. Bellot, ("Bellot") ADEQ Office of Waste Programs re: response to information of special status species of animals & plants found in the vicinity of the greater Phoenix metropolitan area | 000107 - 00110 |
| 11. | 1990 | Handwritten Census Data for Santa Cruz County, AZ | 00111 - 00112 |
| 12. | 06/01/92 | ADEQ Inter-office Memo from Paul A. Storms, ("Storms"), UST Facility Inspector to Michael Greenslade, P.E. ("Greenslade"), Manager UST Engineering Unit re: Facility Inspection - FAC I.D. # 0-001539 on 05/12/92 for VPP | 00113 - 00114 |

DOCUMENTS FROM BILL COX'S FILES
 Re: USEPA/ADEQ PA/SI CONDUCTED AT
 VALENCIA POWER PLANT

BATES # EPA00001 - EPA00449

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates No.</i> |
|------------|-------------|--|------------------|
| 13. | 05/20/93 | USTank Management Regulatory Compliance Program NonVolumetric Precision Tank System Test | 00115 - 00123 |
| 14. | 07/93 | Table 2. Summary of Aquifer Water Quality Analytical Results for Groundwater Samples Collected During the July 1993 Quarterly Sampling Event (contains handwritten notes) | 00124 - 00125 |
| 15. | 07/09/93 | Terracon Site Assessment Work Plan Proposal for VPP | 00126 - 00136 |
| 16. | 07/15/93 | Letter from Dennis True ("True"), Manager of Operations from Citizens to Laura Ross, ("Ross") from Solid Waste Dept. of ADEQ re: VPP TPH Site Assessment | 00137 - 00138 |
| 17. | 12/29/93 | Amended Notification for Underground Storage Tanks signed by True | 00139 - 00144 |
| 18. | 03/08/94 | Letter Report from Scott Ball, Senior Geologist of The Earth Technology Corporation to Samir Badri of ADEQ re: results of second quarter 1993 Groundwater Sampling, Nogales Wash quality Assurance, Revolving Fund Safety Study Area, Task Assignment ET-19, Nogales, AZ | 00145 - 00151 |
| 19. | 07/14/94 | Plat Map of Valle Verde Water Co., Franchise Area, Nogales, AZ | 00152 |
| 20. | 08/25/94 | Terracon Potentiometric Map of Ground Water Surface Ground Water Elevation Measured 06/14/94 for VPP Note: This document was attached to the 01/15/97 fax from Bill Cox ("Cox") of Bill Cox & Associates to Mary Hessler ("Hessler") of ADEQ | 00153 |
| 21. | 09/07/94 | ADEQ Hazardous Waste Complaint, Incidents, Referrals File # 94-244 Informer: John Bates | 00154 |

DOCUMENTS FROM BILL COX'S FILES
 Re: USEPA/ADEQ PA/SI CONDUCTED AT
 VALENCIA POWER PLANT

BATES # EPA00001 - EPA00449

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates No.</i> |
|------------|-------------|--|------------------|
| 22. | 10/28/94 | Letter from Bob Wallin ("Wallin"), Hydrologist, Water Quality Assessment Unit of ADEQ to Cox re: review of the final report on the remediation of petroleum contaminated soil (PCS) @ Escalanda Trust Property | 00155 |
| 23. | 01/05/95 | Letter from Lowell Carty ("Carty"), , Preremidial Unit of Waste Program Division @ ADWQ to Gordon Cook of Citizens re: Preliminary Assessment of potential soil & groundwater contamination @ 1741 N. Grand Ave. (contains copy of certified mailing certificate) | 00156 - 00158 |
| 24. | 01/23/95 | Letter from Craig A. Marks ("Marks"), Associate General Counsel of Citizens to Carty re: Acknowledgement of 01/20/95 discussion of Preliminary Assessment (contains fax cover sheet) | 00159 - 00160 |
| 25. | 01/31/95 | Letter from Marks to Carty re: Response to 01/05/95 ADEQ questionnaire contains the following attached in addition to the five (5) page questionnaire: Charts in response to question 7c, 8, 9, 10, 11a, Terracon Monitoring Wellsconstruction diagrams for MW-1, MW-2, MW-3, MW-4, MW-5, MW-6, MW-7, MW-8, 09/09/93 Turner/CAS Lab Analytical Reports #T93-30026 06/06/?? Bolin Lab report prepared for Terracon for samples 9406-00026-1, 9406-0026-6, 9406-00026-10 10/07/93 Terracon Monitoring Well & Soil Boring Locations map 07/27/93 Turner/CAS Lab Analytical Report #T93-29456 07/29/93 Turner/CAS Lab Analytical Report #T93-29486 07/29/93 Turner/CAS Lab Analytical Report #T93-29503 | 00161 - 00202 |

DOCUMENTS FROM BILL COX'S FILES
 Re: USEPA/ADEQ PA/SI CONDUCTED AT
 VALENCIA POWER PLANT

BATES # EPA00001 - EPA00449

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates No.</i> |
|------------|-------------|--|------------------|
| | | 07/30/93 Turner/CAS Lab Analytical Report #T93-29522 07/30/93 Turner/CAS Lab Analytical Report #T93-29528 08/16/93 Turner/CAS Lab Analytical Report #T93-29715 09/09/93 Turner/CAS Lab Analytical Report #T93-30026 | |
| 26. | 02/09/95 | Memo from Cox to Marks re: Records of conversations, manifest & testing results attached to the fax is the following: Business cards of Karen Schwab ("Schwab"), Site Assessment Hydrologist & Linda L Burgess ("Burgess"), CPM, Remedial Projects Manager of ADEQ 02/07/95 Record of conversation between Cox, Schwab & Burgess re: Santa Cruz Division, VPP & Operations Center site survey | 00203 - 00207 |
| 27. | 05/24/95 | Terracon Conceptual Remedial Option Report Project # 63947068 Note: This document was attached to the 01/15/97 fax from Cox to Hessler | 00209 - 00230 |
| 28. | 06/27/95 | ADEQ Contact Report signed by Schwab re: Valle Verde Water Co & Frank Randall | 00231 |
| 29. | 09/30/95 | Nogales Wash - Project Summary & Management Plan re: Phase III groundwater investigation completed 06-12-94 ADEQ contacts: Pat Clymer, ADEQ Project Manager (Tucson) Mario Castanedsa, Hydrologist (Phoenix) | 000232 - 00235 |
| 30. | 10/26/95 | ADEQ Inter-Office Memo from Deborah Gannon ("Gannon"), Solid Waste Inspections & Compliance Unit to Schwab through Jim North ("North"), Solid Waste Inspections & Compliance Unit re: Case Information for VVP - PCS #1219-U | 00236 |

DOCUMENTS FROM BILL COX'S FILES
 Re: USEPA/ADEQ PA/SI CONDUCTED AT
 VALENCIA POWER PLANT

BATES # EPA00001 - EPA00449

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates No.</i> |
|------------|-------------|--|------------------|
| 31. | 03/26/96 | 1995 Annual Water Withdrawal and Use Report – Provider Summary to Valley Verde Water Co. (signed by William F. Randall) | 00237 – 00244 |
| 32. | 04/15/96 | 1995 Annual Water Withdrawal and Use Report – Provider Summary to City of Nogales (signed by Ken Horton) | 00245 - 00253 |
| 33. | 09/11/96 | Terracon Groundwater Monitoring Well No. MW-9 Installation and Quarterly Groundwater Monitoring Report Project # 63967031 Note: This document was attached to the 01/15/97 fax from Cox to Hessler | 00254 – 00299 |
| 34. | 12/96 | Handwritten Valle Verde Number of Service Connections for: Multi-Family Single Family Commercial Government Industrial | 00300 |
| 35. | 12/16/96 | Letter from S. Kay Garrett, Administrative Secretary @ AZ Dept. of Water Resources to Hessler re: enclosing copies of the 1995 Annual Report from Valley Verde Water Co. & City of Nogales (see items 31 & 32 for reports) | 00301 |
| 36. | 12/17/96 | Letter from Hessler to Randall re: Request for Well Information | 00302 |
| 37. | 12/20/96 | GPS Forms & GPS Data Note: This document was attached to the 01/15/97 fax from Cox to Hessler | 00303 - 00315 |

DOCUMENTS FROM BILL COX'S FILES
 Re: USEPA/ADEQ PA/SI CONDUCTED AT
 VALENCIA POWER PLANT

BATES # EPA00001 - EPA00449

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates No.</i> |
|------------|-------------|---|------------------|
| 38. | 12/20/96 | Photo Log Note: This document was attached to the 01/15/97 fax from Cox to Hessler | 00316 - 00335 |
| 39. | 01/15/97 | Fax Cover Sheet from Bill Cox to Mary Hessler of ADEQ Note: see item #'s 20, 27, 33, 37 38 for copies of attachments | 00336 |
| 40. | 01/17/97 | E-mail from Hessler to IRM/GZK re: ADWR Registration numbers for Citizens | 00336a |
| 41. | 01/23/97 | Memo from Hessler to Tom Holmberg, Project Manager Nogales Wash Water Quality Assurance Revolving Fund Project Area re: Citizens CERCLIS Site | 00337 - 00339 |
| 42. | 03/09/99 | Complaint file # 99-049-H Re: H. Kitching Complaint re: VPP Attached to this file is the following: 09/09/93 Turner/CAS Lab Work Order T93-30026 06/0/-/ Bolin Lab Sample #946-00026-1, 9406-00026-6, 9406-00026-10 07/27/93 Turner/CAS Work Order T93-29456 07/29/93 Turner/CAS Work Order T93-29486, T93-29503, 07/30/93 Turner/CAS Work Order T93-29522 08/16/93 Turner/CAS Work Order T93-29715 09/09/93 Turner/CAS Work Order T93-30026 | 00340 - 00364 |
| 43. | 02/11/00 | Letter from Hessler to Jerlean Johnson, AZ Project Manager from U.S. Environmental Protection Agency, Region IX re: Site Screening Form & PA Memo | 00365- 00384 |

DOCUMENTS FROM BILL COX'S FILES
 Re: USEPA/ADEQ PA/SI CONDUCTED AT
 VALENCIA POWER PLANT

BATES # EPA00001 - EPA00449

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates No.</i> |
|------------|-------------|---|------------------|
| 44. | 08/07/00 | ADEQ Drinking Water System Inventory for the following: Apollo (Apache Produce) Azteca Produce CAB Produce Co. Cummings Ford Farmers Sales/Vohland GAC Produce Co. Kino Ranch #2 Mi Casa RV Campground Nogales Water Dept. Rio Rico Utilities, Inc. S&H Packing Co Santa Cruz Co. Probation Shipley Sales Su Case Produce Co. Valle Verde Water Co. | 00385 -00426 |
| 45. | 08/22/00 | Internet print-out from Yellow Pages for Hospitals located in Nogalez, AZ | 00427 - 00429 |
| 46. | 09/09/01 | E-mail from Sharon Templeton to Ernesto Ojeda ("Ojeda") re: ADEQ & Terracon comments attached to this e-mail is the following: 09/06/01 Letter from Sharon Templeton, Senior Hydrogeologist, Appleton of Terracon to Ojeda re: review of ADEQ files -VPP 11/06/00 Letter from Jeff Ermed, Hydrologist, Voluntary Remediation Program, Waste Programs Division of ADEQ to Ojeda re: Review of Lab Reports, Voluntary Remediation Program for VPP 11/06/00 Letter from Alan Roesler , CPM, R.G., Voluntary Remediation Program, Waste Programs Division of ADEQ to Ojeda re: Voluntary Remediation Program for VPP | 00430 - 00444 |
| 47. | Undated | Table of Contents for Document Log to Citizens EPA# AZ0001038013 State ID 1317 USGS Location: (D-24-14) 24D | 00445 - 00448 |
| 48. | Undated | File folder label #0018796 001 for Citizens Utilities | 00449 |

DOCUMENTS FROM BILL COX'S FILES
Re: USEPA/ADEQ PA/SI CONDUCTED AT
VALENCIA POWER PLANT

BATES # EPA00001 - EPA00449

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates No.</i> |
|------------|-------------|--------------------|------------------|
|------------|-------------|--------------------|------------------|

Documents Provided to and copied by URS during records review @ VPP
(from Bill Cox files)

| <i>Bates #</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|------------------------|---------------|-------------------|----------------------|---|
| VPP00001 - VPP00006 | Franklin | Sumwalt | 08/26/02 | Letter re: Notice of Violation; NOV # 60060 |
| VPP00007 - VPP00019 | Wrona | Ojeda | 06/18/02 | Letter re: Approval of Air Quality Permit # 1001556, VPP |
| VPP00020 - VPP00054 | SBS | Ojeda | 05/15/02 | Letter re: site characterization report & conceptual remedial workplan |
| VPP00055 - VPP00080 | Islas | SBS | 05/13/02 | Fax with: 11/29/01 Groundwater Analytical Data November 2001 Sampling Event 1 11/29/01 Cover letter from Columbia Analytical Services to Islas re: results of samples submitted on 11-09-01 |
| VPP00081 - VPP00084 | Terracon | | 05/10/02 | Drawing of: VPP Soil Borings Monitor Well Locations |
| VPP00085 | Terracon | | 05/06/02 | April 2002 Groundwater Isoelevation Contour Map |
| VPP00086 - VPP00095 | Terracon | | 05/06/02 05/10/02 | Drawings of: VPP Release Areas VPP Soil Borings Transfer Pipeline Remediation and Soil Sample Locations |
| VPP00096 - VPP00104 | Ojeda | Velasco | 04/19/02 | Letter re: response to 04/01/02 ADEQ letter attached is a copy of: |

Documents Provided to and copied by URS during records review @ VPP
(from Bill Cox files)

| <i>Bates #</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|------------------------|---------------------------|-------------------|-------------|--|
| | | | | 03/0402 letter from Ojeda to ADEQ re: project status undated survey from Stanfill III of Detection Sciences, Inc. re: Electromagnetic Radiography Survey (EMR) Inspection for Chromium and Arsenic, VPP |
| VPP00105 - VPP00126 | Terracon | Citizens | 04/17/02 | Quarterly Groundwater Monitoring Report - November 2001 Sampling Events |
| VPP00127 - VPP00131 | Citizens | ADEQ | 03/15/02 | ADEQ Underground Storage Tank 2001 Annual Activity Tax Report Worksheet/Invoice signed by Ojeda attached: 2001 Activity Tax Table 08/07/89 Letter from Lofland & Cull of Western Technologies to True re: report of findings: initial underground storage tank assessment |
| VPP00132 - VPP00146 | Chemical Transportation | Citizens | 03/26/02 | Invoice # 34214 attached: CT, Inc. Trip Tickets Straight Bills of Lading CT Status Reports Waste Management Certificate of Disposal |
| VPP00147 - VPP00153 | azerc@dem. state.az.us | Cox | 03/14/02 | Tracking id # for verification of Online Tier Two submittals attached: 03/01/02 Tier Two - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda |

Documents Provided to and copied by URS during records review @ VPP
(from Bill Cox files)

| <i>Bates #</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|------------------------|---------------------------|-------------------|-------------|--|
| | | | | 03/01/02 e-mail from azser@dem.state.az.us re: tracking id undated Tier Two Inventory - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda handwritten 2001 Valencia Substation notes |
| VPP00154 - VPP00161 | azerc@dem. state.az.us | Cox | 03/14/02 | Tracking id # for verification of Online Tier Two submittals attached: 03/01/02 Tier Two - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda 03/01/02 e-mail from azser@dem.state.az.us re: tracking id undated Tier Two Inventory - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda handwritten 2001 Kantor Substation notes |
| VPP00162 - VPP00166 | azerc@dem. state.az.us | Cox | 03/14/02 | Tracking id # for verification of Online Tier Two submittals attached: 03/01/02 Tier Two - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda 03/01/02 e-mail from azser@dem.state.az.us re: tracking id undated Tier Two Inventory - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda handwritten notes 2001 Caney Substation |
| VPP00167 - VPP00172 | azerc@dem. state.az.us | Cox | 03/14/02 | Tracking id # for verification of Online Tier Two submittals attached: 03/01/02 Tier Two - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda 03/01/02 e-mail from azser@dem.state.az.us re: tracking id |

Documents Provided to and copied by URS during records review @ VPP
(from Bill Cox files)

| <i>Bates #</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|------------------------|---------------------------|-------------------|-------------|---|
| | | | | undated Tier Two Inventory - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda handwritten notes 2001 Sonoita Substation |
| VPP00173 - VPP00187 | azerc@dem. state.az.us | Cox | 03/14/02 | Tracking id # for verification of Online Tier Two submittals attached: 03/01/02 Tier Two - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda 03/01/02 e-mail from azser@dem.state.az.us re: tracking id undated Tier Two Inventory - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda handwritten notes Valencia Operation Center, 2001 OPS-Turbines notes 03/01/02 Inventory of Transformers in OPS Yard 01/14/02 Transformers Inventory which contains handwritten notes |
| VPP00188 - VPP00194 | azerc@dem. state.az.us | Cox | 03/14/02 | Tracking id # for verification of Online Tier Two submittals attached: 03/01/02 Tier Two - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda 03/01/02 e-mail from azser@dem.state.az.us re: tracking id undated Tier Two - Emergency & Hazardous Chemical Inventory (General Info) filed by Ojeda handwritten notes 2001 Nogales Taps |

Documents Provided to and copied by URS during records review @ VPP
(from Bill Cox files)

| <i>Bates #</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|------------------------|------------------------------------|-------------------|-------------|---|
| VPP00195 – VPP00196 | Dames & Moore | | undated | Site Plan Citizens, Nogales |
| VPP00197 – VPP00200 | Ojeda | ADEQ | 03/04/02 | Letter re: information in response to ADEQ letter dated 02-07-02 |
| VPP00201 – VPP00220 | Ojeda | Keeley | 03/01/02 | Letter re: providing information on hazardous chemicals pursuant to Section 311 of the Emergency Planning and Community Right-to- Know Act contains: 2001 Tier Two Texaco Material Data Safety Sheet |
| VPP00221 – VPP00225 | Columbia Analytical Services | Terracon | 11/29/01 | Analytical Report Chain of Custody/Lab Analysis Request Form Sample Receipt & Preservation Form |
| VPP00226 – VPP00230 | Islas | Cox | 11/28/01 | Fax re: Well Abandonment Applications |
| VPP00231 – VPP00233 | Terracon | Citizens | 10/26/01 | Quarterly Groundwater Monitoring Report – May 2001 Sampling Event |
| VPP00234 – VPP00237 | Bump | Cox | 08/29/01 | Fax re: VPP attached: 03/09/99 ADEQ # 99-049-H Incident Notification Report reported by Kitching |

Documents Provided to and copied by URS during records review @ VPP
(from Bill Cox files)

| <i>Bates #</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|---------------------|------------------------------|-------------------|-------------|---|
| VPP00238 | Columbia Analytical Services | Terracon | 07/25/01 | Analytical Report |
| VPP00239 – VPP00242 | ADEQ | Citizens | 03/30/01 | Letter re: UST receipt of 03/16/01 submittal by Citizens and disposition of case |
| VPP00243 – VPP00256 | Detection Sciences, Inc | Citizens | 03/11/02 | Final Report Electromagnetic Radiography (EMR) TM Survey |
| VPP00257 – VPP00275 | Terracon | Citizens | 01/09/01 | Quarterly Groundwater Monitoring Report – October 2000 Sampling Event Project # 63997013 |
| VPP00276 | Emde | Ojeda | 12/15/00 | Letter re: review of laboratory reports, voluntary Remediation program |
| VPP00277 – VPP00321 | Terracon | Citizens | 11/17/00 | Spill Prevention Control and Countermeasure Plan VPP |
| VPP00322 – VPP00345 | Terracon | Citizens | 11/17/00 | Spill Prevention Control and Countermeasure Plan – Canez |
| VPP00346 – VPP00369 | Terracon | Citizens | 11/17/00 | Spill Prevention Control and Countermeasure Plan – Kantor Substation |

Documents Provided to and copied by URS during records review @ VPP
(from Bill Cox files)

| <i>Bates #</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|------------------------|---------------|-------------------|-------------------|--|
| VPP00370 – VPP00394 | Terracon | Citizens | 11/17/00 | Spill Prevention Control and Countermeasure Plan – Sonoita |
| VPP00395 | Roesler | Ojeda | 11/06/00 | Letter re: voluntary Remediation program application for VPP |
| VPP00396 – VPP00405 | unknown | | 05/23 to 06/22 | Handwritten notes attached: 07/11/00 CT, Inc Invoice 17947, Trip Ticket, Straight Bill of Lading 07/05/00 Waste Management ticket # 59798 |
| VPP00406 | Terracon | Citizens | 06/19/00 | Project Update-ADEQ Meeting (page 2 only) |
| VPP00407 – VPP00409 | Wrona | Ojeda | 05/02/00 | Letter re: minor permit revision # 1001233 to Class I Permit # 1000402 |
| VPP00410 – VPP00424 | Terracon | Citizens | 04/20/00 | Report of Soil Sampling Beneath Former Radiators VPP Terracon Project # 63997013 contains handwritten note “not held (submitted to ADEQ))” |
| VPP00425 – VPP00439 | Terracon | Citizens | 04/20/00 | Report of Soil Sampling Beneath Former Radiators VPP Terracon Project # 63997013 |

Documents Provided to and copied by URS during records review @ VPP
(from Bill Cox files)

| <i>Bates #</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|------------------------|--------------------|-------------------|----------------------------|--|
| VPP00440 – VPP00444 | Templeton Clark | Lee | 03/27/00 | Letter re: preliminary results – SPCC site visits contains handwritten notes |
| VPP00445 – VPP00464 | Hessler | Johnson | 02/11/00 | Letter re: site screening form & PA memo attached: EPA Region IX Site Screening Checklist handwritten notes “needs hrs ok – PA memo recomm.... go to SI, thanks D” ADEQ Memo from Hessler to Goodwin & Goodman re: site screening form (contains handwritten notes) pages 2 –13 of form signed by Hessler 02/28/97 letter from Carty, Jr. of ADEQ to Johnson, AZ Project Mgr. of U.S. EPA re: site planned for consultation 01/23/97 fax cover sheet and transaction report from Hessler to Holmberg |
| VPP00465 – VPP00487 | Terracon | Citizens | 11/29/99 | Workplan for Soil and Ground Water Remediation |
| VPP00488 – VPP00532 | ADEQ | Citizens | 11/19/99 to 11/19/04 | ADEQ Air Quality Control Permit # 1000402 for VPP with: 11/19/99 letter from ADEQ to Ojeda re: enclosing permit # 10000402 for VPP |
| VPP00533 – VPP00534 | Verde Co. | Citizens | 07/99 | Underground Fuel Storage Tank System Compliance Report, VPP only title page and Underground storage tank system site map |

Documents Provided to and copied by URS during records review @ VPP
(from Bill Cox files)

| <i>Bates #</i> | <i>Author</i> | <i>Recipients</i> | <i>Date</i> | <i>Description</i> |
|------------------------|---------------|-------------------|-------------|--|
| VPP00535 | ? | ? | 01/30/97 | Page 714 of Tank Release Detection report |
| VPP00536 | Verde | Citizens | 06/18/99 | Underground Storage Tank System Site Map |
| VPP00537 – VPP00568 | Terracon | Citizens | 12/29/98 | Conceptual Remedial Action plan Former Waste Pit Area (MW-9) Terracon Project # 63967031 |
| VPP00569 | Gomez | Cox | 03/18/98 | Letter re: physical inspection to the underground tanks |
| VPP00570 | Wallin | Cox | 12/19/97 | Letter re: review of final report on Remediation of PCS @ Escalada Trust Property |
| VPP00571 – VPP00580 | Terracon | Citizens | 10/22/93 | Level III Site Remediation Report Removal and Disposal of PCB Contaminated Soil, Amado Irrigation Well |
| VPP00581 – VPP00605 | Terracon | Citizens | 06/30/93 | PCB & TPH Sampling Program Terracon Project # 63937029 |
| VPP00606 – VPP00613 | Wrona | Alleman | 05/05/93 | Letter re: operating permit and request for remittance |
| VPP00614 | JS&S | ? | undated | Table E6 Groundwater Monitoring Well Construction Information VPP |

Documents Provided to and copied by URS during records review @ VPP
 (from Bill Cox files)

Bates # Author Recipients Date Description

| | | | | |
|------------------------|------------------|----------|----------|--|
| | | | | Terracon Project #63997013 |
| VPP00615 | JS&S | ? | undated | Appendix C List of Reports Submitted to ADEQ |
| VPP00616 - VPP00621 | ? | ? | Undated | Tables B1, B2, B#, B4: Historic Groundwater Elevations; VPP Terracon Project 63997013 |
| VPP00622 - VPP00627 | Western Tech. | Citizens | 08/07/85 | Report of Findings Initial Underground Storage Tank Assessment |

DATA ROOM FILES
BATES # DATA00001 - DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|--|--|-----------------------|
| 1. | 08/31/98 | Phase I Environmental Site Assessment and Preliminary Asbestos Survey for Commercial Office Building @ 1300 South Yale Street, Flagstaff, AZ Prepared by Geotechnical and Environmental Consultants, Inc. | DATA00001 - DATA00122 |
| 2. | October 1996 | Kingman-Havasut Transmission Project - Exhibit B-2 Environmental Assessment and Proposed Plan Amendment EA-AZ-025-96-043 Prepared by Dames & Moore Prepared for U.S.D.L. Bureau of Land Management | 00123 - 00432 |
| 3. | 03/15/94, 03/16/94, 03/21/94, 03/26/94, 03/28/94, 03/29/94, 03/30/94, 04/09/94, 04/11/94 | 1994 PCB On Pole Testing (labeled "Poor Quality Original") | 00433 - 00448 |
| 4. | 09/21/99 | Terracon Quarterly Groundwater Monitoring Report August 1999 Sampling Event Valencia Power Plant, U.S. Highway 89, Nogales, AZ Project # 63997013 | 00449 - 00478 |
| 5. | 08/08/94 | Terracon Soil Remediation Report Escalada Trust Property, Nogales, AZ Terracon Project No. 63947026 | 00479 - 00511 |
| 6. | 01/01/98 to 12/31/98 | ADEQ Underground Storage Tank Annual Fee Invoice # 3014595 to Citizens, Owner ID # 849 in the amount of \$300.00 due 03/31/99 with Worksheet/Invoice (contains handwritten figures for Diesel in the amounts of 13,288/132.88 and unleaded in the amounts of 22,372/223.72 for periods from 01-02 through 12-15 and Delivery Invoices from Nogales Petroleum and Union Distributing Co.) Note: signed by Ernesto V. Ojeda, Citizens' District Manager ("Ojeda") | 00512 - 00551 |
| 7. | 10/02/98 | Tracer Tight Tank Tightness Test | 00552 - 00562 |

DATA ROOM FILES
BATES # DATA00001 - DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| No. | Date | Description | Bates Nos. |
|-----|---------------------|---|---------------|
| | | Job # 021006c | |
| 8. | Various Dates | ADEQ file on Santa Cruz contains the following: 01/15 Handwritten note from Carol to Ernie Chart on Facility 06/02/99 Compliance Management, Inc. Tank Test Certificate on Tank ID 1, work order #1272 07/22/99 Underground Fuel Storage Tank System Compliance Report for Valenica Power Plant prepared by the VERDE Companies | 00563 - 00573 |
| 9. | 02/17/94 | Letter from Kim K. Howell, ("Howell") Lab Tech. Manager from TEManalytics to Bill Cox ("Cox") of Citizens re: Analysis reports and copy of the chain of custody of the 3 bulk samples submitted for asbestos analysis by polarized light microscopy | 00574 - 00580 |
| 10. | 05/30/97 | Terracon report for Phase II Soil Sampling Activities with 05/15/97 Letter from Tracy L. Dutton, ("Dutton") Project Chemist from Columbia Analytical Services to Spence Hammond of Terracon with results submitted to lab on 05-08-97 Pole Yard Test Area, Nogales Terracon Project #63977014 | 00581 - 00596 |
| 11. | 01/01/97 - 12/31/97 | Citizens Tier Two Emergency and Hazardous Chemical Inventory (completed by Ojeda) | 00597 - 00602 |
| 12. | 02/17/99 | Letter from Ojeda to Chief Luis Padilla of Noglaes Fire Department re: information on the presence of hazardous chemicals @ Citizens Nogales, AZ facility, since January, 1989 (contains 1998 Tier Two Inventory, Material Safety Data Sheets from UNOCAL and TEXACO) | 00603 - 00649 |
| 13. | 02/26/99 | Letter from Ojeda to Chief Kevin Keely of Tubac Fire Dept. re: information on the presence of hazardous chemicals @ | 00650 - 00662 |

DATA ROOM FILES
BATES # DATA00001 - DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| No. | Date | Description | Bates Nos. |
|-----|----------|---|---------------|
| | | Citizens Nogales, AZ facility, since January, 1989 (contains 1998 Tier Two Inventory, Material Safety Data Sheets from UNOCAL) | |
| 14. | 02/26/99 | Letter from Ojeda to Chief Darrell Miller of Rio Rico Fire Dept. re: re: information on the presence of hazardous chemicals @ Citizens Nogales, AZ facility, since January, 1989 (contains 1998 Tier Two Inventory, Material Safety Data Sheets from UNOCAL) | 00663 - 00675 |
| 15. | 02/17/98 | Letters from Ojeda to Mr. Daniel Row ("Row") of Arizona Emergency Response Commission and Mr. L.J McWilliams ("McWilliams") of Santa Cruz County Local Emergency Planning Committee re: information on the presence of hazardous chemicals @ Citizens Nogales, AZ facility, since January, 1989 (contains 1998 Tier Two Inventory, Material Safety Data Sheets from UNOCAL & TEXACO) | 00676 - 00761 |
| 16. | 05/29/98 | ADEQ Air Quality Field Activity Report # 19533 conducted on Unit # 3 GE Frame 5 gas turbine | 00762 - 00765 |
| 17. | 09/23/92 | USTank Management Permanent Closure of 2 USTS Initial Site Characterization (for one (1) 10,000 gallon gasoline and one (1) 4,000 gallon diesel underground storage tank formerly located @ Citizens, 830 S. Acoma Blvd., Lake Havasu, Mohave County, AZ) ADEQ Closure #E1549 | 00766 - 00802 |
| 18. | 09/23/92 | USTank Management Permanent Closure of 1 UST Environmental Site Assessment (for one (1) 2,000 gallon underground fuel storage tank formally located @ Citizens, Old Powerhouse, 120 Andy Devine, Kingman, Mohave County, AZ) ADEQ Closure #E7951 | 00803 - 00829 |
| 19. | 09/23/92 | USTank Management Permanent Closure of 2 USTS Initial Site Characterization | 00830 - 00867 |

DATA ROOM FILES
BATES # DATA00001 - DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | (for one (1) 10,000 gallon gasoline and one (1) 4,000 gallon diesel underground storage tank formerly located @ Citizens, 830 S. Acoma Blvd., Lake Havasu, Mohave County, AZ) ADEQ Closure #E1549 (see # 17) | |
| 20. | 09/23/92 | USTank Management Permanent Closure of 2 USTS Initial Site Characterization (for one (1) 10,000 gallon gasoline and one (1) 4,000 gallon diesel underground storage tank formerly located @ Citizens, 2290 Airway, Kingman, Mohave County, AZ) ADEQ Closure #E1550 | 00868 - 00898 |
| 21. | 02/17/998 | Letters from Ojeda to Row & McWilliams re: information on the presence of hazardous chemicals @ Citizens Nogales, AZ facility, since January, 1989 (contains Site Plan, Material Safety Data Sheets from UNOCAL & TEXACO and 1998 Tier Two Inventory) | 00899 - 00984 |
| 22. | 07/01/99 | Letter and copy of Significant Revision to Air Quality Control Permit from Nancy C. Wrona, ("Wrona") ADEQ Director of Air Quality Division to Ojeda re: Review of Permit Revision No. 1000563; Valencia Power Plant Facility | 00985 - 00992 |
| 23. | 07/01/99 | Letter and copy of Significant Revision to Air Quality Control Permit from Wrona to Ojeda re: Review of Permit Revision No. 1000563; Valencia Power Plant Facility (in addition to items # 22 this copy contains: Excess Emissions Report, Instructions for completing Excess Emissions Report Form, 07/02/98 letter from Prabhat Bhargava, P.E., ("Bhargava") Manager Air Permit from ADEQ to Gordon Cook, ("Cook") Plant Supervisor from Citizens re: recommendation to issue Air Quality Control Permit with conditions, Public Notice, 06/17/98 Air Quality Control Application - written comment period ends 08/08/98, proposed permit # 1000563, Significant Revision to Air Quality Control Permit, | 00993 - 01039 |

DATA ROOM FILES
BATES # DATA00001 – DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | 06/20/99 letter from Ojeda to ADEQ re: semi-annual production report-permit # 191209-96, copies of invoices from Union Distributing Co. of Tucson, Inspectorate Certificate of Analysis job # P-2894, ADEQ Air Quality Control Division Emission Fee Invoice for Title V Class I or II Permits # 1045230 in the of \$2,500.00 (due by 01-01-99) & Hazardous Waste Section Annual Facility Registration Fee Invoice #31075 for the amount of \$ 0 (dated 02/16/99), Invoices from Safety Klein | |
| 24. | 08/99 | Environmental Issues – August 1999 – Arizona Gas & Electric (redacted) | 01040 - 01042 |
| 25. | 11/29/99 | Terracon Confidential Workplan for Soil and Ground Water Remediation @ Valencia Power Plant Terracon Project #63997013 | 01043 - 01082 |
| 26. | 10/31/91 | Letter from Bill DeJulio (“DeJulio”), Operation Specialist from Citizens to Barbara Herron (“Herron”), from ADEQ re: status of underground fuel storage tanks and permanent closure of remaining underground fuel storage tanks in 12/91 | 01083 - 01084 |
| 27. | 11/06/91 | Letter from Herron to Citizens re: Notification of Tank Closure Procedures | 01085 |
| 28. | 08/04/92 | Letter from Herron to DeJulio re: Notification of Tank Closure Procedures, 120 Andy Devine Ave, Kingman | 01086 – 01088 |
| 29. | 06/01/98 | Letter from Arcelious Stephens, (“Stephens”) RES, Environmental Health Specialist II from ADEQ to DeJulio re: Case Closure LUST file # 's 2546.01 & 2546.02, Facility ID# 0-001550, Mohave County | 01089 – 01091 |
| 30. | 12/03/91 | Letter from Herron to Citizens re: Notification of Tank Closure Procedures, Kingman Operations Center, 2290 Airway | 01092 - 01093 |
| 31. | 11/06/91 | Letter from Herron to Citizens re: Notification of Tank | 01094 – 01096 |

DATA ROOM FILES
BATES # DATA00001 - DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | Closure Procedures, 830 S Acoma, Lake Havasu City, AZ | |
| 32. | 06/23/98 | Letter & Fax cover sheet from Richard McNerney ("McNerney") of VERDE to DeJuilo re: Case Closure, 830 S. Acoma Blvd., Lake Havasu - LUST file # 2457.01 | 01097 - 01099 |
| 33. | 02/96 | VERDE Phase III site Restoration Soil Vapor Extraction System Evaluation Quartley Status Report ADEQ LUST file # 2457.01 | 01100 - 01270 |
| 34. | Undated | Air Quality Permits @ CUC's Valenica Power Plant (contains handwritten note "Per Nancy Matthews, Sierra Research") | 01271 - 01274 |
| 35. | 07/99 | VERDE Underground Fuel Storage Tank System Compliance Report Valencia Power Plant | 01275 - 01128 |
| 36. | 10/07/99 | Draft copy of 09/24/99 Citizens Title V Permit renewal #10000402 with fax cover sheets from Sierra Research & ADEQ | 01129 - 01160 |
| 37. | 05/30/02 | Letters from Dennis Scalan, ("Scalan") Environmental Health & Safety from Citizens to Daniel Roe, Executive Director of AZ Emergency Response Commission, Jerry Hill, Kingman Local Emergency Planning Committee & Lake Havasu Local emergency Planning Committee, Hualapai Valley FD, Yucca FD, Golden Valley FD, Lake Havasu FD, Kingman FD, National Park Service, Dolan Springs FD, Chloride FD, Bullhead City FD, Oatman FD, Fort Mohave FD and Desert Hills FD re: 2001 Tier 2 forms | 01161 - 01335 |
| 38. | | Turbine Upgrade cover sheet | 01336 - 01338 |
| 39. | 10/22/97 | Memo from Nancy Matthews ("Matthews") of Sierra Research to Donna Luccese ("Luccese") of ADEQ re: Map & Building Dimensions for Modeling Citizens Valencia Power Plant | 01339 - 01342 |
| 40. | 10/20/97 | Fax from Matthews to Ojeda re: copy of 05-21-97 ADEQ | 01343 - 01344 |

DATA ROOM FILES

BATES # DATA00001 - DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| | | letter authorizing operation of the turbines in power augmentation mode for up to 168 hours for testing purposes | |
| 41. | 04/04/97 | Letter from Art Hofmeister, Manager of New Source Review Permits Unit, Air Quality Permits to James Botkin ("Botkin") of Citizens re: Application for Air Quality Permit # 1000563, Significant Revision to Air Quality Permit #191209-96 | 03145 |
| 42. | 04/02/97 | Letter from Wrona to Botkin re: copy of Finalized Minor Permit Revision 100589 | 01346 - 01352 |
| 43. | 03/19/97 | Letter from Matthews to Wrona re: Performance Test for Gas Turbines, Valencia Power Plant | 01353 |
| 44. | 03/06/97 | Letter from Matthews to Eric Priewe, ("Priewe") ADEQ Technical Service Manager re: Completion of Construction Under Consent Order # A-1-97, Valencia Power Plant | 01354 - 01355 |
| 45. | 02/28/97 | Letter from Matthews to Wrona re: Minor Permit Revisions No. 1000484 | 01356 - 01357 |
| 46. | 02/26/97 | Letter from Dennis True, ("True") Manager of Generation and Transmission of Citizens to Wrona re: Consent Order Docket # A-1-97, Valencia Power Plant | 01358 |
| 47. | 02/25/97 | Letter from Matthews to Priewe re: Completion of Construction under Consent Order #A-1-97 | 01359 |
| 48. | 02/19/97 | Memo from Matthews to True re: Initial Compliance Testing for Gas Turbine @ Nogales | 01360 |
| 49. | 02/18/97 | Steiner Environmental revised quotation and a proposed test schedule foe Nogales to Sierra Research | 01361 - 01365 |
| 50. | 02/18/97 | Fax from Matthews to True, Cook and Ojeda re: 02/13/97 letter from Mike Traubert, ("Traubert") Manager of Compliance Section of Air Quality Division at ADEQ to Matthews re: NSPS, 40 CFR 60 §60.334(a) Monitoring of Operations | 01366 - 01367 |
| 51. | 02/14/97 | Letter from Wrona to Botkin re: copy of finalized Minor | 01368 - 01374 |

DATA ROOM FILES
BATES # DATA00001 - DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| | | Permit Revision # 10000484 | |
| 52. | 02/14/97 | Fax from Matthews to Dan McCarthy ("McCarthy"), True & Cook re: 02/10/97 from Wrona to Matthews on Performance of Test Waiver of Gas Turbines under 40 CFR Subpart GG | 01375 - 01376 |
| 53. | 01/28/97 | Letter from Matthews to Priewe re: Completion of Construction under Consent Order #A-1-97 | 01377 - 01378 |
| 54. | 01/28/97 | Letter from True to Wrona re: Consent Order for Docket # A-1-97 | 01379 |
| 55. | 01/27/97 | Letter from Matthews to Wrona re: Notification of Commencement of Operation, Valencia Power plant | 01380 |
| 56. | 01/27/97 | Memo from Matthews to Traubert re: NSPS Determination Relevant to Valencia Power Plant | 01381 |
| 57. | 01/22/97 | Memo from Matthews to Botkin re: Application to Remove Restrictions on Power Augmentation Operation | 01382 - 01385 |
| 58. | 01/22/97 | Fax from Matthews to Wrona, Taulbert, Cathy Li ("Li") of ADEQ, True, McCarthy & Cook re: 01/22/97 letter from Matthews to Wrona re: Performance of Test Waiver of Gas Turbines under 40 CFR Subpart GG | 01386 - 01388 |
| 59. | 05/21/93 | Letter from John B. Rasnicc, Director of Stationary Source Compliance Division of the Office of Air Quality Planning & Standards to Warren Hinkley, Environmental Quality Specialist of Texas Air Control Board re: response to 03/30/93 | 01389 - 01390 |
| 60. | 01/27/97 | Fax from Matthews to Traubert, True & McCarthy re: 11/18/96 letter from Matthews to Bhargave re: Air Quality Permit Application Permit # 10000402 | 01391 - 01396 |
| 61. | 10/25/96 | Letter from Matthews to Wrona re: Application for Minor Revision to Operating Permit #191209-96 | 01397 - 01401 |
| 62. | 01/30/97 | Fax from VES Engineering & Surveying to Ojeda re: Site plan for New Fuel Tank *Note: Plans not attached | 01402 |

DATA ROOM FILES
BATES # DATA00001 - DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| 63. | 01/14/97 | Letter from Ed Cunningham, ("Cunningham") Fuel Tank Program Manager & State Deputy Fire Marshal II from Office of the State Fire Marshall to Ojeda re: Aboveground Tank plans not complete | 01403 |
| 64. | 12/12/96 | Fax from Marciella Ojeda to Ojeda re: Bond Exemption Certificate and instructions | 01404 - 01406 |
| 65. | 12/10/96 | Cash receipts from the City of Nogales for 96 License Fee and Permit # 2962 | 01407 |
| 66. | 01/09/-- | Citizens Weld Coupon Test Report | 01408 |
| 67. | 12/10/96 | Letter from Ojeda to Cunningham, re: Permit Application for Above Ground Diesel Fuel Tank | 01409 - 01410 |
| 68. | 12/04/96 | Memo from Jesus Gomez, ("Gomez") Certified Fire Code Inspector for City of Nogales to Oliver Williams, ("Williams") Deputy State Fire Marshall re: endorsement of installation of an above ground 51000 gals. fuel oil storage tank behind 1710 N. Mastick Way. | 01411 |
| 69. | 12/03/96 | Letter from Ojeda to Gomez re: request for formal approval of installation of an above ground 51000 gals. fuel oil storage tank behind 1710 N. Mastick Way. | 01412 |
| 70. | undated | "URGENT" Citizens request for taxpayer ID number to Turbine Technology | 01413 |
| 71. | 10/23/96 | Southern Arizona Testing Lab Test Results | 01414 - 01419 |
| 72. | 11/25/96 | Citizens Permit Application to the City of Nogales for an above ground 51000 gals. fuel oil storage tank | 04120 |
| 73. | 11/25/96 | Fax from Cunningham to Ojeda re: List of items needs for approval of aboveground storage tank systems | 01421 - 01424 |
| 74. | undated | 96-8048 Billing Reconciliation | 01425 |
| 75. | 02/21/97 | Invoice # 2202 from Turbine Technology for \$18,000.00 | 01426 |
| 76. | 02/10/97 | AMWEST Surety Insurance Co. Performance Bond # 023003243 | 01427 - 01433 |

DATA ROOM FILES
BATES # DATA00001 - DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| 77. | 03/24/97 | Fax from Gregg Bargo of Citizens to Larry Sawatsky re: Monthly Capital Report for 12/96 | 01434 - 01440 |
| 78. | 02/27/97 | Fax from Ojeda to Dan McCarthy ("McCarthy") re: Ecolochem Proposal | 01441 - 01447 |
| 79. | 02/11/97 | Fax from Ojeda to Jim Crowley ("Crowley") re: Turbine upgrade money | 01448 - 01450 |
| 80. | 01/29/97 | Santa Cruz Excavating, Inc Proposal in the amount of \$14,525.00 for completion of project @ Grand Ave, Nogales, AZ | 01452 - 01452 |
| 81. | 12/12/96 | Letter from Robert Hearn, Financial Controller of Turbine Technology to Ojeda re invoice from Brent Holmes | 01453 - 01463 |
| 82. | 12/30/96 | Direct Expenditure Maint. Host Screen Printout | 01464 |
| 83. | 12/09/-- | Fax from Yvonne Howell of Citizens to Estella Felix re: Invoices Inquiries | 01465 - 01469 |
| 84. | undated | Retirement Unit Maintenance screen (contains handwritten To: Ojeda from Mark Dydzuhn per your request I have added this RU/Prime Acct. combo.) | 01470 |
| 85. | 09/13/96 | Turbine Technology Invoice 2132 for \$467,658.00 (contains handwritten notes) | 01471 |
| 86. | 09/13/96 | Citizens Energy Sector Interoffice Memo from Michael Mount-Harvey to J. Michael Love re: new \$2,188,483 project in the 0/01 capital updates | 01472 - 01487 |
| 87. | 1996 | Progress Reports on Turbine Upgrade | 01488 - 01523 |
| 88. | 12/11/96 | Loss Prevention Report by Bob Kelvsen index # 89405.50, account # 2-21945 | 01524 - 01526 |
| 89. | 02/03/97 | Quotation from Ecolochem for Mobile Demineralization System | 01527 - 01532 |
| 90. | 01/27/97 | Quotation from Ecolochem for Temporary Demineralization System for Turbine Project | 01533 - 01539 |

DATA ROOM FILES
BATES # DATA00001 - DATA01564

Note: Documents are organized as received. Included are both AZ Gas and AZ Electric Documents.

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|---|-------------------|
| 91. | 01/22/97 | Fax from Ojeda to Steve Fisher re: Raw Water Analysis from Bolin Labs | 01540 - 01543 |
| 92. | 10/29/96 | Fax from Ojeda to True re: Terracon Proposal for Geotechnical Engineering and Limited Soil Sampling/Lab Analyses for proposed 50,000 gallon water tanks Terracon No. D6396195 | 01544 - 01549 |
| 93. | 01/02/97 | ADEQ Consent Order for Docket A-1-97; In the Matter of : Citizens Utilities Company Valencia Power Plant | 01550 - 01564 |

**INDEX OF DOCUMENTS
PROVIDED BY BROWN AND CALDWELL
Bates No. Range BC00001 through BC00147**

| <i>No.</i> | <i>Date</i> | <i>Description</i> | <i>Bates Nos.</i> |
|------------|-------------|--|-------------------|
| 1. | 10/07/02 | Brown & Caldwell Groundwater and Soil Result | BC000001-147 |

AGREEMENT

Between

**THE INTERNATIONAL BROTHERHOOD
OF ELECTRICAL WORKERS
IBEW LOCAL UNION 769**

And

**CITIZENS COMMUNICATIONS COMPANY,
MOHAVE COUNTY ELECTRIC OPERATIONS**

Formerly known as

**CITIZENS UTILITIES COMPANY,
MOHAVE COUNTY ELECTRIC OPERATIONS**

Covering Electric Operations Employees

JUNE 25, 2000

Certified in NLRB Case No. 28-RC-1262

TABLE OF CONTENTS

| ARTICLE | SUBJECT | PAGE |
|---------|--|------|
| 1 | Recognition..... | 3 |
| 2 | Term of Agreement..... | 4 |
| 3 | Continuity of Service..... | 6 |
| 4 | Employer's Rights..... | 7 |
| 5 | Union Rights..... | 7 |
| 6 | Status of Employees..... | 9 |
| 7 | Hours of Work and Overtime..... | 11 |
| 8 | Seniority..... | 16 |
| 9 | Grievances and Arbitration..... | 19 |
| 10 | Safety..... | 22 |
| 11 | Holidays..... | 25 |
| 12 | Leave of Absence..... | 27 |
| 13 | Apprenticeship Rules..... | 29 |
| 14 | Vacations..... | 29 |
| 15 | Sick Leave..... | 32 |
| 16 | Supplemental Workers' Compensation Benefit..... | 33 |
| 17 | Group Insurance and Pension Plans..... | 34 |
| 18 | General..... | 35 |
| 19 | Checkoff..... | 38 |
| 20 | Jury Duty..... | 40 |
| 21 | Funeral Leave..... | 40 |
| 22 | Emergency Leave..... | 41 |
| 23 | Wage Schedule..... | 41 |
| | Exhibit "A" Wage Schedule..... | 43 |

AGREEMENT

THIS AGREEMENT is entered into this 25th day of June, 2000 by and between the Mohave County Electric Operations of Citizens Communications Company, formerly known as the Mohave County Electric Operations of Citizens Utilities Company, a Delaware corporation, hereinafter referred to as "Company", and Local Union 769, International Brotherhood of Electrical Workers, affiliated with the AFL-CIO, hereinafter referred to as "Union".

Whereas, the employees of the Company agree that they will, individually and collectively, perform loyal and efficient work and service for the Company, and that they will use their influence and best efforts to protect the property of the Company and its service to the public, and that they will cooperate in promoting and advancing the welfare of the Company, and the protection of its service to the public at all times.

Whereas, the parties hereto desire to facilitate the peaceful adjustment of differences that may from time to time arise between them to promote harmony and efficiency so that the Company, the Union and the general public may benefit therefrom, and to establish rates of pay, hours, and other conditions of employment for certain hereinafter designated employees of the Company, therefore, the parties hereto agree as follows:

ARTICLE 1 RECOGNITION

1.1 For the purpose of collective bargaining with respect to rates of pay, wages, hours of employment and other conditions of employment, the

Company recognizes the Union as the exclusive representative of the employees of Citizens Communications Company, Mohave County Electric Operations, formerly known as Citizens Utilities Company, Mohave County, Electric Operations, who are employed in the classifications specified in Article 23, EXHIBIT "A", for whom the National Labor Relations Board certified the Union in Case No. 28-RC-1262, and where the term "Employee" or "Employees" is used in the Agreement, it refers only to individuals employed in those classifications.

1.2 Successors. This agreement shall be binding on any and all successors and assigns of the Company, whether by sale, transfer, merger, acquisition, consolidation, lease, receivership, bankruptcy or otherwise and whether the transfer be of the Company or of the Mohave County Electric Operations. The Company shall make it a condition of transfer that the successor assigns shall be bound by the terms of this Agreement. It is the intent of the parties that this Agreement shall remain in effect for its full term and bind the successor or assigns of the respective parties.

ARTICLE 2 TERM OF AGREEMENT

2.1 This agreement shall be effective as of June 25, 2000 and shall remain in full force and effect up to and including June 24, 2003, and thereafter from year to year, unless and until either the Company or the Union serves written notice on the other, at least 60 days prior to said date, that it desires to modify or terminate this Agreement. If the notice is for modification of the Agreement, it shall state with particularity the modification sought.

Negotiations will start 20 days before the termination date of the

Agreement, unless the parties mutually agree upon a different starting time.

2.2 In any year in which a notice to modify is given as provided in Article 2.1, this Agreement shall remain in full force and effect beyond the anniversary date and until a renewal Agreement is reached or until notice to terminate this Agreement is served by one party or the other. This Agreement shall terminate 7 days after receipt by a party of a notice to terminate given subsequent to the anniversary date.

2.3 The parties specifically waive any rights which either may have to bargain with the other during the life of the Agreement on any matter pertaining to rates of pay, wages, hours of employment or other conditions of employment whether or not covered by this Agreement except as provided in Article 18.4. In the event, during the life of this Agreement, the parties mutually agree to negotiate on a matter relating to wages, hours, or working conditions, this Agreement may be amended to the extent that agreement is then reached.

2.4 In the event that any provision contained herein is adjudged in a court of law to be in conflict with any federal law, or with any law of the State of Arizona, such provision shall be void until such time as said adjudication may be reversed. Notwithstanding such adjudication of conflict, all of the other provisions of this Agreement shall remain in full force and effect.

ARTICLE 3 CONTINUITY OF SERVICE

3.1 The Company is a public utility engaged in public service requiring continuous service and it is agreed that recognition of such obligations of continuous service during the term of this Agreement is imposed on both the Company and the Union.

3.2 The Union agrees that during the life of this Agreement there shall be no strikes, slowdowns or stoppages of work called, authorized, approved or sanctioned by the Union because of grievances or any other reasons, and that all grievances shall be exclusively and finally disposed of as provided in Article 9.

The Union agrees that in the event of a violation of this Article, it will in good faith and without delay disavow such violation, exert itself to bring about a quick termination of such violation, and insist that the employee or employees involved cease such violation. To that end, the Union will promptly take whatever affirmative action is necessary.

3.3 During the life of this Agreement employees shall not cause or take part in a strike, slowdown or work stoppage and any employee who violates this provision shall be subject to discipline and discharge by the Company with the right of appeal to the grievance procedure only as to the determination of the question of the violation.

3.4 The Company agrees that during the life of this Agreement there shall be no lockout of employees because of grievances or any other reasons and that all grievances shall be exclusively and finally disposed of as provided in Article 9.

3.5 The Company and the Union will not discriminate against any employee in matters relating to employment because of race, color, religion, national origin, sex, age, marital status, membership or non-

membership in the Union, non-disqualifying physical or mental disability or status as a disabled and/or Vietnam Era Veteran. References to one gender in this Agreement shall be deemed to include the other gender.

ARTICLE 4 EMPLOYER'S RIGHTS

The supervision and control of all operations and the direction of all working forces are vested in the Company, including but not limited to, the right to hire, classify, assign, reassign, lay off, promote, demote, transfer, and discipline and discharge its employees for proper cause, provided any action does not conflict with explicit provisions of the Agreement. An employee who has been discharged or disciplined shall be advised, in writing, of the reason for such action and shall have the right of appeal through the grievance and arbitration provisions of this Agreement.

ARTICLE 5 UNION RIGHTS

5.1 The Company agrees to permit the Union to use reasonable space for the purpose of posting notices pertaining to Union affairs upon the bulletin boards, which are furnished by the Company. These notices shall be limited to official Union business and shall not contain any political material, or any partisan or anti-management propaganda.

5.2 The Union agrees that neither its officers nor any of its members will conduct any Union activities on Company time or Company property except for the negotiation of collective bargaining agreements

with the Company under Article 2.1. Notwithstanding the foregoing, the Business Manager and Assistant Business Manager shall be permitted to visit a working place for the purpose of fulfilling the Union's obligation to the employees in the administration of this Agreement. Permission for either of these Union representatives to confer with an employee during working hours must be secured from the Division Manager, or his designated representative, and the visit shall not interfere with the operations.

The visit must be related to the administration of this Agreement. Solicitation of membership, collection of dues and other Union business shall not be considered a valid reason for visiting an employee during working hours and such latter activity shall constitute grounds for refusal of further permission to visit a working place during working hours.

5.3 Should the Company consider subcontracting any function being performed by employees, it shall advise and provide the union the opportunity to suggest alternatives to such actions. This opportunity shall be provided and alternatives given good faith consideration before any decision to subcontract any said work.

In the event the Company contracts out any work, it shall, before awarding the contract, notify the union of the contractor's name and project contracted and advise the contractor of the wage schedule listed in this Agreement. Such wage schedule shall serve as a minimum for said contractor's employees in the classifications covered in this Agreement.

5.4 In the event the Business Manager desires to meet with the Division Manager on a matter concerning the administration of this Agreement he shall advise the Division Manager of the proposed subject matter for discussion. If the Division Manager and Business Manager deem the

matter appropriate for discussion, a meeting shall be held at a time mutually agreeable.

5.5 Stewards of this unit shall be allowed reasonable time to consult with employees for the purposes of administration of the provisions of this Agreement. It is understood that such time shall not interfere with the usual work of the stewards or employee(s) unless prior authorization is obtained from the appropriate supervisor(s).

ARTICLE 6 STATUS OF EMPLOYEES

6.1 Employees covered by this Agreement shall be designated as regular, probationary, temporary or part-time.

6.2 All new employees shall be probationary employees during the first 1040 hours they work. Probationary employees may be discharged, laid off, demoted or transferred at the sole discretion of the Company. There shall be no recourse to the grievance and arbitration procedures by or on behalf of a probationary employee. Probationary employees shall be entitled to coverage of the provisions of this Agreement except as modified by this or any other provision of this Agreement. Upon satisfactory completion of the probationary period, an employee will obtain seniority retroactive to his date of hire.

6.3 A temporary employee is one who is hired for no more than six months except in instances when the temporary employee is hired to replace an employee who is on a leave of more than six months, in which case the Company may retain the temporary employee for the term of such leave. A temporary employee may be extended beyond six months

with the agreement of the Union, such agreement shall not be unreasonably withheld. Any temporary employee may be discharged, laid off or transferred at the sole discretion of the Company without recourse to the grievance and arbitration procedure. If a temporary employee becomes a regular employee, the employee will be credited with seniority, on a prorated basis, retroactive to his most recent date of hire. If while working as a temporary employee, an employee is offered, and accepts, the opportunity to become a regular or part-time employee, in the same position that he has been working as a temporary employee, the hours an employee has worked since his most recent date of hire will count toward completion of his probationary period.

6.4 A regular employee is a full-time employee who has satisfactorily completed his probationary period.

6.5 Part-time employees are those employees whose regularly scheduled workday or workweek is less than the established workday or workweek.

6.6 When an employee's job classification changes, the Company will provide the employee with written notice of the change.

ARTICLE 7 HOURS OF WORK AND OVERTIME

7.1 Eight or ten hours in 1 day (five continuous day workweek and four continuous day workweek respectively) shall constitute the normal working day. The Company shall establish the starting time of each employee or group of employees covered by this Article. The starting time of day shift will normally be fixed to occur between the hours of 6 a.m. and 9 a.m. Employees covered by this Article shall be given a non-

compensable lunch period not to exceed 1 hour. Any employee directed by the Company to take his lunch period a least 1 hour before the start of his regular lunch period, or more than 1 hour after the end of his regular lunch period, will be paid for the lunch period at his straight time rate of pay, and be given sufficient time on Company time to eat his lunch. If paid for under this Article, the said lunch period shall not be counted as time worked for overtime purposes.

7.2 The employee's workweek shall be established by the Company and shall be governed by the employee's working schedule. Changes in the workweek will be made only upon 2 week's notice. Changes in the scheduled working hours may be made upon 2 days' notice.

7.3(a) Time worked in excess of 40 hours per week in the employee's workweek shall be considered overtime and shall be paid for at 1 1/2 the regular straight time rate of pay. Time worked in excess of 8 hours (for those working an 8 hour day) or 10 hours (for those working a 10 hour day) in the workday shall be considered overtime and shall be paid for at 1 1/2 the regular straight time rate of pay. There shall be no pyramiding of overtime.

7.3(b) Time worked on the 6th day (Saturday) for those working a five/eight schedule Monday through Friday; time worked on the 5th and 6th day (Friday and Saturday) for those working a four/ten schedule Monday through Thursday; and time worked on the 5th and 7th day (Saturday and Monday) for those working a four/ten schedule Tuesday through Friday; shall be paid for at 1 1/2 the regular straight time rate of pay. Time worked on Sunday shall be paid for at 2 times the regular straight time rate of pay. Should the Company schedule an employee for a workweek that has Saturday or Sunday as a regularly scheduled workday, the Company and the Union shall immediately negotiate the question of

the application of this paragraph b of this Section.

7.3(c) Should an employee fail to work 40 hours during his regularly scheduled workweek due to an unexcused absence, 1 ½ the regular straight time rate of pay shall not be paid per the provisions of this Section only for hours actually worked beyond 40.

7.4(a) An employee called for duty at a time outside his regular work shift shall receive a minimum two- (2) hours pay at the applicable rate. It is understood that the employee shall respond promptly to such call out. Time shall commence at the time the employee is first called. Time ends upon the employee returning home and or being cleared by the Dispatcher / Supervisor. Reasonable travel time to and from home will be considered as time worked.

7.4(b) Employees who are called to perform emergency and or planned work outside their regular work schedule shall be paid at the applicable overtime rate until such emergency and or planned work has been completed. When such emergency and/or planned work extends into the employee's regular work day, the employee shall continue to receive the applicable overtime rate of pay, until such time as the employee completes the emergency or planned work. Sacred time is that period commencing ten (10) hours prior to and ending two (2) hours prior to the start of the work schedule (see 7.4(c)).

All hours worked after the emergency work has been completed on their normal shift shall be paid on a straight time basis in the event that an employee is offered the opportunity to return home for their earned rest time, but who voluntarily elects to not use said time.

After the planned and/or emergency work is completed,

Employees may, at their option and with supervisory approval, continue to work into their normal work day schedule and then utilize earned rest time to complete the normal work day.

If because of circumstances beyond the control of the employee, earned rest time is not available to be taken during the normal work day schedule, the employee shall receive said earned rest time at the straight time rate of pay in lieu thereof.

7.4(c). Sacred time or rest time is that period of time commencing ten (10) hours prior to and ending two (2) hours prior to the start of the normal work schedule. Rest time earned is calculated hour for hour for time worked during the sacred hours. Employees on rest time will be paid at their regular straight time rate of pay. It shall be the responsibility of each employee to advise their supervisor of time worked during sacred hours and the time that the employee is expected to return to work.

7.5 Employees shall not normally be required to stand-by outside of the regular workweek or workday. Stand-by time, if required by the Company, will be paid for at 1/4 the straight rate of pay and shall not be included in the computation of overtime. An employee on stand-by shall remain in an area where he can be reached promptly by telephone and be able to report to his permanent headquarters within 15 minutes.

Employees may be required to be on call. Employees on call will not be required to "stand-by" a telephone, but may be required to carry a pager furnished by the Company and respond to calls promptly. For each hour that an employee is on call, he will receive \$1.80; \$2.70 for hours that occur on a holiday. On call time shall not count as time worked for overtime or other purposes.

7.6 When employees who are sent on out-of-town work are required to stay overnight, the Company will provide lodging. In addition, for employees who are sent on out-of-town work, the Company will reimburse them for meals in an amount not to exceed \$8.00 for breakfast, \$9.00 for lunch, and \$15.00 for dinner. When an employee is entitled to receive 3 meals in a day, he may allocate the \$32.00 as he wishes. This will not apply to noonday meals where employees start from and return to headquarters every day, nor does it apply to employees hired for any particular job, which may be in another district.

When an employee is sent to work in another district during his shift and prior to his lunch period, and the employee has not been notified of the trip at least one 1 hour prior to the start of his shift, the Company at its option will either provide a lunch for the employee or allow the employee enough time to procure a lunch prior to his departure. This paragraph will not apply to employees who normally bring their lunch to work, nor will the time allowed an employee to procure a lunch to exceed 30 minutes. An employee ordered out of town on a trip which, it is expected, will require him to remain away overnight will be permitted to draw a reasonable amount of expense money in advance. The Company will not be required to advance expenses unless the request is made during business hours Monday through Friday. In any event, the Company, at its option, may arrange for and allow an employee to charge his travel expenses at a designated restaurant or hotel. The employee shall account to the Company with receipts for his expenses.

7.7 Employees shall report at their appropriate headquarters. Employees of all departments shall travel from job to job on Company time.

7.8 When an employee is released from duty prior to the end of the shift, he shall receive pay for the time worked or for 2 hours, whichever is

greater. Employees permitted to leave at their own request shall be paid only for the hours worked.

7.9 There will be two 15-minute relief periods in a normal workday. Such relief periods will be granted, if consistent with the efficient conduct of the operations, at approximately the second and sixth hours of an employee's normal workday and will be taken at the job site. Relief periods shall be considered and paid for as time worked.

7.10 Nothing contained in this Article or elsewhere in the Agreement shall be construed to guarantee any particular number of hours of work on a workday or in a workweek.

7.11 No employee will be required to take time off for overtime worked for the purpose of leveling off total earnings.

ARTICLE 8 SENIORITY

8.1 There shall be 2 types of seniority: **Company seniority and Departmental seniority.** Company seniority is the total length of continuous service with the Company. Departmental seniority is the total length of continuous service in a particular department and is the seniority to be considered in intradepartmental matters, e.g. vacation selection.

8.2 A part-time employee shall accrue seniority annually for that fraction of a year, which his actual hours worked, bear to 2080.

8.3 It is understood and agreed that in all cases of transfer, promotion,

decrease of personnel, or recall after layoff, the following factors shall be considered and where factor 2 is equal, factor 1 shall govern:

1. Company Seniority.
2. Knowledge, training, ability, skill, adaptability and efficiency.

The Company shall post the job for bids. One bid notice shall be posted on each departmental bulletin board, for a period of ten (10) working days. Within 3 days after the day of the posting, Saturday and Sunday excluded, any employee who has worked 9 months or more in his current occupational classification may bid on the vacancy and the job shall be awarded to the qualified employee having the longest Company seniority provided, however, that if the rate of pay for the vacancy is lower than the then rate of pay of a bidding employee, the Company shall have the option of rejecting or accepting the bid. After the job has been awarded the Company shall post the name of the successful bidder, or, if no qualified employee bids, shall post a notice to that effect until the bidding procedure is complete, and if the bidding procedure has not accomplished the filling of the vacancy, the Company may fill the vacancy from any source.

An employee appointed to a higher rated classification in accordance with this provision shall be placed at the entry-level rate of pay or his current rate of pay (whichever is higher). Upon satisfactory completion of six months in the new classification, the employee shall be moved to that step that is next higher than his then current rate.

Any employee voluntarily bidding on a new position which carries an hourly compensation rate lower than their current rate will go to the appropriate rate for the new position. The only allowable exception shall be in instances where an employee is moved to a new position as a result

of a lay-off, general re-organization and being bumped. In that case, the employee shall have their hourly rate frozen until such time that the rate of their new position reaches and then exceeds their frozen rate.

8.4 When it becomes necessary for the Company to lay off regular employees due to lack of work, the Company shall give those employees at least 2 weeks' notice or 10 days straight time pay in lieu thereof. Full time probationary employees who have worked at least 250 hours for the Company shall be given 1 week's notice of a lay off or 5 days straight time pay in lieu thereof. Part-time employees, including those in their probationary periods who have worked at least 250 hours for the Company, shall be given 1 week's notice of a lay off or straight time pay for 1/4 of the hours they have worked during the 4 weeks preceding the layoff.

With respect to temporary employees, no notice of layoff, or payment in lieu thereof, shall be required.

Prior to the layoff of a regular employee, the Company will make a reasonable effort to determine if there is a vacancy which the employee is qualified to fill.

8.5 In determining an employee's seniority rights, continuity of his service shall be deemed to be broken by reason of any of the following:

- a. Resignation.
- b. Discharge.
- c. Layoff for more than 6 months if the employee has 5 years or less of Company seniority, or lay off for more than 12 months if the employee has more than 5 years of Company seniority.

- d. Failure to report within 5 days after sending of notice of recall from lay off.
- e. Leave of absence in excess of up to 16 calendar weeks.

8.6 An employee laid off by the Company shall keep the Company advised of any change of address. The 5-day period provided for in Article 8.5(d) shall run from the date on which the Company sends a notice of recall by certified mail to the last known address of the employee.

8.7 Company seniority for employees entering the Armed Forces by reason of the fact that they are eligible for draft under the Selective Service Act shall accrue while they are absent on military duty.

8.8 The Company shall post Company and Departmental seniority lists annually. If no opposition shall be made in writing within 30 days after posting, the respective seniority list shall be considered correct as posted in each area.

8.9 An employee transferred from the bargaining unit to another position within Citizens shall accrue seniority for 10 months, and will be credited with his accumulated seniority in the event he returns to a job within the bargaining unit.

8.10 An employee off duty due to industrial accident suffered while in the employ of the Company shall retain all seniority rights for the period during which he is entitled to benefits under Article 16.1. This period may be extended up to 16 calendar weeks if a leave of absence of that duration is requested under the provisions of Article 12.1.

An employee off duty due to sickness or non-industrial accident

shall retain all seniority rights for the period of his accrued sick leave. This period may be extended up to 16 calendar weeks if a leave of absence of that duration is requested under the provisions of Article 12.1.

8.11 Previous employees who are rehired shall, after 5 years of additional continuous service, have their periods of continuous service bridged only for purposes of seniority, pensions and vacations.

ARTICLE 9 GRIEVANCES AND ARBITRATION

9.1 A grievance is an actual dispute or controversy concerning the interpretation or application of any provision of this Agreement in connection with a specific act or situation.

9.2 A regular employee who believes he has a grievance may present the matter in accordance with the provisions of this Article either personally or with the assistance of a Union representative.

9.3 Before filing a grievance pursuant to Step 1, an employee must discuss the matter with his immediate supervisor and attempt to resolve it.

Step 1. If the employee has been unable to resolve the matter by discussing it with his supervisor, he may file a grievance with his department head or his designated representative within 7 calendar days of the occurrence of the alleged violation. The grievance must be written, and signed and dated by the aggrieved employee. The grievance shall set forth the nature of the grievance and the facts upon which it is based, the remedy which is desired and the Article or Articles of this Agreement claimed to have been

violated.

Step 2. If the grievance is not resolved within 7 calendar days after submission to the department head, it may be appealed to the Division Manager. The written appeal must be presented to the Division Manager no later than the 14th calendar day after the grievance was filed with the department head.

Step 3. If the grievance is not resolved within 15 calendar days after submission to the Division Manager, it may be appealed to arbitration. Written notice of the appeal to arbitration must be given to the Division Manager no later than the 30th calendar day after the appeal was filed with the Division Manager. No grievance may be appealed to arbitration unless all of the procedures set forth in this Article have been followed.

9.4 In the event any of the time limits contained in this Article for the filing or appealing of grievances shall be exceeded, the grievance shall be considered dropped. Any time limit, except that provided for the initial filing of the grievance, may be extended by mutual agreement of the Company and the Union.

9.5 After the Union gives notice to the Company of its desire to proceed to arbitration, the parties, unless they mutually agree to do otherwise, shall jointly request the Federal Mediation and Conciliation Service to furnish a list of 7 arbitrators, from which the parties shall select the arbitrator. After the list has been received, the parties shall alternately strike a name until 1 remains. The one remaining shall be the arbitrator chosen. The party striking first shall be determined by lot.

9.6 The arbitrator shall conduct the hearing only on the controversy at

issue as formulated on the written grievance provided for in Article 9.3. Both parties shall be allowed to present such evidence and make such argument relating to the controversy as is pertinent. The parties may call such employees as are deemed necessary as witnesses in any proceeding before the arbitrator, and, if an employee is on duty, the Company agrees to arrange for him to appear as a witness, provided it receives 48 hours' notice. The party calling him will reimburse him for all expenses, including time lost. Each party shall bear the expense of preparing and presenting its own case. Expenses of the arbitrator and incidental expenses mutually agreed to in advance shall be borne equally by both parties.

9.7 The decision of the arbitrator shall be final and binding upon both parties, provided that such decision shall not in any way add to, disregard or modify any of the provisions of this Agreement, or rule on any questions except the one submitted for arbitration.

9.8 The grievance and arbitration procedures constitute the sole and exclusive procedure for the processing and resolution of any grievance. As the representative of the employees, the Union may, at any step in the grievance procedure, settle a grievance or decline to process it further. Any resolution of a grievance shall be final.

9.9 The Shop Stewards shall be designated by the Union and their names shall be supplied to the Company. All meetings with the Company representatives on grievance matters shall be conducted after the conclusion of the workday. An employee who believes that he has a grievance may briefly bring the matter to the attention of his supervisor or a Shop Steward during working hours so long as doing so does not result in a work stoppage or slowdown or any other interference with the work of any employee.

ARTICLE 10 SAFETY

10.1 The Company will continue to provide safety manuals to be used by the employees in the performance of their work. The Company will fulfill its obligation to provide safe working conditions and to provide such safety equipment as is required to be used by the safety rules and regulations. The employees will use the safety equipment provided and will adhere strictly to the provisions of the safety manual in the performance of their work.

10.2 The Company will supply all specialty tools and safety equipment, but the employees will supply, at their own expense, all hand tools, climbers, body belts and their initial safety strap.

The Company shall furnish replacements after the employee has worn out the original equipment for the following items: hand tools, climbing belt, safety strap, climbers and gaffs, and for Journeyman Linemen, Apprentice Linemen and Groundmen, lineman's long gauntlet leather gloves and short cuff, leather work gloves. The items referred to in this paragraph must be inspected and approved by a Company representative appointed by the Division Manager to determine if they qualify for replacement pursuant to this provision. Abused, neglected or lost items will not be replaced.

10.2(a) Prescription Safety Glasses. The Company agrees to provide prescription safety glasses for employees engaged in field operations and whose work is of such nature that such glasses are necessary. Such glasses will be provided as required and replaced by the Company when

they become unusable or broken while working on the job. Replacement will be because through reasonable fair wear and tear, or when changes in the employee's optical prescription makes new lenses necessary with a minimum of two (2) year intervals for such prescription changes.

10.3 When an employee is in a position that requires a Commercial Driver's License, the Company will provide appropriate equipment and release time, if necessary, with no loss of pay or benefits to take the necessary tests. Once an employee successfully attains said CDL, the Company will reimburse the employee \$50.00. The Company shall provide for the necessary physical examination or, at its option, reimburse employees for the reasonable expense of such exam, for renewal of the employee's medical card.

10.4 The Company will endeavor to hold safety meetings once per month. Pole top resuscitation will be made a part of the safety program.

10.5 The Company and Union hereby agree to establish an Electric Operations Safety Advisory Committee to address specific safety issues related to the Electric Operations of Mohave County.

This Committee will be made up of employees from both Management and the Bargaining Unit. This Safety Advisory Committee will organize itself, as it deems appropriate and meet on an as needed basis.

The parties by mutual agreement may modify the agreement at any time where appropriate.

10.6 The dangers and costs which alcohol and other chemical abuses can create in terms of safety and productivity are significant. The parties to

this Agreement resolve to combat chemical abuse in any form and agree that to be effective, programs to eliminate substance impairment should contain a strong rehabilitation component. The parties recognize the employer's right to adopt and implement a drug and alcohol policy subject to all applicable laws and regulations, procedural safeguards, scientific principles, and legitimate interests of privacy and confidentiality. When drug and alcohol testing is performed, all testing shall be conducted in accordance with the procedures outlined in the aforementioned policy.

The Company will provide the Union with an opportunity to review, comment and discuss its policy and work rule(s) prior to implementation. The Company recognizes the right of the Union to grieve the reasonableness of the policy and work rule(s) as well as the Union's right to grieve the proper cause of any disciplinary action or discharge that may result from application of the policy or work rule(s).

ARTICLE 11 HOLIDAYS

11.1 The following days shall be considered as holidays:

| | |
|-------------------------|-------------------------------|
| New Year's Day | Thanksgiving Day |
| Memorial Day | Day after Thanksgiving |
| Independence Day | Christmas Day |
| Labor Day | 5 Floating Holidays |

Eligible regular employees will be paid 8 hours of pay at their regular straight time rate for a holiday. Should the Company determine to maintain a 4/10 schedule (rather than revert to 5/8s) during a week that

includes one of the above fixed holidays, employees working such schedule shall be paid 10 hours of pay at their regular straight time rate for the holiday. Should the holiday fall on a regularly scheduled day off, it shall be observed on the first scheduled workday before or after the holiday.

In the case of newly hired employees, the floating holiday entitlement shall be in accordance with the following:

- Five (5) days if hired from January 1 through February 28 (or 29);
- Four (4) days if hired from March 1 through April 30;
- Three (3) days if hired from May 1 through June 30;
- Two (2) days if hired from July 1 through August 31;
- One (1) day if hired from September 1 through October 31;
- None if hired from November 1 through December 31.

All holidays including Floating Holidays must be taken in the current calendar year and cannot be carried over into the subsequent year.

Eligible regular employees scheduled to work a 4/10 schedule will be paid the number of hours at the regular straight time rate for a floating holiday that they would normally be scheduled to work at such day. Such paid hours will be deducted from a total calendar year entitlement of 40 floating holiday hours.

Eligible part-time employees who work regularly for the Company will be paid holiday pay on a prorated basis. This pro-ration shall be a fraction of the holiday pay to which eligible regular employees are entitled. This fraction shall be the number of hours worked by the part-time employee in the 12 weeks preceding the week in which the holiday occurs divided by 480.

An employee must request Floating Holidays at least 2 weeks in advance. The Company will grant the request when it is consistent with the efficient conduct of the operations to do so.

The hours for which holiday pay is paid pursuant to this Article 11.1 shall be counted as time worked for purposes of Article 7.3.

11.2 When a holiday falls on a Sunday, the following Monday shall be observed as the holiday. When a holiday falls on a Saturday, the preceding Friday shall be observed as the holiday.

11.3 An employee who does not report for work on his last scheduled day before or his first scheduled day after a holiday and has not been excused in writing by the Division Manager or his designated representative shall receive no pay for the holiday.

11.4 If a holiday occurs during an employee's vacation, an additional day of vacation shall be given to the employee or, at the option of the Company, the employee may be paid holiday pay in lieu of an additional day of vacation. When an additional day of vacation is given to the employee, the employee must notify his supervisor of the date on which he wants to take the vacation day at least 2 weeks in advance. The date on which the additional day of vacation is taken is subject to the approval of the Company.

11.5 When an eligible regular or part-time employee is required to work on a holiday, he will be paid 2 times his hourly rate for the time worked and he will also receive holiday pay in accordance with Article 11.1.

**ARTICLE 12
LEAVE OF ABSENCE**

12.1 At the discretion of the Company, a leave of absence without pay, not to exceed 16 calendar weeks, may be granted for personal reasons to regular employees who have completed at least 1 year of continuous service. Such a leave of absence, if granted, will not affect any employee's seniority status, except that time spent on a leave of absence shall not be included in the computation of time spent by an employee within a progression step when determining whether such employee has completed such progression step.

12.2 In the event the request for leave is due to the birth, adoption or the receiving for foster care of a child or for the serious illness of a spouse, parent, child, or other relative who is a dependent of the employee, or the serious illness of the employee, subject to the terms of this Article, the employee will be entitled to a leave for up to 16 weeks in a twelve month period. This time shall run concurrently with any other approved leave. An employee may use all earned vacation prior to taking such leave. Any leave taken in accordance with the Section 12.2 shall also be subject to the then current provisions of the Family and Medical Leave Act of 1993.

12.3 If an employee fails to return immediately on the expiration of his leave, or if he makes application for unemployment benefits while on leave or if, while on leave, he accepts employment of any nature with another employer, he shall thereby forfeit the leave of absence and his employment with the Company shall be terminated.

12.4 Leaves of absence, in excess of 16 calendar weeks, shall be granted to employees who are subject to and eligible for military draft and who entered the armed forces of the United States. Any such leave of absence

and the reinstatement of any such employee shall be subject to the terms of the Selective Service and Training Act of 1940, as amended.

12.5 The Company will at the request of the Union, grant a leave of absence for periods not to exceed 3 years to an employee who is appointed or elected to an office or position in the Union and whose services are required by the Union. The Company shall not be obligated to grant leaves of absence for Union business to more than 1 employee at any one time. The seniority of any employee who is granted a leave of absence for Union business shall not accrue during the period of such leave.

12.6. Leaves of absence granted an employee shall not affect the employee's eligibility for vacation.

ARTICLE 13 APPRENTICESHIP RULES

An apprentice who has completed his 8th 6 months' period shall be moved to Journeyman status provided that he can pass the qualifying examination.

ARTICLE 14 VACATIONS

14.1 Regular employees shall be allowed annual vacations with pay in accordance with the vacation schedule below:

ANNUAL VACATION ENTITLEMENT

Service As Of January 1

- (a) Less than 12 months of service.....6.66 hours for each month
- (b) After 1 year of service but less than 7.....80 hours
- (c) 7 years of service but less than 15.....120 hours
- (d) 15 years of service and over.....160 hours

14.2 Eligible part-time employees shall be allowed vacation with pay in accordance with the above schedule, prorated based upon the number of hours they have worked as a portion of the regular work year (2080 hours) in the 12 months prior to January 1.

14.3 **Probationary Period.** Time worked during a probationary period will be recognized in determining eligibility. However, employees whose employment is terminated before or at the end of the probationary period will not be entitled to any vacation pay.

14.4 Employees become eligible to use accrued vacation upon completion of and in accordance with the continuous service periods specified in Article 14.1.

14.5 On termination of employment due to layoff, retirement or voluntary resignation accompanied by 2 weeks' notice, a regular or part-time employee who has completed 1 year or more of continuous service shall receive vacation pay for accrued vacation time earned in the prior vacation entitlement period, but not taken in the current vacation entitlement period, plus vacation pay on a prorated basis in accordance with the employee's length of service in the current vacation entitlement period. In the event of death of a regular or part-time employee, vacation termination payment shall be made to the employee's beneficiary for any

unused accrued vacation time. An employee who is discharged for cause shall be entitled only to payment for unused vacation time accrued during the preceding vacation entitlement period and shall not be entitled to any vacation pay on a prorated basis for service in the current vacation entitlement period.

14.6 Either an employee or the Company may request that the employee receive pay in lieu of vacation. An employee will receive pay in lieu of vacation only when both the Company and the employee agree to the request.

14.7 Vacation allowances are non-cumulative and unused vacation time will not be carried over from one vacation entitlement period to the next, except upon specific agreement between the Company and the employee.

14. The scheduling or assigning of vacations must of necessity be regulated by the Company and Departmental requirements. If 2 or more employees request vacations during the same period, the employee's preference, in Departmental seniority order, shall govern, subject, however, to the right of the Company to schedule or assign vacations. Vacations will normally commence on the first day of the respective workweek of each employee.

The Company will consider a request by an employee for 1 to 10 working days off without pay to be taken either immediately before or after his vacation. If the request is granted, such time off shall be considered and treated as a leave of absence in accordance with Article 12.1, Article 12.2, and Article 12.3 to the extent that those Articles are not inconsistent with this Article 14.8.

14.9 Should an employee be absent on account of illness or accident at

the time his vacation would otherwise begin, the vacation may be postponed, provided arrangements are made consistent with Company and Departmental requirements.

14.10 All employees entitled to more than 80 hours annual vacation shall take such vacation entitlement in periods of not more than 80 hours at a time, provided, however, that the full vacation may be taken at one time upon application to and approval of the Division Manager.

14.11 Vacations of 80 hours or less shall be taken in a single continuous period, provided, however, that employees may request that they be allowed to split such vacations. If approval to split such vacations is granted, it must be given in writing by the Department Head.

14.12 Upon written request by an employee, any pay check due to him during his vacation period shall be made available on the last day worked preceding his vacation, provided, however, that such request is received not less than 2 weeks prior to the first day of his vacation.

14.13 The Company will consider a request by an employee entitled to 120 hours or more of vacation to take 40 of such hours in the subsequent year consecutive with the vacation entitlement for such year. If the request is granted, the week of deferred vacation shall be paid for at the rate applicable at the time the request is made. Requests may not be made in consecutive years.

14.14 Leaves of absence granted an employee shall not affect the employee's eligibility for vacation.

ARTICLE 15

SICK LEAVE

15.1 Sick leave time off duty will be granted to all regular employees after the first six months of continuous service whenever unable to work due to illness or disability. Employees on such authorized sick leave shall receive full pay (based on the employee's basic straight time hourly rate) until the date that coverage under the Company's LTD plan may commence.

A doctor's certificate covering any illness may be required by the Company as a condition of obtaining sick leave pay and/or in order to return to work.

15.2 General. In case of illness the employee shall, on the first day of absence, promptly notify his Supervisor, Foreman or the Manager. Whenever possible, this should be done before the regular hours of work. Each separate illness shall be counted as one absence, rather than counting each day separately.

15.3 Any abuse of the sick leave privileges conferred by this Article shall be considered just cause for immediate dismissal.

ARTICLE 16 SUPPLEMENTAL WORKERS' COMPENSATION BENEFIT

16.1 Regular employees who are unable to work on account of a compensable industrial injury shall have made up to them by the Company sufficient pay to bring their total remuneration to 100% of their regular base pay. If the industrial accident causing the injury occurred as

a result of gross negligence of the employee or a violation of the Company's safety rules, the employee shall not receive the benefits provided for by this Article.

16.2 Payments under this Article shall be made for the time the employee is unable to work due to the compensable industrial injury, or for a period of 26 weeks, whichever period is shorter.

ARTICLE 17
GROUP INSURANCE AND PENSION PLANS

17.1 The Citizens Utilities Medical Plan, Dental Plan, Vision Plan, Long Term Disability Plan, Employee Assistance Program, Flexible Spending Accounts Plan, Life Insurance Plan, Savings Plans and Pension Plan effective June 1, 1994 shall be continued in effect for employees. The Company, however, reserves the right to unilaterally make any changes, additions or deletions to these plans, and the Company may drop or add plans, as the Company, in its sole discretion deems appropriate, provided that any changes, additions, deletions, subtractions or additions apply to a majority of Citizens employees covered under such plans.

17.2 In exercising its prerogatives under this Article, if the Company determines to increase employees' premiums for group insurance and pension plans by more than 25% in any calendar year, it must provide the Union with at least 4 weeks notice prior to effecting such an increase and, if the Union requests, within 1 week of such notice, the Company will agree to re-open this Agreement and bargain with respect to such increase.

17.3 Should another Company or jurisdiction acquire Citizens Communications Company, Mohave County Electric Operations, formerly known as Citizens Utilities, Mohave County Electric Operations, or another Company acquire Citizens Communications Company, formerly known as Citizens Utilities Corporation, the provisions of Article 17.1 shall become null and void. In such an event, the employer's (including the acquiring entity's) obligation shall be to maintain that coverage and those plans in effect for employees covered by this Agreement in accordance with all terms as in effect at the time such acquisition was consummated.

17.4 Employees shall have \$1.00 per month deducted from their wages in addition to the deduction for the insurance premiums. The money from this additional deduction will be placed in a fund to be used to pay the premiums to keep the insurance plans in effect for those employees who do not receive wages because they are on a leave of absence or are otherwise off work.

ARTICLE 18 GENERAL

18.1 When an employee is called out for unscheduled work, the Company shall provide a meal if such work extends for a period of 4 hours, and thereafter at 6 hour intervals until relieved from duty. When an employee is called out and works for 2 hours or more prior to and consecutive with his work schedule, which he also works, the Company will provide a meal. When an employee works overtime after his regular work shift, the Company shall provide a meal if such work extends for a period of 2 1/2 hours and thereafter at 6 hour intervals until relieved from duty. When employees are required to perform work on non-workdays of which they had notice on the previous day, they shall observe the meal arrangement, which prevails on their previous workdays. Meals provided pursuant to this Article 18.1 will be reimbursed by the Company in an amount not to exceed \$8.00 for breakfast, \$9.00 for lunch, and \$15.00 for dinner, or payment in lieu thereof.

18.2 In accordance with applicable law and except in emergency circumstances, employees will not be assigned to work in jobs normally performed by other Citizens Utilities employees at a time when such other employees are legally on strike.

18.3 In the event an employee shall be required to work in a job classification higher than his regular classification for a period of 2 hours or more, such employee shall receive the rate of pay for the higher classification that is next higher than the employee's rate of pay in his regular classification or \$.35, whichever is greater. In no event, however, can the employee be paid more than the top rate of pay for the higher classification. However, an employee may be required to work in a higher classification up to a maximum of 2 hours at his regular classification rate of pay. Unless permanently demoted, an employee shall receive his regular classification rate of pay for all work performed in a lower classification. An employee assigned full supervisory responsibilities for at least 2 other employees for more than 2 hours shall be paid a differential of \$.50 for all hours so assigned. It is understood that Journeyman, 8th Step Apprentice or Journeyman Substationman employees so assigned are to be paid at the rate of Working Foreman.

18.4 The Company shall set the rate of pay for any new classification covering work normally performed by the employees within the bargaining unit. Within 30 days after the establishment of any new classifications and the assignment of a rate of pay thereto by the Company, the Company shall notify the Union, and the Union may notify the Company that it disagrees with the rate of pay that has been fixed by the Company. Upon receipt of such notice, the Company and the Union shall promptly enter into interim negotiations, which shall be limited to a discussion of the rate of pay established by the Company for the particular job. If the parties are unable to arrive at a mutually satisfactory rate of pay for the new job, the Union may notify the Company that it wishes to appeal the matter to arbitration and thereafter the proceedings shall be governed by the provisions of Article 9 hereof.

18.5 New employees who can verify previous actual or allied experience

to the satisfaction of the Company may be paid a rate at hiring commensurate with the value of such experience to the Company's operation. Adjustments in the employee's rate of pay may be made during the employee's probationary period.

18.6 Work normally done by the employees covered herein shall not be performed by supervisory employees of the Company except under the following conditions:

1. Emergencies.
2. For the purpose of personnel training and instruction.
3. When there is no employee covered herein immediately available.

18.7 When special instructions or schooling are required by the Company, such instructions or schooling will be held on Company time. If held after the normal scheduled work day, or beyond the normal 40 hours per week, the employees shall be compensated at the overtime rate

18.8 The Company shall not require any employee within the bargaining unit to work more than 16 continuous hours except in cases of an emergency. In the event an employee works over 16 continuous hours, all hours beyond 16 shall be paid at double the straight time rate of pay.

18.9 The Company will attempt to have paychecks available by 3:00 p.m. on every other Friday (Thursday for those whose workweek ends on Thursday) for employees to pick up at the places where they report to work.

18.10 The Union shall select a printer to print this Agreement and shall pay the printer for printing an adequate number of copies of this

Agreement. The Company will provide the printer with a typed copy of this Agreement and will otherwise assist in the printing of this Agreement.

18.11 When a telephone is a requirement for employees, the local service charge and the initial normal service connection charge will be paid by the Company, provided that the employee maintains his telephone bill for toll and other charges on a current basis and will answer, if possible, the telephone on attempted call-outs by the Company. A violation of this provision may subject the employee to progressive discipline.

18.12 If an employee has no performance problems that involve disciplinary or corrective action over a three year period (excepting major infractions such as drugs, alcohol, theft, insubordination or violation of the Company's safety manual), any disciplinary or corrective action taken prior to that three year period will be removed from the employee's file and shall not be used as a factor in any future employment decision.

ARTICLE 19 CHECK-OFF

The Company will deduct and promptly remit to the Financial Secretary of the Union at 3232 North 20th Street, Phoenix, Arizona, 85016, the regular membership dues of any covered employee who has on file with the Company a valid signed assignment authorizing such deduction in the following form:

DUES CHECKOFF AUTHORIZATION

I hereby authorize Citizens Communications Company, Mohave County Electric Operations, formerly known as Citizens Utilities Company, Mohave County Electric Operations (the Company), to deduct from my wages each month the regular membership dues of Local Union 769, I.B.E.W., and authorize the payment of such deduction to Financial Secretary, Local 769, I.B.E.W., 3232 North 20th Street, Phoenix, Arizona 85016.

This authorization shall continue in effect for 1 year from the date hereof, or until termination of the current Agreement between the Union and the Company, whichever occurs sooner, and for successive periods of 1 year each or for the period of each succeeding applicable Labor Agreement between the Union and the Company, whichever shall be shorter, unless written notice is given to the Company within the 30 day period immediately preceding the expiration of each period of 1 year or of each Labor Agreement between the Union and the Company, whichever occurs sooner.

Date: _____

Employee's Signature: _____

**ARTICLE 20
JURY DUTY**

During the period from the time an employee is called to first report for jury duty, the Company will make up the difference between the jury duty pay received for any particular day in an employee's regularly scheduled workweek and 8 hours (10 hours for employees scheduled for 4/10s during such jury duty) at the employee's straight time rate of pay. The Company's liability is limited to those days for which an employee received some compensation from a governmental agency in connection with jury duty. In addition, to be eligible for the pay provided for in this Article, an employee on any shift who spends a total of 6 hours or less traveling to jury duty and serving on jury duty is obligated to report to work.

**ARTICLE 21
FUNERAL LEAVE**

An employee will receive 3 days leave of absence with pay, and at the option of the employee, 2 additional days leave of absence without pay, in order to attend the funeral of the employee's mother-in-law, father-in-law, brother, sister, brother-in-law, sister-in-law, or grandparents. When the death is of the employee's parent, spouse or children, such paid leave of absence may be up to a maximum of (5) days, which must include the day of the funeral.

**ARTICLE 22
EMERGENCY LEAVE**

A leave of absence of up to 3 days with pay, and at the option of the employee 2 additional days leave of absence without pay, will be granted upon request to a regular employee in the event of serious illness or accident that results in surgery for, or the hospitalization of, the employee's spouse, children or parents. To receive a leave of absence under this Article 22, an employee may be required to provide a statement from a physician verifying the fact of the surgery or hospitalization.

**ARTICLE 23
WAGE SCHEDULE**

The wage schedules set forth in Exhibit "A" attached hereto, and by this reference made a part hereof, shall become effective on the dates shown and shall be the wage rates and wage progression periods established by this Agreement.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement by affixing the signatures of their authorized representatives this 25th day of June, 2000.

Citizens Communications Company
Mohave County Electric Operations
formerly known as
Citizens Utilities Company,
Mohave Electric Division

International Brotherhood of
Electrical Workers
Local 769

_____/s/_____
BILL DEJULIO
Electric Operations Manager

_____/s/_____
JOEL D. BELL
Business Manager &
Financial Secretary

EXHIBIT "A"
WAGE SCHEDULE

| <u>CLASSIFICATION</u> | <u>6-25-00</u> | <u>6-25-01</u> | <u>6-25-02</u> |
|---------------------------------|----------------|----------------|----------------|
| Working Foreman (108%) | 27.17 | 28.05 | 28.96 |
| Journeyman Lineman (100%) | 25.16 | 25.98 | 26.82 |
| Journeyman Meterman (100%) | 25.16 | 25.98 | 26.82 |
| Journeyman Substationman (100%) | 25.16 | 25.98 | 26.82 |
| <u>All Apprentices:</u> | | | |
| 1st 6 months (54%) | 13.58 | 14.03 | 14.48 |
| 2nd 6 months (59%) | 14.84 | 15.32 | 15.82 |
| 3rd 6 months (63%) | 15.85 | 16.36 | 16.89 |
| 4th 6 months (67%) | 16.85 | 17.40 | 17.97 |
| 5th 6 months (71%) | 17.86 | 18.44 | 19.04 |
| 6th 6 months (75%) | 18.87 | 19.48 | 20.11 |
| 7th 6 months (80%) | 20.12 | 20.78 | 21.45 |
| 8th 6 months (85%) | 21.64 | 22.34 | 23.07 |
| <u>Equipment Operator</u> | | | |
| 1st 6 months | 12.66 | 13.07 | 13.50 |
| Next 12 months | 13.97 | 14.42 | 14.89 |
| Thereafter | 16.03 | 16.56 | 17.09 |

Groundman:

| | | | |
|----------------|-------|-------|-------|
| Ist 6 months | 10.82 | 11.18 | 11.54 |
| Next 12 months | 11.50 | 11.87 | 12.26 |
| Thereafter | 14.01 | 14.47 | 14.94 |

Warehouseperson "A":

| | | | |
|--------------------------|-------|-------|-------|
| I st 6 months | 14.46 | 14.93 | 15.41 |
| Next 12 months | 15.83 | 16.35 | 16.88 |
| Thereafter | 17.45 | 18.01 | 18.60 |

Warehouseperson "B":

| | | | |
|----------------|-------|-------|-------|
| Ist 6 months | 12.72 | 13.14 | 13.56 |
| Next 12 months | 14.06 | 14.52 | 14.99 |
| Thereafter | 16.03 | 16.56 | 17.09 |

Meter Reader:

| | | | |
|----------------|-------|-------|-------|
| Ist 6 months | 9.61 | 9.92 | 10.24 |
| Next 12 months | 10.61 | 10.95 | 11.31 |
| Thereafter | 12.06 | 12.45 | 12.86 |

Customer Service Person:

| | | | |
|----------------|-------|-------|-------|
| Ist 6 months | 14.06 | 14.52 | 14.99 |
| Next 12 months | 14.89 | 15.38 | 15.88 |
| Thereafter | 16.03 | 16.56 | 17.09 |

B

AGREEMENT

BETWEEN

CITIZENS COMMUNICATIONS COMPANY

SANTA CRUZ DISTRICT

AND

INTERNATIONAL BROTHERHOOD OF ELECTRICAL WORKERS

LOCAL UNION NO. 387

MARCH 1, 2002- FEBRUARY 28, 2005

TABLE OF CONTENTS

| | |
|--|----|
| <u>ARTICLE I - RECIPROCAL COVENANTS AND UNION RECOGNITION</u> | 3 |
| <u>ARTICLE II - HOURS OF EMPLOYMENT</u> | 6 |
| <u>ARTICLE III - RATES OF PAY AND WAGES</u> | 7 |
| <u>ARTICLE IV - HOLIDAYS, VACATIONS AND LEAVE</u> | 8 |
| <u>Section 1.</u> Holidays | 8 |
| <u>Section 2.</u> Vacations | 9 |
| <u>Section 3.</u> Sick Leave | 10 |
| <u>Section 4.</u> Family Emergency Leave | 11 |
| <u>Section 5.</u> Leave of Absence | 11 |
| <u>Section 6.</u> Jury Duty Leave | 11 |
| <u>Section 7.</u> Bereavement Leave | 11 |
| <u>ARTICLE V - OTHER CONDITIONS OF EMPLOYMENT</u> | 12 |
| <u>ARTICLE VI - GENERAL WORKING RULES</u> | 13 |
| <u>ARTICLE VII - HEALTH AND WELFARE PLANS</u> | 16 |
| <u>ARTICLE VIII - WORKING RULES FOR THE PLANT DEPARTMENT</u> | 17 |
| <u>ARTICLE IX - WORKING RULES FOR GAS AND ELECTRIC DEPARTMENTS</u> | 18 |
| <u>ARTICLE X - WORKING RULES FOR WAREHOUSEPERSON</u> | 20 |
| <u>ARTICLE XI - APPRENTICESHIP AND TRAINING</u> | 20 |
| <u>ARTICLE XII - GRIEVANCE AND ARBITRATION PROCEDURES</u> | 21 |
| <u>ARTICLE XIII - WAIVER OF BARGAINING</u> | 22 |
| <u>ARTICLE XIV - TERM OF AGREEMENT</u> | 23 |
| <u>EXHIBIT "A" WAGE SCHEDULES</u> | 24 |

AGREEMENT

THIS AGREEMENT, entered into this first day of March 2002 by and between Citizens Communications Company, Santa Cruz District, a corporation, its successors and assigns, hereinafter referred to as the "Company" and the International Brotherhood of Electrical Workers, Local Union No. 387 of Phoenix, Arizona, affiliated with the American Federation of Labor - Congress of Industrial Organizations, hereinafter referred to as the "Union".

WITNESSETH

That for the purpose of facilitating the peaceful adjustment of differences that may arise from time to time, and to promote harmony and efficiency to the end that the Company, the Union, and the general public may mutually benefit, the parties hereto contract and agree with each other as follows:

ARTICLE I - RECIPROCAL COVENANTS AND UNION RECOGNITION

Section 1. The Company recognizes the Union as the exclusive bargaining agency for wages, hours, and other conditions of employment for all employees of the Company in the departments and classifications listed on Exhibit "A" in Santa Cruz County, Arizona only.

Should the Company acquire/operate a water distribution facility in Santa Cruz or Pima County with employees in classifications similar to those that existed in 1994, upon request of the Union, the Company shall recognize and negotiate with the Union on behalf of those employees in accordance with its obligations under the NLRA.

Section 2. This agreement shall be binding on any and all successors and assigns of the Company, whether by sale, transfer, merger, acquisition, consolidation, lease, receivership, bankruptcy or otherwise and whether the transfer be of the Company or of the Santa Cruz District. The Company shall make it a condition of transfer that the successor assigns shall be bound by the terms of this Agreement. It is the intent of the parties that this Agreement shall remain in effect for its full term and bind the successor or assigns of the respective parties.

Section 3. During the term of this agreement and during any period of time while negotiations are in progress between the parties hereto for the extension or renewal of this Agreement, the Company agrees that there will be no lockout.

Section 4. The Company is engaged in public service requiring continuous operations and it is agreed that recognition of such obligation of continuous service during the term of this agreement is imposed upon both the Company and the employees represented by Local 387. All grievances of employees shall be handled as hereinafter provided.

Section 5. The Union agrees for its members (who are employees of the Company) that they will work individually and collectively, perform loyal and efficient work and service, that they will use their influence and best efforts to protect the property of the Company in its service to the public and that they will cooperate in promoting and advancing the welfare of the Company and the protection of it to the public at all times.

Section 6. The Company and the Union agree that they will cooperate to promote harmony and efficiency among all of the Company's employees.

Section 7. During the term of this Agreement, and during any period of time while negotiations are in progress between the parties hereto for the extension or renewal of this Agreement, the Union agrees on behalf of itself and each of its members that there will be no authorized concerted failure to report to work, cessation or interruption of work, slowdown, strike, boycott, or any other type of organized interference, coercive or otherwise, with the Company's business.

The Company agrees, as part of the consideration of this Agreement, that neither the Union, its officers, representatives, nor members shall be liable for damages for unauthorized stoppages, strikes, intentional slowdowns, or suspension of work in the Company's services, if:

- (a) The Union gives written notice to the Company within 24 hours of such action that it has not authorized the stoppage, strike, slowdown, or suspension of work.
- (b) Copies of the notice described in (a) above are posted immediately by the Union on the bulletin board.
- (c) The Union further cooperates with the Company in getting the employees to return and remain at work.

It is recognized that the Company has the right to take disciplinary action, including discharge, against any employees who engage in any unauthorized stoppage, strike, intentional slowdown, or suspension of work, subject to the right to present a grievance on such discipline in accordance with Article XII of the Agreement in cases in which an issue of fact exists as to whether or not any particular employee has engaged in, participated in or encourage any such violation.

Section 8. When the Company requires any new employees of any classification, included in this Agreement, the Company may request the Business Manager of the Union to send qualified individuals to fill the Company's requirements or the Company may fill its own. In either event, when any new employee is hired, his name, classification, address, supervisor, department, Social Security number and date of hire will be forwarded to the Financial Secretary of the Union on cards to be furnished by the Union.

Section 9. The Company agrees to deduct the initiation fees, dues and assessments of Union members each month and pay such dues, initiation fees, and assessments to the Financial Secretary of the Union provided:

- (a) The deductions are on a voluntary basis on the part of each Union member.
- (b) The deductions are authorized by each Union member on special payroll deduction forms provided for that purpose on which a full explanation has been made as these understandings about such deductions and with such authorized payroll deduction forms submitted to the Company by the Financial Secretary of the Union.
- (c) The amount of such deduction to be made in accordance with Article XI, Section 7 (a) and (d) and Article XV, Section 1 of the By Laws of I.B.E.W. Local Union 387 and pay such dues, initiation fees and assessments to the Financial Secretary of Local Union 387, I.B.E.W.
- (d) The authorization for deductions shall be irrevocable for a period of 1 year from date of execution. This authorization may be revoked on any anniversary date of this Agreement, not more than 30 days and not less than 10 days prior to the anniversary date of assignment. Failing to give such notification, this assignment will be automatically renewed for successive periods of 1 year.

Section 10. Upon approval of the District Manager, which will not be unreasonably withheld, the duly authorized representative of the Union shall have free access to the plant, substations, or other locations where work is being carried on during working hours for the purpose of observing working conditions and to see that the provisions of this Agreement are being followed, provided that the employees are not interfered with in their work.

Section 11. This Agreement shall be subject to amendment at any time by mutual consent of the parties hereto. Such amendment must be reduced to writing and state the effective date of the amendment. The Business Manager of the Union and the District Manager of the Company or their authorized representatives must sign all amendments.

Section 12. The Company shall supply bulletin board space for the use of the Union in posting officially signed Union bulletins. It is understood that no bulletins will be posted which are anti-Company in nature.

Section 13. The management, including the right to hire, suspend, discipline, or discharge for proper cause, and the right to reduce the work force for lack of work, is vested exclusively in the Company, except as the same may be affected by any provisions of this Agreement.

Section 14. It is understood and agreed that if during the term of this Agreement, any provision of this Agreement is found to be invalid as a matter of law, either party may request the other in writing to reopen said conflicting provision for further negotiation.

Section 15. Nothing in this Agreement is intended or shall be used to violate any municipal ordinance, state law or safety standard, or any other legal public requirement, nor is it intended to allow public or personal danger to continue to the detriment of either the general public, the Company, or an employee.

Section 16. References to one gender in this Agreement shall be deemed to include the other gender.

Section 17. The Company and the Union agree to continue their policy of nondiscrimination because of sex, race, religion, color, national origin, age, marital status, membership or non-membership in the union, non-disqualifying physical or mental disability or status as a disabled and/or Vietnam Era veteran.

ARTICLE II - HOURS OF EMPLOYMENT

Section 1. (a) Eight (8) or ten (10) consecutive hours which shall begin between 5:00 a.m. and 8:00 a.m., except for 30 minutes or 1 hour at midpoint taken out for meals, shall constitute a normal work day for all employees covered by this Agreement. Except in unusual circumstances, employees shall be given no less than two weeks or as may be mutually agreed upon prior notice before a change in their regular schedule is effected and no change shall be made without good cause shown. Starting and ending hours and lunch period within the various departments can be changed from the above by mutual agreement between the parties. Five days in sequence, Monday through Friday, shall constitute a normal workweek. Other changes to the work schedules may be made where the Company and the Union so agree.

(b): And, for Plant employees, eight (8) or ten (10) consecutive hours beginning as follows:

The day or (A) shift, which shall begin between 5:00 a.m. and 8:00 a.m.;

The afternoon or (B) shift, which shall begin between 3:00 p.m. and 5:00 p.m.;

The evening or (C) shift, which shall begin between 10:00 p.m. and 12:00 a.m.;

Which except for 30 minutes or one (1) hour at midpoint taken out for meals shall constitute a normal workday.

(c): "Plant employees regularly assigned to the afternoon or (B) shift shall receive a shift differential of \$0.60 per hour in addition to the employees base rate of pay for all those hours worked on that shift, and a shift differential of \$0.90 per hour for all hours worked on the evening or (C) shift."

Section 2. Employees shall report at the headquarters and, when working out of headquarters, shall travel from headquarters to and from their working place on Company time and in Company vehicles.

ARTICLE III - RATES OF PAY AND WAGES

Section 1. The wage scale for employees covered by this Agreement are set forth in Exhibit A, which is attached hereto and made a part hereof. The Company, at its discretion, may place an employee at other than the entry-level step for the position based on qualifications. For purposes of this Agreement, "regular employees" shall be construed as meaning all employees who have been continuously in the employ of the Company for a period of not less than 3 months.

Section 2. Any regular employee injured in the course of his employment with the Company and entitled to compensation under the Workers' Compensation Act of the state where he is employed, shall also receive an amount equal to the difference between his regular monthly pay accordingly to the schedule of wages herein set out and the compensation so received for a period not to exceed 65 working days.

Section 3. Regular employees shall be paid at a rate of 1-1/2 times the regular rate at which they are employed for all time worked by them in excess of 40 hours in any week, or more than 8 hours in any day (more than 10 hours in any day for employees working a 10 hour day). For the proposes of this section, time worked shall be all paid time and all time spent in Union business but shall not include unpaid time off for personal reasons. Employees will receive at least eight- (8) hours rest in any 24-hour period, commencing at 8:00 a.m.

Section 4. Temporary employees on a daily or miscellaneous payroll period shall receive time and one-half pay for all hours worked over 8 hours in any one day.

Section 5. All employees called out for duty other than on regular shifts shall receive a minimum of 2 hours pay at the overtime rate for each such callout.

Section 6. When an employee is called out for duty, other than on regular shift, his time shall be computed from that time he received the call. In addition to the time actually worked he shall be allowed additional time as may be required to return to the place from which he was called. The time provided to respond to and return from such a call out assignment, which shall be paid, shall be such time as is reasonably necessary but in no event, more than thirty (30) minutes each way.

Section 7.

- (a) Regular meal periods of an employee may be either advanced or delayed where required by necessity.
- (b) When an employee is required to report for non-scheduled overtime two (2) hours or more before his normal reporting time or works two (2) hours or more after his normal work period, the Company will provide the appropriate meal.
- (c) The Company and Union agree to encourage each employee to use good judgment in ordering meals, so the cost will be reasonable for their area.

Section 8. Overtime shall be divided as equally as is practicable among those qualified and available in each classification.

Section 9. Employees shall not be paid by the Company for time spent in negotiating or, except with the prior consent of the District Manager, for time spent in discussing or processing grievances or conducting other Union business.

Section 10. No regular employee shall be paid less than the rate provided for helpers.

ARTICLE IV - HOLIDAYS, VACATIONS AND LEAVE

Section 1. Holidays.

- (a) Paid holidays for all employees coming under this Agreement shall be as follows: New Year's Day, Good Friday, Memorial Day, Independence Day, Labor Day, Thanksgiving Day and the following Friday, Christmas Day,

and four (4) floating holidays which shall be scheduled in accordance with the scheduling of vacation. Floating Holidays for all employees are forfeited if unused. They do not accumulate and may not be carried over into succeeding years.

Any employee shall be entitled to the benefit of holidays as they occur regardless of regular or probationary status.

- (b) New employees may take Floating Holidays in the calendar year in which they are hired in accordance with the following schedule:
 - Four (4) Floating Holidays if hired between January 1 and March 15;
 - Three (3) Floating Holidays if hired between March 16 and May 31;
 - Two (2) Floating Holidays if hired between June 1 and August 15;
 - One (1) Floating Holiday if hired between August 16 and October 31;
 - None if hired between November 1 and December 31.
- (c) When one of these holidays falls on Sunday, the Monday following shall be the holiday. When one of these holidays falls on Saturday, the Friday preceding shall be the holiday.
- (d) All employees covered by this Agreement shall receive time off with pay at the straight time rate, equivalent to a regular 8-hour shift, for the holidays specified in this section. Each such holiday shall be considered as one of the regular 5 days of the workweek.
- (e) The Company may require employees to work on any holiday. Should any employee covered by this Agreement be required to work on any day observed as a holiday he shall receive pay at double or two times his normal straight time pay.
- (f) Employees will be entitled to an additional day of vacation if a holiday occurs in their normal workweek during their vacation period.

Section 2. Vacations.

January of each year shall be used for establishing vacation eligibility. Regular employees shall be entitled to and receive vacation with pay as follows:

| | |
|---|---------|
| At completion of 1 year of service | 10 days |
| Commencing in the year in which the employee attains 8 years of service | 15 days |

| | |
|--|---------|
| Commencing in the year in which the employee attains 17 years of service | 20 days |
| Commencing in the year in which the employee attains 25 years of service | 25 days |

After satisfactory completion of the probationary period, new regular employees are entitled to take vacation in the calendar year in which they are hired in accordance with the following schedule:

- Six (6) days if hired between January 1 and April 30th;
 - Three (3) days if hired between May 1st and August 31st;
 - None if hired between September 1 and December 31st.
- (a) An employee will be given credit for the month if he or she is hired on or before the 15th day of the month.
 - (b) All employees entitled to 20 days annual vacation or more shall take vacation in periods of not more than 2 weeks at a time provided, however, that the full vacation entitlement may be taken at one time upon request to and approval of the Company.
 - (c) Vacation time cannot be carried over from one year to another except at the discretion of the Company. An employee may request to carry over up to one week of vacation into a succeeding year for good cause shown. Such request will not be unreasonably denied. Pay in lieu of vacation will be granted only in extenuating circumstances, at the District Manager's discretion.
 - (d) A regular employee who leaves the Company for reasons other than discharge for proper cause who has given 2 weeks' notice shall receive vacation pay for earned, unused vacation time from the prior years entitlement, and vacation pay on a monthly prorated basis in accordance with the employee's length of service in the current year. If 2 weeks notice is not given, the employee shall only receive vacation pay for earned, unused vacation time from the prior year's entitlement.

Section 3. Sick Leave.

From January 1 through December 31, regular employees with more than one complete year of service who are ill or disabled and, as a consequence thereof, unable to work are eligible for sick leave with full pay of up to 65 working days. Regular employees hired on or after January 1, 2002 and with less than one (1) complete year of service will be limited to 30 days of sick leave during their first year of employment.

The Company may require medical certification of an employee's inability to work due to illness or disability. The Company may also require medical certification that the employee is able to return to work following an absence due to illness or disability.

Sick leave time will not accumulate and may not be carried over in the next year.

Section 4. Family Emergency Leave.

Regular employees will be eligible for up to three (3) days (based on need) with pay in the event of a family emergency. A family emergency shall be defined as a critical illness or injury (an unusual circumstance of a serious, life-threatening, or critical nature that requires an employee's immediate attention – not routine family health care). Family members for whom this benefit is applicable are a parent, son, daughter and spouse of the employee. In addition, this benefit is applicable to a relative of the employee residing in the employee's household. The granting of such leave shall be subject to operating needs of the Company, the Company to exercise reasonable judgement in balancing those needs with the personal needs of the employee.

Section 5. Leave of Absence.

(a) An unpaid leave of absence for not more than 45 days may be granted for good personal reasons to employees who have completed at least 1 year of continuous service. The Company may grant extensions to a leave of absence if the extension is justified by emergency circumstances.

(b) Family/Medical Leaves of Absence: In the event of a request for leave due to the birth of, adoption of or receiving for foster care a child or for the serious illness of a spouse, parent, child, relative who is a dependent of the employee, or the employee, subject to the terms of this Article, the employee will be entitled to leave for up to 16 weeks in a twelve month period. This time shall run concurrently with any other leave granted in conjunction with this Article and may also run concurrently with any vacation or sick leave to which the employee may be entitled. Any leave granted in accordance with this provision shall also be subject to the then current provisions of the Family and Medical Leave Act of 1993 and any applicable laws of the State of Arizona.

Section 6. Jury Duty Leave.

An employee who may be called for jury duty shall be permitted to be absent without deduction in pay for all time spent while on jury duty.

Section 7. Bereavement Leave.

For death in the immediate family (spouse, children, father, mother, brother, sister, grandparent, father-in-law, mother-in-law, son-in-law, or daughter-in-law of either

the employee or his/her spouse) an employee is allowed up to three (3) days absence with pay.

ARTICLE V - OTHER CONDITIONS OF EMPLOYMENT

Section 1. Promotions shall be based on seniority, ability and qualifications; ability and qualifications being substantially equal, seniority shall prevail. Promotions mean bidding on a vacancy in an occupational classification with a higher regular rate of pay for persons similarly situated than the occupational classification of the persons bidding.

Section 2. Vacancies within the bargaining unit shall be posted for written bid and shall be open for 2 weeks. For the convenience of the Company, temporary assignments may be made for a period of 30 days until the bids are received and permanent assignments are made. An employee shall not be required to exercise his seniority, but shall not sacrifice any future rights to bid on vacancies through failure to do so.

Section 3. When the Company creates new positions within the bargaining unit, such new positions shall be posted for written bid and shall be open for 2 weeks. The Union and the Company shall negotiate on any new classifications and appropriate wage rates. It is recognized that the Company has the independent right to specify what the job content will be.

Section 4. Whenever, by reason of the workload, the Company contemplates a layoff during the term of this Agreement of 10% or more of the bargaining unit personnel, the Company shall negotiate with the Union to attempt to formulate a program for spreading the work, by moving employees from one group or department to another, or reducing the workday and/or workweek, or other appropriate action which may reduce the number of people to be laid off or eliminate the layoff. The Company shall give notice of their intention to layoff to the Union within 15 days prior to any action on the part of the Company.

Section 5. Work normally done by the employees covered herein shall not be performed by supervisory employees of the Company except under the following conditions:

- (1) Emergencies.
- (2) For the purpose of personnel training and instruction.
- (3) Other than during normal workdays, when there is no employee covered herein immediately available.

Section 6. Employees will lose their seniority under the following circumstances:

- (a) When an employee quits or is discharged for cause.
- (b) When an employee is laid off for more than 1 year.
- (c) When an employee fails to return to work after a layoff within 14 days from the date of mailing a certified or registered letter (with return receipt requested) to the employee at his last known address as shown by the records of the Company. A copy of such notice shall be mailed simultaneously to the Business Manger of the Union.
- (d) When an employee overstays a leave of absence without permission from the District Manager or takes other employment while on leave without permission of the District Manger.

However, an employee absent due to occupational injuries incurred while working for this company will continue to acquire seniority and employees absent due to non-occupational injuries or sickness will continue to acquire seniority provided they are able (if requested) to furnish a physician's certificate to substantiate their inability to return to work. The Company may require such employee to perform light duties at his regular rate of pay, if released to light duty and work is available to all employees who might otherwise be absent because of injuries or sickness.

Section 7. Each employee is required to notify his supervisor prior to the start of his shift or scheduled reporting time if he is going to be absent.

Section 8. When an employee has been absent because of a serious illness or injury, he shall, if requested to do so by the Company, undergo a physical examination to evaluate his ability and fitness to perform his job. The employee will not have to pay for the physical examination.

Section 9. Previous employees who are rehired shall, after five (5) years of additional continuous service, have their periods of continuous service bridged only for purposes of seniority, pensions and vacations.

ARTICLE VI - GENERAL WORKING RULES

Section 1. Scope.

The following general working rules are to apply to all employee classifications covered by this Agreement unless specifically covered in departmental rules as hereinafter set forth.

Section 2. Standby Duty and Callout Pay.

- (a) Any employee covered by this Agreement who is expressly required by the Company to standby after regular shift on weekends or holidays shall be paid 2 hours at the straight time rate for each 8 hour shift or portion hereof that such standby is required. Standby wages shall be paid regardless of pay for hours actually worked on emergency callout during any 8-hour shift. If employees are actually working at the beginning of a period of time that had previously been scheduled as standby time, their pay for standby will not begin until they have finished work and go on standby.
- (b) Employees on standby duty who are called out to work shall be paid overtime in accordance with Article III, Section 3. However, such employees who are called out on a Sunday shall be paid double their regular rate of pay for such callouts.
- (c) Employees not on standby duty who are called out to work shall be paid overtime in accordance with Article III, Section 3. However, such employees who are called out to work Sunday shall receive double time for all time worked.

Section 3. "Headquarters" as used herein means any permanent headquarters established by the Company for the purpose of engaging in work as covered by this agreement, recognized by the Union as such.

Section 4. Paydays shall be at regular intervals; no less often than twice per month; and no more than five workdays in arrears. In the event the Company elects to change paydays or pay periods, it shall discuss such change with the Union prior to implementation and shall negotiate with the Union the impact of any such change on employees. If a payday falls on a holiday, the preceding workday shall be the payday.

Section 5. The Company may at its discretion assign employees to perform work in more than 1 classification, subject to the following rules:

- (a) When assigned to a classification of lower rate of pay, an employee shall receive the wage rate of this regular classification.
- (b) An employee placed on a temporary assignment of higher classification shall receive the prevailing rate of pay for the higher classification during the entire period of the assignment; provided he is able to perform the work of such higher classification without assistance from another employee.

Section 6. When an employee is transferred to any position in which he has had no previous experience, he shall be given a reasonable break-on period with an experienced fellow employee, not to exceed 2 weeks, in which case he shall receive the rate of pay for their higher classification beginning with the third week unless additional training time is needed and agreed to between the Company and the employee and his representative.

Section 7. Employees hired for temporary employment shall not be paid less than the regular Company rate established for the classification in which they are working.

Section 8. Regular employees reporting to work on a normal scheduled workday shall not have their pay deducted because of inclement weather conditions when the Company directs that no fieldwork be undertaken.

It is understood that such employees may be held pending trouble calls or may be employed in other miscellaneous work.

Section 9. In transferring employees from one shift to another, no loss in regular pay shall result. A minimum of 16 hours off duty between shifts shall be allowed, except in emergencies, or where otherwise agreed upon by the parties hereto.

Section 10. The Company, except in cases of discharge for cause, shall give 2 weeks' notice of termination of an employee's employment or in lieu thereof shall pay him 2 weeks' pay in addition to the vacation allowance herein provided in Article IV, Section 2 (d) hereof.

Section 11. Employees being dispatched from permanent headquarters on temporary assignment out of the city will be paid the appropriate rate for the time consumed in traveling. Travel expenses (or transportation facilities) may be furnished at the Company's option. Reasonable room rent and meals for employees away from headquarters on Company work will be paid for by the Company.

Section 12. The Company agrees to furnish all safety and first aid equipment necessary for the well being of its employees. All safety equipment shall be inspected regularly and replaced when found in an unsafe condition. All employees required to work outside shall be furnished with rainwear. The Company further agrees to replace all tools, safety belts, body belts, straps and replaceable gaffs furnished by the Company, except those that are lost or destroyed by neglect of the employee shall be replaced at the expense of the employee.

Any employee's tools that he is required to provide for performing his job that are damaged or stolen while properly secured in a Company facility provided by the Company for such purpose will be replaced by the Company.

The Company will provide approved prescription safety glasses for those employees who need them. The Company will only provide single or bi-focal lens prescription glasses.

Section 13. The Company and the Union will select 4 persons who are active regular employees of the Company, two to be selected by the Union, who shall comprise the safety committee. This committee shall select its own chairman and secretary. This safety committee shall create, revise, maintain and review a safety manual, establish a safety program, review accidents to determine the cause thereof, and prepare a written report of the findings and recommend corrective action. The committee will meet no less often than quarterly. The chairman will call meetings of the committee. Any employees who have a safety suggestion will have such suggestion considered by the committee at a regular meeting.

Section 14. Notwithstanding any other provision of this Agreement, it is understood that the Company may hire students as temporary employees under such terms and conditions of employment as the Company may determine, and that such temporary employees shall not be subject to the terms and conditions of this Agreement, provided that no such persons may be employed to replace or fill the position of a regular employee covered under this Agreement. Such temporary employees may be employed only during such period, as the school they attend is not in session and shall not be employed for a continuous period of time in excess of 90 calendar days.

Section 15. If an employee has no performance problems that involve disciplinary or corrective action over a three year period (excepting major infractions such as drugs, alcohol, theft, insubordination or violation of the Company's safety manual), any disciplinary or corrective action taken prior to that three year period will be removed from the employee's file and shall not be used as a factor in any future employment decision.

ARTICLE VII - HEALTH AND WELFARE PLANS

Section 1. The Citizens Communications Company Medical Plan, Retiree Medical Plan, Dental Plan, Vision Plan, Long Term Disability Plan, Employee Assistance Program, Flexible Spending Accounts Plan, Life Insurance Plan, Pension Plan and savings plan(s) in effect on January 1, 1996, shall be provided for all eligible employees in accordance with the terms of said plans. The Company, however, reserves the right to unilaterally make any changes, additions or deletions to these plans, and the Company may drop or add plans, as the Company, in its sole discretion deems appropriate, provided that any changes, additions, deletions, subtractions or

additions apply to a majority of Citizens Communications Company employees covered under such plans.

Section 2. In no event in the exercise of its rights under this Article may the Company reduce the overall level of benefits below the level provided by the insurance/pension/benefits that were in effect on January 1, 1996, for employees covered under this Agreement. If there is a dispute with respect to whether or not the overall benefit level is below that in effect January 1, 1996, such dispute will be subject to the Arbitration procedure of this Agreement for a determination. If the arbitrator determines that the overall level of benefits is less than that in effect January 1, 1996, then the plans and terms and conditions in effect on that date shall be put into effect as soon as administratively possible after the arbitrators determination.

Section 3. Should the Company, in accordance with the provisions of this Article, increase the employee contributions or the annual deductibles for the health or dental plans in any calendar year, such increase may not increase the contributions or deductibles in effect the prior December 31 by more than 25% nor may the contribution be more than 15% of the appropriate COBRA rate (minus any administrative fee).

Section 4. Should another company or jurisdiction acquire Citizens Communications Company, Santa Cruz District, or another Company acquires Citizens Communications Company, the provisions of Article VII, Section I shall become null and void. In such event, the employer's (including the acquiring entity's) obligation shall be to maintain that coverage and those plans in effect for employees covered by the Agreement in accordance with all terms as in effect at the time such acquisition was consummated.

ARTICLE VIII - WORKING RULES FOR THE PLANT DEPARTMENT

Section 1.

- (a) The term "Mechanic A" means an employee who is capable of overhauling, repairing and operating the equipment in the plant or truck department of the Company and who has not less than 4 year experience in work of that type.
- (b) The term "Mechanic B" means an employee who is capable of repairing and operating the equipment in the truck department and who has not less than 2 years experience in work of that type. He will be responsible for the service and repair records of such equipment. He will assist the plant department when needed.

Section 2. The term "Operator" means an employee capable of operating the equipment in the plant of the Company and responsible for the operation of the plant when he is on duty.

Section 3. The term "Helper" is an employee who assists a "Mechanic" and/or an "Operator" in overhauling, repairing or operating plant equipment.

Section 4. The change room shall be properly heated and ventilated, and shall contain at least 1 locker for each plant employee.

ARTICLE IX - WORKING RULES FOR GAS AND ELECTRIC DEPARTMENTS

Section 1. The term "Journeyman Lineman" or Journeyman Electrical Worker" as used in this Agreement means an electric worker who has served his apprenticeship or who may be properly classified as journeyman as determined by the Company and the Union.

Section 2. The term "Working Foreman" means an employee in charge of and responsible for work who supervises the crew and who handles tools in the performance of the work.

Section 3. The term "Lineman" means Journeyman Lineman.

Section 4. The term "Apprentice Lineman" means a Lineman that does not qualify as a Journeyman Lineman.

- (a) An Apprentice Lineman shall be governed by the same rules as a Journeyman as to hours of work and overtime (but not as to the hourly pay rate), and shall not be required to do the work of a Journeyman except during the last 6 months of their 4 year apprenticeship.
- (b) When an Apprentice has completed his prescribed training and it is recognized that Journeyman vacancies may not exist and in such case the Apprentice may be retained in the last year of his apprenticeship until a vacancy occurs. When a vacancy occurs the Apprentice will be given an examination. If the Apprentice passes and qualifies, he shall be advanced to Journeyman.
- (c) Ratios of apprentices to Journeyman shall be as follows: one Apprentice Lineman to two Journeyman Lineman. If this relationship proves impracticable at some future time, it shall be subject to review and change by the parties.

Section 5. The term "Meter Tester/Repairman" means an employee capable of testing and repairing all types of gas meters and all types of electric meters, except for 3 phase electric meters.

Section 6. The term "Serviceman" means a Journeyman Lineman capable of running and cutting in and out customers' services, handling trouble calls, reading meters and adjusting and repairing all types of meters and equipment, including the wiring of metering transformer not to exceed 650 volts.

Section 7. The term "Customer Serviceman" means an employee who knows gas appliance installation, can adjust burner flames, check for gas leaks or bad service drops, reads electric meter, can change out gas and electric meters, can make pressure and voltage tests and generally is able to service the customer in the best interests of the Company.

Section 8. The term "Groundman" means an employee assigned to act as a lineman's helper, whose work is confined to groundwork and who is not permitted to do this work of a Lineman.

Section 9. Employees will not work on lines or equipment carrying over 650 volts unless they are on a crew consisting of a Working Foreman, a Journeyman and one of the following: Apprentice, Operator of Groundman. This requirement will not apply to employees closing oil switches, refusing with hot sticks, fusing transformers or performing any work where the equipment involved carries over 650 volts but imposes no hazard on the employee. This requirement will also not apply in cases of emergency where it is necessary to remove hazard to life or property.

Section 10. The term "Welder" shall mean a certified welder capable of welding with both gas and electric welding equipment on steel pipe and fusing plastic pipe. All Welders so classified shall be required to qualify and maintain such qualification or certification under the requirements of CFR Part 192 and any other state requirements that may be in effect.

Section 11. Classifications of Pipefitter and above may be required to light off pilot lights for customers whose service has been interrupted by gas department repairs.

Section 12. Whenever a total of 5 employees are assigned to work on a more complex, energized job, a Working Foreman shall be in charge of and responsible for the job. During such job, the working Foreman will not be required to perform duties other than the direction of the crew, except in emergencies. The Working Foreman will be paid 5% more than his regular rate for time worked on the job. The foregoing provisions of this Section shall not apply if a supervisor is present during the job.

Section 13. Hot Stick Duty Pay.

When Journeyman Linemen of a line crew work on energized line of 15,000 volts or over, they shall receive pay at time and one-half for the time actually engaged in such work, with minimum of 4 hours pay at the overtime rate.

ARTICLE X - WORKING RULES FOR WAREHOUSEPERSON

Section 1. The Warehouse classifications will dispense all material assigned to the warehouse inventory, store material after it is received, and reclaim reusable material. They will also operate all equipment necessary to the handling of material and keep the warehouse and area in a clean, safe condition.

ARTICLE XI - APPRENTICESHIP AND TRAINING

Section 1. There shall be a Joint Apprenticeship and Training committee of equal representation, 2 members representing the Company and 2 members representing the Union. This committee shall make legal standards governing the administration, supervision, selection, education and training of all apprentices. It shall also be responsible for tracking journeymen and other bargaining unit classifications. The parties to this Agreement will promptly agree upon these local standards.

Section 2. Members of the Joint Apprenticeship and Training Committee shall be selected by the party they represent. Their term of office shall be 2 years unless removed by the party they represent. The term of 1 Company and 1 Union representative shall expire each year with successors to be determined in the same manner as the original appointments were made. A committee member may succeed himself.

The committee shall select from its membership, but not both from the same group, a chairman and a secretary who shall retain voting privileges.

The committee shall meet a least quarterly, and also when called by the chairman.

Section 3.

- (a) The committee shall supervise all matters involving apprenticeship training, in conformity with the provisions of the Agreement and the Local Apprenticeship Standards. In case of a deadlock, the matter in dispute shall be referred to the parties to this Agreement for settlement. All aspects of apprenticeship and training should first be considered by the

committee for their recommendation before being acted upon by the parties to this Agreement.

- (b) The committee may establish or authorize a joint subcommittee to be similarly constituted and selected for authorized training programs other than apprentice training programs.

ARTICLE XII - GRIEVANCE AND ARBITRATION PROCEDURES

Section 1. Representatives of the Company and Union shall act in cases of grievances as hereinafter provided.

Section 2. A grievance as defined in this Agreement is an actual controversy or dispute between a supervisor or other representative of the Company and an employee or employees with respect to a specific act or situation claimed to have involved a misapplication of any provision of this Agreement other than a breach by the Union of any provision pertaining to a strike or striking or a breach by the Company of any provision pertaining to a lock out.

Section 3. All grievances, other than those involving the discharge or termination of an employee, shall be presented to the Company at Step (a) within 14 calendar days of the day the grieving party became aware (or reasonably should have become aware) of the event being grieved. After discussion at each step of the grievance procedure, an answer shall be made in writing by the Company representative handling that step. Steps of the grievance procedure shall be:

Step (a): Between the employee or employees involved and/or an authorized representative of the Union, a foreman or superintendent of the employee or employees involved. The Company shall give its answer to the grievance in writing within 10 calendar days of the date it is presented. If the written answer is unacceptable to the Union, the Union and/or employee shall have 14 calendar days within receipt of the response in which to advise the Company's District Manager in writing that it is dissatisfied with the response and wishes the Company's District Manager to hold a meeting and/or hearing with respect to the grievance. This written advice will include the nature of the grievance, the contractual provision(s) alleged to have been violated, and the remedy being sought.

In the event a grievance arises out of the discharge or termination of an employee, a written grievance may be filed directly with the Company's District Manager or, in his absence, his duly authorized representative within 14 calendar days after the discharge or termination.

Step (b): Within 14 calendar days of receipt of the grievance by the District Manager, the District Manager shall hold a meeting with the employee or another representative of the Union. All grievances appealed to the Company's District Manager or his authorized representative shall be answered in writing by the Company within 7 calendar days from the date on which the hearing and/or meeting with the District Manager is held.

Section 4. In the event a grievance cannot satisfactorily be adjusted as provided in the foregoing section, the same may be referred to arbitration and the following rules shall apply:

- (a) After the decision of the Company representative in Step (b) above of the grievance procedure has been rendered in writing, such decision may be appealed by a written notice of appeal to arbitration by the Union delivered to the District Manager within 21 calendar days of the date of the Company's responses at Step (b).
- (b) Within 5 working days after receipt of the written notice of appeal, representatives of the parties shall confer and attempt to agree on a mutually acceptable person to serve as an impartial arbitrator.
- (c) In the event the parties are unable to agree on the selection of an arbitrator, either party may ask the Federal Mediation and Conciliation Service to select an arbitrator. The fees and expenses of any arbitrator selected under this section shall be borne equally by the parties. The arbitrator shall not have the authority to change the terms of this Agreement.

Section 5. If the Union and/or Grievant fails to abide by the time limits of this Article, the grievance shall be deemed withdrawn. If the Company fails to abide by the time limits as provided in Section 3 and 4 of this Article, the union may file the grievance at the next step. The parties may by mutual agreement extend the time limits for a specified period of time.

Any grievance settled at Section 3, Step (a) shall be without precedent or prejudice regarding any other grievance.

ARTICLE XIII - WAIVER OF BARGAINING

The parties specifically waive any rights which either may have to bargain with the other during the life of this Agreement on any matter pertaining to rates of pay, wages, hours of employment, whether or not covered by this Agreement except as specifically provided herein.

ARTICLE XIV - TERM OF AGREEMENT

This agreement shall take effect on March 1, 2002 and continue in full force and effect until February 28, 2005, and from year to year thereafter unless written notice is given by either party of the other party on or before 60 days prior to any anniversary date requesting modification or cancellation.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement.

**CITIZENS COMMUNICATIONS COMPANY
SANTA CRUZ DISTRICT**

**INTERNATIONAL
BROTHERHOOD OF
ELECTRICAL WORKERS,
LOCAL UNION NO. 387**

By: _____
**Ernesto V. Ojeda
District Manger**

By: _____
**H. E. Hill
Business Manger**

EXHIBIT "A"
WAGE SCHEDULE
EFFECTIVE MARCH 1, 2002
HOURLY WAGE RATES

| | <u>03/01/2002</u> | <u>03/01/2003</u> | <u>03/01/2004</u> |
|-------------------------------|-------------------|-------------------|-------------------|
| Working Foreman – Electric | \$28.72 | \$29.66 | \$30.62 |
| Working Foreman - Plant | 21.97 | 22.69 | 23.42 |
| Working Foreman - Gas | 20.01 | 20.66 | 21.33 |
| Serviceman A | 26.74 | 27.61 | 28.51 |
| Instrument Electrician | 26.74 | 27.61 | 28.51 |
| Journeyman Meterman | 26.74 | 27.61 | 28.51 |
| Journeyman Lineman | 26.74 | 27.61 | 28.51 |
| Apprentice 1st 6 months (71%) | 18.99 | 19.60 | 20.24 |
| 2nd 6 months (73%) | 19.52 | 20.16 | 20.81 |
| 3rd 6 months (75%) | 20.06 | 20.71 | 21.39 |
| 4th 6 months (77%) | 20.59 | 21.26 | 21.95 |
| 5th 6 months (79%) | 21.12 | 21.81 | 22.52 |
| 6th 6 months (81%) | 21.66 | 22.37 | 23.09 |
| 7th 6 months (83%) | 22.20 | 22.92 | 23.67 |
| 8th 6 months (85%) | 22.74 | 23.47 | 24.24 |
| Mechanic A | 19.40 | 20.03 | 20.68 |
| Welder | 19.04 | 19.66 | 20.30 |

EXHIBIT 'A'
(Continued)

| | <u>03/01/2002</u> | <u>03/01/2003</u> | <u>03/01/2004</u> |
|-------------------------------------|-------------------|-------------------|-------------------|
| Plant Operator | | | |
| 1st 4 months | \$17.39 | \$17.95 | 18.54 |
| 2nd 4 months | 17.91 | 18.50 | 19.10 |
| 3rd 4 months | 18.45 | 19.05 | 19.67 |
| 4th 4 months | 18.99 | 19.60 | 20.24 |
| 5th 4 months | 19.52 | 20.16 | 20.81 |
| 6th 4 months | 20.06 | 20.71 | 21.39 |
| 7th 4 months and after | 20.59 | 21.26 | 21.95 |
| Mechanic B | | | |
| 1st 6 months | 14.38 | 14.85 | 15.33 |
| 2nd 6 months | 15.04 | 15.53 | 16.04 |
| 3rd 6 months | 15.69 | 16.20 | 16.73 |
| 4th 6 months and after | 16.37 | 16.90 | 17.45 |
| Meter Tester/Repairman | | | |
| 1st 6 months | 12.34 | 12.74 | 13.15 |
| 2nd 6 months | 13.28 | 13.71 | 14.16 |
| 3rd 6 months | 14.25 | 14.71 | 15.19 |
| 4th 6 months | 15.24 | 15.73 | 16.25 |
| 5th 6 months and after | 16.20 | 16.73 | 17.27 |
| Customer Serviceman | | | |
| 1st 6 months | 12.34 | 12.74 | 13.15 |
| 2nd 6 months | 13.28 | 13.71 | 14.16 |
| 3rd 6 months | 14.25 | 14.71 | 15.19 |
| 4th 6 months | 15.24 | 15.73 | 16.25 |
| 5th 6 months and after | 16.20 | 16.73 | 17.27 |
| Utility Locator | | | |
| 1st 6 months | 12.34 | 12.74 | 13.15 |
| 2nd 6 months | 13.28 | 13.71 | 14.16 |
| 3rd 6 months | 14.25 | 14.71 | 15.19 |
| 4th 6 months | 15.24 | 15.73 | 16.25 |
| 5th 6 months and after | 16.20 | 16.73 | 17.27 |
| Heavy Equipment Operator | 16.14 | 16.66 | 17.20 |
| Pipefitter | 15.53 | 16.03 | 16.55 |

**EXHIBIT A
(Continued)**

| | <u>03/01/2002</u> | <u>03/01/2003</u> | <u>03/01/2004</u> |
|--------------------------------|-------------------|-------------------|-------------------|
| Groundman & Equipment Operator | \$15.45 | \$15.95 | \$16.47 |
| Meter Reader | | | |
| 1st 6 months | 11.42 | 11.79 | 12.17 |
| 2nd 6 months | 12.35 | 12.75 | 13.16 |
| 3rd 6 months | 13.24 | 13.67 | 14.11 |
| 4th 6 months | 14.15 | 14.60 | 15.08 |
| 5th 6 months and after | 15.04 | 15.53 | 16.04 |
| Groundman | 14.31 | 14.78 | 15.26 |
| Helper - Plant | 13.88 | 14.33 | 14.79 |
| Helper - Gas | 12.91 | 13.33 | 13.76 |
| Draftsman | | | |
| 1st 6 months | 11.43 | 11.80 | 12.18 |
| 2nd 6 months | 11.96 | 12.34 | 12.75 |
| 3rd 6 months and after | 12.47 | 12.88 | 13.30 |
| Customer Service Planner | | | |
| 1st 6 months | 12.53 | 12.94 | 13.36 |
| 2nd 6 months | 13.70 | 14.15 | 14.61 |
| 3rd 6 months | 14.87 | 15.35 | 15.85 |
| 4th 6 months | 16.00 | 16.52 | 17.06 |
| 5th 6 months | 17.17 | 17.73 | 18.30 |
| 6th 6 months and after | 18.35 | 18.94 | 19.56 |
| Accounting Specialist | | | |
| 1st 6 months | 11.08 | 11.44 | 11.81 |
| 2nd 6 months | 11.51 | 11.89 | 12.27 |
| 3rd 6 months | 11.88 | 12.27 | 12.67 |
| 4th 6 months | 12.28 | 12.68 | 13.09 |
| 5th 6 months and after | 12.65 | 13.06 | 13.48 |

EXHIBIT "A"
(Continued)

| | <u>03/01/2002</u> | <u>03/01/2003</u> | <u>03/01/2004</u> |
|-------------------------------------|-------------------|-------------------|-------------------|
| Customer Service Representative | | | |
| 1st 6 months | \$10.11 | \$10.44 | \$10.78 |
| 2nd 6 months | 10.47 | 10.81 | 11.16 |
| 3rd 6 months | 10.82 | 11.17 | 11.54 |
| 4th 6 months | 11.18 | 11.55 | 11.92 |
| 5th 6 months and after | 11.54 | 11.92 | 12.31 |
| Customer Service Representative (A) | 12.36 | 12.76 | 13.18 |
| Warehouseperson | | | |
| 1st 6 months | 9.94 | 10.27 | 10.60 |
| 2nd 6 months | 10.41 | 10.75 | 11.10 |
| 3rd 6 months | 10.88 | 11.24 | 11.60 |
| 4th 6 months | 11.32 | 11.68 | 12.06 |
| Next 12 months and after | 12.47 | 12.88 | 13.30 |
| Warehouseperson (A) | | | |
| 1st 6 months | 14.43 | 14.90 | 15.39 |
| 2nd 6 months and after | 18.49 | 19.09 | 19.71 |
| Laborer | 8.95 | 9.24 | 9.54 |

C

ARIZONA ELECTRIC CAPITAL CLASSIFICATIONS (X \$1000)

| | <u>2002</u> <u>4th</u> | <u>1st</u> | <u>2003</u> <u>2nd</u> | <u>3rd</u> | <u>4th</u> | <u>Total</u> |
|----------------|---------------------------|--------------|---------------------------|--------------|--------------|---------------|
| Growth (Net) | 1,558 | 1,636 | 2,114 | 2,526 | 1,554 | 7,830 |
| Replacement | 523 | 492 | 430 | 913 | 714 | 2,549 |
| Infrastructure | 10 | 3,456 | 1,780 | 465 | 2,083 | 7,784 |
| TOTALS | 2,091 | 5,584 | 4,324 | 3,904 | 4,351 | 18,163 |

D

**SCHEDULE OF ENHANCED SEVERANCE BENEFIT PLAN PARTICIPANTS
ARIZONA GAS**

| <u>NAME</u> | <u>POSITION</u> | <u>LOCATION</u> | <u>SEVERANCE BENEFITS</u> | <u>Medical, Dental, Vision, and EAP</u> | <u>Outplacement</u> |
|----------------------|---------------------------|-----------------|---|---|------------------------|
| Gary A. Smith | VP & GM, AZ Gas | Flagstaff, AZ | 52 Weeks Severance Pay | 52 weeks company paid without employee contribution | Minimum of one seminar |
| Kevin P. Thomas, Sr. | Material Control Manager | Flagstaff, AZ | 39 Weeks Severance Pay | 39 weeks company paid without employee contribution | Minimum of one seminar |
| Michael T. Crabb | Material Control Analyst | Flagstaff, AZ | 26 Weeks Severance Pay | 26 weeks company paid without employee contribution | Minimum of one seminar |
| Craig W. Lipke | Material Control Analyst | Flagstaff, AZ | 26 Weeks Severance Pay | 26 weeks company paid without employee contribution | Minimum of one seminar |
| Sean R. Breen | Director, Energy Services | Flagstaff, AZ | 52 Weeks Severance Pay | 52 weeks company paid without employee contribution | Minimum of one seminar |
| J. Anthony Baca | Director, Human Resources | Flagstaff, AZ | 52 Weeks Severance Pay | 52 weeks company paid without employee contribution | Minimum of one seminar |
| Barbara A. Wylaske | Project Manager | Phoenix, AZ | \$50K completion bonus if position eliminated due to divestiture and no like position available within company in Phoenix, AZ | No special considerations | Minimum of one seminar |
| Thomas J. Ferry | VP & GM, AZ Electric | Kingman, AZ | 52 Weeks Severance Pay | 52 weeks company paid without employee contribution | Minimum of one seminar |

E

AZ Schedule of Ees with So Union Gas Prior Service.xls

| Last Name | Hire Date | Appndx | Date of Acquisition | Sector |
|----------------------|------------|--------|---------------------|--------|
| Adams, Robert L | 1988-01-27 | 1A | 12/4/90 | Gas |
| Aneya, Martin S | 1981-09-21 | 1A | 12/4/90 | Gas |
| Balderas, Clifford A | 1986-08-06 | 1A | 12/4/90 | Gas |
| Barranco, Brenda C | 1991-02-09 | 1A | 12/4/90 | Gas |
| Barret, Gary D | 1990-12-04 | 1A | 12/4/90 | Gas |
| Behne, Jerry D | 1984-08-26 | 1A | 12/4/90 | Gas |
| Black Jr., Annace L | 1986-09-21 | 1A | 12/4/90 | Gas |
| Borron, Philip D | 1987-11-16 | 1A | 12/4/90 | Gas |
| Broughton, Carol A | 1968-11-05 | 1A | 12/4/90 | Gas |
| Brown, Charles M | 1982-09-27 | 1A | 12/4/90 | Gas |
| Brown, Jeffrey W | 1981-04-12 | 1A | 12/4/90 | Gas |
| Brown, Thomas M | 12/4/90 | 1A | 12/4/90 | Gas |
| Broz, Diane L | 1988-03-19 | 1A | 12/4/90 | Gas |
| Cardy, David M | 1988-02-27 | 1A | 12/4/90 | Gas |
| Carreras, Richard | 1986-04-21 | 1A | 12/4/90 | Gas |
| Carroll, Richard G | 12/4/90 | 1A | 12/4/90 | Gas |
| Church, Ronald S | 12/4/90 | 1A | 12/4/90 | Gas |
| Dahl, Gary A | 1990-10-08 | 1A | 12/4/90 | Gas |
| Dannen, Barbara J | 1983-05-17 | 1A | 12/4/90 | Gas |
| Davis, Nancy R | 1969-04-28 | 1A | 12/4/90 | Gas |
| Dorman, Charles E | 1976-11-15 | 1A | 12/4/90 | Gas |
| Duey, Daniel J | 1977-08-15 | 1A | 12/4/90 | Gas |
| Duncan, Jimmy J | 1977-11-21 | 1A | 12/4/90 | Gas |
| Edwards, Lynn D | 1977-04-01 | 1A | 12/4/90 | Gas |
| Ely, Karl A | 1989-06-19 | 1A | 12/4/90 | Gas |
| Epperson, Jeffrey T | 1991-08-24 | 1A | 12/4/90 | Gas |
| Fanning, Monette M | 1984-06-04 | 1A | 12/4/90 | Gas |
| Fetterman, Marvin J | 1990-12-04 | 1A | 12/4/90 | Gas |
| Fjeld, Jeffrey W | 1991-09-09 | 1A | 12/4/90 | Gas |
| Freeman, Irene M | 1984-06-11 | 1A | 12/4/90 | Gas |
| Gagnaire, Robert G | 1990-12-04 | 1A | 12/4/90 | Gas |
| Hammack, Marvin R | 1985-12-16 | 1A | 12/4/90 | Gas |
| Harp, George R | 1971-06-01 | 1A | 12/4/90 | Gas |

AZ Schedule of Ees with So Union Gas Prior Service.xls

| | | | | |
|-----------------------|------------|----|---------|-----|
| Henson, Rhonda G | 1986-02-24 | 1A | 12/4/90 | Gas |
| Hines, James W | 1960-03-21 | 1A | 12/4/90 | Gas |
| Holeyfield, Jeffrey G | 1980-09-08 | 1A | 12/4/90 | Gas |
| Holmes, Thais L | 1990-08-06 | 1A | 12/4/90 | Gas |
| Hughey, Glenn A | 1982-01-04 | 1A | 12/4/90 | Gas |
| Jeffs, Matthew A | 1989-10-02 | 1A | 12/4/90 | Gas |
| Jenkins, David G | 1962-10-01 | 1A | 12/4/90 | Gas |
| Justus, Robbie G | 1988-04-04 | 1A | 12/4/90 | Gas |
| Kuhns, Harvey L | 1974-04-01 | 1A | 12/4/90 | Gas |
| Lyon, Arthur W | 1979-10-08 | 1A | 12/4/90 | Gas |
| Martinez, Gilbert R | 1999-07-06 | 1A | | Gas |
| Mayorga, Robert R | 1979-07-09 | 1A | 12/4/90 | Gas |
| McKnight, Alvie W | 1971-04-12 | 1A | 12/4/90 | Gas |
| Miller, Charlotte T | 1991-09-09 | 1A | 12/4/90 | Gas |
| Miller, John P | 1987-10-04 | 1A | 12/4/90 | Gas |
| Moline, Shane L | 1991-09-09 | 1A | 12/4/90 | Gas |
| Molise, Alan B | 1979-07-31 | 1A | 12/4/90 | Gas |
| Morton, Jay P | 1988-10-15 | 1A | 12/4/90 | Gas |
| Moulton, Deborah Kay | 1992-07-12 | 1A | | Gas |
| Mundell, Constance R | 1987-03-16 | 1A | 12/4/90 | Gas |
| Navarro, Richard R | 1978-07-10 | 1A | 12/4/90 | Gas |
| Neumann Jr., Paul A | 1973-01-09 | 1A | 12/4/90 | Gas |
| Perea, Frank L | 1987-06-28 | 1A | 12/4/90 | Gas |
| Powers, Robert E | 1978-07-31 | 1A | 12/4/90 | Gas |
| Quintana, Rebecca S | 1986-01-27 | 1A | 12/4/90 | Gas |
| Reynolds, William R | 1990-12-04 | 1A | 12/4/90 | Gas |
| Rhodes, Kathryn Diana | 1990-09-24 | 1A | 12/4/90 | Gas |
| Roberts, Michael J | 1980-09-02 | 1A | 12/4/90 | Gas |
| Romero Jr., John F | 1989-02-18 | 1A | 12/4/90 | Gas |
| Ross, Stephen M | 1972-07-10 | 1A | 12/4/90 | Gas |
| Russell, Steven J | 1973-03-26 | 1A | 12/4/90 | Gas |
| Schoonmaker, Jack R | 1974-12-03 | 1A | 12/4/90 | Gas |
| Seutopka, Bennett | 1971-11-15 | 1A | 12/4/90 | Gas |
| Shelley, Nathan C | 1975-01-20 | 1A | 12/4/90 | Gas |
| Smith, John W | 12/4/90 | 1A | 12/4/90 | Gas |

AZ Schedule of Ees with So Union Gas Prior Service.xls

| | | | | |
|--------------------------|------------|----|---------|----------|
| Smith, Ronald C | 1979-05-07 | 1A | 12/4/90 | Gas |
| Stutz, Jacqueline A | 1985-06-10 | 1A | 12/4/90 | Electric |
| Tucker, Thomas L | 1976-09-14 | 1A | 12/4/90 | Gas |
| Urbina, Cecelia | 1973-02-12 | 1A | 12/4/90 | Gas |
| Westmoreland II, Logan C | 1988-03-05 | 1A | 12/4/90 | Gas |

F

KUTAK ROCK LLP

SUITE 1000
1101 CONNECTICUT AVENUE, N.W.
WASHINGTON, D.C. 20036-4374
202-828-2400
FACSIMILE 202-828-2488
www.kutakrock.com

ATLANTA
CHICAGO
DENVER
DES MOINES
FAYETTEVILLE
KANSAS CITY
LINCOLN
LITTLE ROCK
NEW YORK
NEWPORT BEACH
OKLAHOMA CITY
OMAHA
PASADENA
RICHMOND
SCOTTSDALE

October 29, 2002

Dean E. Criddle
Orrick, Herrington & Sutcliffe, LLP
Old Federal Reserve Bank Building
400 Sansome Street
San Francisco, CA 94111-3143

Dear Mr. Criddle:

Please find attached the final Exempt Facility Operating Protocols (the "Protocols") as required by Section 6.14(c) of the Asset Purchase Agreements. These Protocols, along with the hard-copy Appendices sent to you last week, constitute the necessary deliverable. Please transmit to UniSource as appropriate.

If you have any questions regarding this matter, please do not hesitate to call me at (202) 828-2467.

Very truly yours,



Christine M. Choi

October 29, 2002

\$11,000,000
The Industrial Development Authority
of the County of Mohave
Industrial Development Revenue Bonds
1985 Series
(Citizens Utilities Company Project)

\$15,000,000
The Industrial Development Authority
of the County of Mohave
Industrial Development Revenue Bonds
1988 Series A and 1988 Series B
(Citizens Utilities Company Project)

\$22,960,000
The Industrial Development Authority
of the County of Mohave
Industrial Development Revenue Bonds
1993 Series
(Citizens Utilities Company Project)

\$10,000,000
The Industrial Development Authority
of the County of Mohave
Industrial Development Revenue Bonds
1993 Series B
(Citizens Utilities Company Project)

\$6,640,000
The Industrial Development Authority
of the County of Mohave
Industrial Development Revenue Bonds
1994 Series
(Citizens Utilities Company Project)

Exempt Facility Operating Protocol
Relating to the
Mohave Electric Facility

The electric Assets described in Section 2.1 of the Asset Purchase Agreement, dated as of October 29, 2002, by and among Citizens Communications Company and UniSource Energy Corporation, and located in Mohave County (the "Project") were financed in whole or in part with the proceeds of the above-referenced bonds. As of the date hereof, Kutak Rock LLP, bond counsel, has advised that there will be no adverse effect on the tax-exempt status of the above-referenced bonds (the "Bonds"), or the status of the Project as an exempt facility for the local furnishing of electricity as described in the Internal Revenue Code (the "Code") of 1986, as amended (the "Code") §§ 142(a)(8) and 142(f)(1), so long as the Project is operated in a manner consistent with this Exempt Facility Operating Protocol (the "Protocol").

Operations

I. Points of Delivery from Energy Suppliers

The Project's points of delivery from energy suppliers shall be at the following locations which are depicted on the map at Appendix A as "Citizens Delivery Points:"

(i) Planet Ranch Substation: Electric energy from Pinnacle West Capital Corporation ("PWCC") is delivered by the Western Area Power Administration ("WAPA") to Arizona Public Service ("APS") and then subsequently to the Project at a meter located in a distribution level meter owned by APS. The interconnection at the meter is between the APS substation and the Project owner's distribution lines.

(ii) Black Mesa Substation: Electric energy from PWCC is delivered through the Western Area Power Administration's ("WAPA") 230 kV transmission line to a meter located at an interconnection on the 230kV side of the transformers at this Project owner's substation.

(iii) Griffith Substation: Electric energy from PWCC is delivered through the WAPA 230kV transmission line to a meter located at an interconnection on the 230kV side of the transformer at this Project owner's substation.

(iv) Hilltop Substation: Electric energy from PWCC is delivered through the WAPA 230kV transmission line to a meter located at an interconnection on the 230kV side of the transformers at this Project owner's substation.

(v) Davis Dam Substation: Electric energy from PWCC is metered to the Project at this WAPA-owned substation. The energy is transmitted via WAPA's 69kV line to Project distribution substations known as Warm Springs and Waterfield.

(vi) MEC Aubrey Peak Interconnection¹: Electric energy is delivered by Mohave Electric Cooperative ("MEC") to the Project at a meter located on distribution lines owned by MEC. The interconnection at the meter is between MEC and the Project's distribution lines.

At the interconnection points described above, the flow of electric energy shall be inbound to the Project, only. No electric energy shall be transmitted outbound from Project transmission lines to WAPA lines, MEC lines or to the APS substation at the interconnection points described above under any circumstances other than for the emergency transfers of electricity.

¹ MEC Aubrey Peak Interconnection is depicted on the map insert located at Appendix A.

Except for the Planet Ranch point of delivery, the electric energy obtained from PWCC shall be transmitted from the point of delivery to the Project owner's distribution substations identified on the map at Appendix A as "Citizens Substations."

II. Service Area

At the Project owner's distribution substations, the electric energy shall be transformed from 69kV transmission line voltage to the appropriate distribution voltage levels and delivered via the Project owner's distribution systems to retail customers located throughout the certificated electric service area of Mohave County depicted on the map at Appendix A and as described in the Certificates of Convenience and Necessity (the "CC&N") granted by the Arizona Corporation Commission (the "Commission"), copies of which are attached at Appendix B.

III. Points of Interconnection for Emergency Purposes or Otherwise

Points of interconnection between the Project and other utilities shall be limited to the following circumstances:

(i) An interconnection between the Project and AHA MCAV Power Service ("AMPS"): AMPS is the tribal utility of the Fort Mohave Indians. This interconnection is a bi-directional interconnection that is normally open and which functions as an unloaded radial tie between the two systems. The capability of the interconnection is limited to approximately 6 MW on peak. AMPS owns a 69 kV circuit extending from Davis Dam to AMPS' Claude Lewis Substation and a 69 kV circuit from the Project's Boundary Cone Substation located west of Oatman, Arizona on old Route 66. A 69 kV circuit between the Griffith Substation and the Boundary Cone Substation belongs to the Project owner. At the Boundary Cone Substation, AMPS owns a 69 kV breaker that is controlled by the Project owner. The Project owner owns an in-out interconnection meter on the 69 kV breaker. WAPA has a Remote Terminal Unit at that location. The interconnection normally remains open at the disconnect switches at the Claude Lewis Substation. When either party desires to use the interconnection to carry load, such use is arranged through the Project's dispatcher who notifies WAPA. Switching orders are issued to the field personnel of the Project or of AMPS to close or open the tie. The use of the tie is in accordance with a Federal Energy Regulatory Commission ("FERC") approved Non-firm Interchange Agreement between the owner or operator of the Project and AMPS and the energy is to be returned in kind within 30 days of the occurrence. The returned energy is scheduled between the two affected control areas, WAPA and APS.

(ii) An interconnection between the Project and Nevada Power: The interconnection is normally open at a 69 kV breaker belonging to the Project owner on the east side of the Hoover Dam. The physical tie is at a set of

disconnect switches owned by Nevada Power on the west side of Hoover Dam (Gold Strike Tap). The capability of the tie is limited to approximately 5 MW during peak load conditions. Service is provided from Nevada Power to the Project under a FERC approved, pre-Order 888 negotiated rate agreement between the owner or operator of the Project and Nevada Power for economy energy. The approved rate is capped at 115% of the incremental cost of supplying the energy. The owner or operator of the Project does not have a similar tariff for sales to Nevada Power. To effect the purchase, the Project's dispatcher contacts Nevada power and arranges for the disconnect switches to be closed and the owner or operator of the Project contacts WAPA and arranges for the tie breaker to be closed. To end the purchase, similar arrangements are made to open the breaker and the disconnects. The energy is measured by meters installed at the breaker.

(iii) An emergency interconnection between the Project and Mohave Electric Cooperative ("MEC"): There is a 69 kV tie between the Project and MEC which may be used in emergencies to provide delivery service to MEC's loads east of Kingman. This tie may not be used to serve the Project's loads. Both the Project and MEC have loads for which transmission service is normally provided over a 69 kV transmission line between Davis Dam and Kingman owned by WAPA. MEC has a radial 69 kV tap, with a circuit breaker and 69 kV metering near the Kingman end of WAPA's line. The Project has a 69 kV circuit from its Hilltop substation which may be tied to WAPA's line through a normally open disconnect near MEC's tap. Emergency service may be provided from the Project to MEC by opening and closing disconnects on the Project's and WAPA's transmission lines. Such service may be arranged, when needed, by a request from MEC's operations personnel to the Project's Dispatcher. WAPA and Arizona Electric Power Cooperative are notified and switching orders are issued to initiate and to terminate the service. The metered energy at MEC's Tap is used to adjust billing quantities at Hilltop substation downward so that the Project owner is not charged for the temporary deliveries to MEC. There is presently no interconnection agreement associated with this "service." The practice is memorialized in a WAPA operating procedure.

(iv) An interconnection between the Project and MEC for construction power: The service area of the North Star Steel plant site was assigned to MEC by an order from the ACC². In response to a request from MEC, a distribution line belonging to the Project owner was constructed to provide construction power to

² The location of the North Star plant site is indicated on the map insert at Appendix A. The assignment of the service area to MEC is included in the CC&Ns at Appendix B.

October 29, 2002

Page 5

the North Star Steel plant site. The Project distribution line connects to a distribution level meter at the boundary of the North Star Steel property³.

³ Construction at the site has been completed. However, Citizens has recently discovered that MEC has constructed a distribution line and attached it to the load side of the primary meter point at the site and is apparently re-selling power from the Project distribution line to other customers within the MEC electric service area. Citizens is working to resolve this matter.

October 29, 2002

\$8,200,000
The Industrial Development Authority
of the County of Santa Cruz
Industrial Development Revenue Bonds
1985 Series
(Citizens Utilities Company Project)

\$12,680,000
The Industrial Development Authority
of the County of Santa Cruz
Industrial Development Revenue Bonds
1988 Series A and 1988 Series B
(Citizens Utilities Company Project)

\$8,000,000
The Industrial Development Authority
of the County of Santa Cruz
Industrial Development Revenue Bonds
1994 Series
(Citizens Utilities Company Project)

Exempt Facility Operating Protocol
Relating to the
Santa Cruz Electric Facility

The electric Assets described in Section 2.1 of the Asset Purchase Agreement, dated as of October 29, 2002, by and among Citizens Communications Company and UniSource Energy Corporation, and located in Santa Cruz County (the "Project") were financed in whole or in part with the proceeds of the above-referenced bonds. As of the date hereof, Kutak Rock LLP, bond counsel, has advised that, subject to a qualification relating to the proposed "Gateway" interconnection described in Section IV of this Exempt Facility Operating Protocol (the "Protocol"), there will be no adverse effect on the tax-exempt status of the above-referenced bonds (the "Bonds"), or the status of the Project as an exempt facility for the local furnishing of electricity as described in the Internal Revenue Code (the "Code") of 1986, as amended (the "Code") §§ 142(a)(8) and 142(f)(1), so long as the Project is operated in a manner consistent with this Protocol.

Operations

I. Points of Delivery from Energy Suppliers

The Project owner's 115kV transmission line shall receive electric energy from the supplier, Pinnacle West Capital Corporation ("PWCC") at a bulk purchase point in the Nogales Switchyard located in Pima County. At the interconnection point between the Project owner's 115kV transmission line and the Western Area Power Administration's ("WAPA") transmission line in the switchyard, the flow of electric energy shall be inbound, only, to the Project owner's transmission line. The Project owner's generators located in Nogales and connected to the distribution side of the Valencia Substation shall be used on an occasional basis to generate electric energy during actual or threatened transmission line outages on the Project's transmission line or when the owner or operator of the Project is requested to do so by PWCC, according to contract agreement dated June 1, 2001. In such circumstances, electric energy produced by the Project owner's generators shall be used to supplement the reduced supply of electric energy provided by PWCC to the Project. No electric energy generated by the Project owner's generators shall flow outbound to the WAPA transmission line under any circumstances other than for the emergency transfers of electricity.

Exhibit A, Revision No. 14 to Contract No. 87-BCA-10140 between the current owner of the Project and WAPA, provides that WAPA will provide, upon request, a non-firm transmission path for delivery of electric energy from the Project owner's generators in Nogales to the Project owner's other points of delivery on WAPA's transmission system. The Project owner shall not utilize the non-firm transmission path to transmit electric energy from the Project owner's generators in Nogales to any points of delivery beyond the Project's certificated electric service area as discussed in Section II of this Protocol.

The electric energy obtained from PWCC or from the Project owner's generators, as applicable, shall be transmitted from the point of receipt via the Project owner's transmission line to the following distribution substations which are all located within Santa Cruz County: (i) Kantor substation; (ii) Canez substation; (iii) Sonoita substation; and (iv) Valencia substation. The locations of the transmission line, the bulk purchase point, and the Project owner's substations to which the electric energy is delivered are depicted on the map at Appendix C entitled, "115kV Transmission Line Santa Cruz Electric."

II. Service Area

At the above-mentioned distribution substations, the electric energy shall be transformed from 115kV transmission line voltage to the appropriate distribution voltage levels and delivered via distribution systems to retail customers located throughout the certificated electric service area of Santa Cruz County depicted on the map at Appendix D entitled, "Citizens Utilities

October 29, 2002

Page 3

Company Certificated Electric Area" and as described in the Certificates of Convenience and Necessity (the "CC&N") granted by the Arizona Corporation Commission (the "Commission") which are attached at Appendix E.

The Project owner's customers within the certificated electric service area of Santa Cruz County may include, without limitation, Comision Federal de Electricidad ("CFE"), a company affiliated with the government of Mexico. The point of delivery for energy provided by the Project owner to CFE shall be located in Lochiel, Arizona.

III. Points of Interconnection for Emergency Purposes or Otherwise

Other than as described in Section I of this Protocol and the interconnection with CFE described in Section II, and subject to the provisions of Section IV, there shall be no points of interconnection between the Project and the transmission or distribution lines of any other electric utility or electric energy supplier.

IV. Proposed "Gateway" Interconnection

The current Project owner has entered into a project development agreement with Tucson Electric Power Company ("TEP") for TEP to provide a source for a second transmission line to the Project service area. The proposed 345kV transmission line and associated 345/115 kV substation is to be owned in whole or in part by TEP (except the 345/115 kV transformer, buswork to connect the transformer to the 345 kV disconnect switch on the high side of the transformer, and 345 kV sectionalizing breakers connecting that disconnect switch to the 345 kV bus (the "Citizens Gateway Substation"), which shall be owned by the Project owner) and will provide an alternate transmission path for delivery of electric energy to the Project from PWCC. The proposed 345kV transmission line will extend from a location in Pima County to a location along the Mexican border in Santa Cruz County and will complete a closed loop between the systems of WAPA at the Nogales Switchyard and that of the owner or owners of the new 345 kV transmission line at a new 345/115 kV substation in the vicinity of the City of Nogales referred to as "Gateway" substation. It is anticipated that the Project owner will own and operate a 115 kV transmission line leading from the Citizens Gateway Substation to the Valencia substation.

Energy may be transmitted along the proposed 345 kV transmission line and delivered to the Project owner at the Citizens Gateway Substation only under either of the following two circumstances:

- (i) The certificated service area to which the Project owner furnishes electric energy is limited to Santa Cruz County and no more than one contiguous county;
- or

October 29, 2002
Page 4

(ii) The proposed 345 kV transmission line and the proposed 345/115 kV substation are not wholly-owned by the Project owner.