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Tucson Electric Power Company
One South Church, Post Office Box 711
Tucson, Arizona 85702

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AZ CORP COMMISSION
DOCKET CONTROL

March 14, 2011

Arizona Corporation Commission
DOCKETED
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Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Re: Tucson Electric Power Company Financing Documents
Decision No. 71788 (July 12, 2010), E-01933A-09-0476

Pursuant to Decision No. 71788 (July 12, 2010), Tucson Electric Power Company ("TEP") is required to file with Docket Control copies of the relevant financing agreements, including a business rationale for such financing or refinancing, and a demonstration that the rates and terms received by TEP were fair and reasonable under prevailing market conditions. This financing was authorized on page 18, lines 12-26.

On December 14, 2010, the Coconino County, Arizona Pollution Control Corporation ("PCC") issued and sold in a public offering for the benefit of TEP $36,700,000 aggregate principal amount of tax-exempt pollution control revenue bonds ("Bonds"). The Bonds were issued under the Indenture of Trust, dated as of December 1, 2010 ("Indenture"), between the PCC and U.S. Bank Trust National Association, as Trustee ("Trustee"). The PCC has loaned the proceeds of the Bonds to TEP pursuant to a Loan Agreement, dated as of December 1, 2010 ("Loan Agreement"), between TEP and the PCC. Pursuant to the Loan Agreement, TEP is obligated to make payments in such amounts and at such times as will be sufficient to pay, when due, the principal of and interest on the Bonds to the extent such payments are not made pursuant to the Letter of Credit (as defined below).

The proceeds of the sale of the Bonds were applied on December 30, 2010, to redeem a corresponding principal amount of 7.125% fixed-rate bonds previously issued by the PCC for TEP's benefit.

The Bonds accrue interest at the Weekly Rate from the date of original issuance unless and until the interest rate mode is converted to another permitted interest rate mode. The Bonds will be subject to optional, extraordinary optional and mandatory redemption prior to maturity, and to optional and mandatory tender for purchase and remarketing in certain circumstances, all as described in the Indenture. The initial weekly interest rate on the bonds was 0.34%, and the weekly interest rate has ranged from 0.29% to 0.40% since the issuance date. TEP also pays a remarketing fee of 12.5 basis points to Wells Fargo Bank who remarkets the bonds on a weekly basis.

Concurrently with, and as a condition to, the issuance of the Bonds, TEP caused to be delivered to the Trustee a direct-pay irrevocable letter of credit issued by JPMorgan Chase Bank, N.A., in the amount of $37,152,465.75 ("Letter of Credit"). The Letter of Credit was issued pursuant to a

Reimbursement Agreement ("Reimbursement Agreement"), dated as of December 14, 2010, among TEP, as Borrower, the financial institutions from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent and letter of credit issuing bank. TEP pays a letter of credit fee to JPMorgan Chase of 1.50% per annum under this agreement.

The Trustee is entitled to draw upon the Letter of Credit to enable the Trustee to pay principal, interest and purchase price of the Bonds. The Letter of Credit will expire on December 14, 2014, unless terminated earlier or extended in accordance with its terms. TEP's obligations under the Reimbursement Agreement are secured by $37,153,000 of mortgage bonds issued pursuant to the Indenture of Mortgage and Deed of Trust, dated as of December 1, 1992, as amended and supplemented, between TEP and The Bank of New York Mellon, as successor trustee.

The business rationale for this financing was to realize interest savings by refinancing the existing $36.7 million of 1997 Coconino Series A Bonds that bore interest at 7.125%. The decision to refinance these bonds in the variable rate market was based in large part on the tax status of these bonds. Since the interest payments received by investors on the 1997 bonds and any new refinancing bonds would be subject to alternative minimum tax ("AMT"), the interest rate required by investors would be higher relative to tax-exempt bonds that are not subject to AMT. The size of the interest rate premium resulting from tax status of the bonds is much higher for fixed-rate tax-exempt bonds (approximately 50- 100 basis points) than it is for variable rate tax-exempt bonds (approximately 5-10 basis points). Consequently, the decision was made to refinance the 1997 bonds in the variable rate market. Since TEP is now paying approximately 2.00% per annum on the new Coconino bonds (0.35% interest, plus 1.50% letter of credit fee, plus 0.125% remarketing fee), this results in annual interest savings of approximately $1.8 million.

TEP believes that the rates and terms obtained by TEP under this financing were fair and reasonable under the prevailing market conditions. The weekly rate that TEP pays on the bonds is a market rate that is determined by the remarketing agent Wells Fargo, and can be compared with the rates determined by other remarketing agents as well as the benchmark SIFMA index rate for similar bonds. The letter of credit fee of 1.50% is a fair and reasonable rate and compares favorably to the letter of credit rates charged to TEP under the Company's November 2010 revolving credit and letter of credit facility.

Enclosed please see Exhibit A for the executed financing documents. If you have questions or comments please contact me at (520) 884-3680.

Sincerely,

Jessica Bryne
Regulatory Services

cc: Compliance Section, ACC

Exhibit A

Execution Copy

LOAN AGREEMENT
(2010 SERIES A)

BETWEEN

COCONINO COUNTY, ARIZONA
POLLUTION CONTROL CORPORATION

AND
TUCSON ELECTRIC POWER COMPANY

DATED AS OF DECEMBER 1, 2010

RELATING TO

COCONINO COUNTY, ARIZONA
POLLUTION CONTROL CORPORATION
POLLUTION CONTROL REVENUE BONDS,
2010 SERIES A
(TUCSON ELECTRIC POWER COMPANY NAVAJO PROJECT)

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LOAN AGREEMENT

THIS LOAN AGREEMENT (2010 SERIES A), dated as of December 1, 2010 (this "Agreement"), between COCONINO COUNTY, ARIZONA POLLUTION CONTROL CORPORATION, an Arizona nonprofit corporation and a political subdivision of the State of Arizona (hereinafter called the "Pollution Control Corporation"), and TUCSON ELECTRIC POWER COMPANY, a corporation organized and existing under the laws of the State of Arizona (hereinafter called the "Company"),

WITNESSETH:

WHEREAS, the Pollution Control Corporation is authorized and empowered under Title 35, Chapter 6, Arizona Revised Statutes, as amended (the "Act"), to issue its bonds in accordance with the Act and to make secured or unsecured loans for the purpose of financing or refinancing the acquisition, construction, improvement or equipping of pollution control facilities consisting of real and personal properties, including but not limited to machinery and equipment, whether or not now in existence or under construction, which are used in whole or in part to control, prevent, abate, alter, dispose or store, solid waste, thermal, noise, atmospheric or water pollutants, contaminants or products therefrom, whether such facilities serve one or more purposes or functions in addition to controlling, preventing, abating, altering, disposing or storing such pollutants, contaminants or the products therefrom, and to charge and collect interest on such loans and pledge the proceeds of loan agreements as security for the payment of the principal of and interest on bonds, or designated issues of bonds, issued by the Pollution Control Corporation and any agreements made in connection therewith, whenever the Board of Directors of the Pollution Control Corporation finds such loans to be in furtherance of the purposes of the Pollution Control Corporation;

WHEREAS, the Pollution Control Corporation has heretofore issued and sold $36,700,000 aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 1997 Series A (Tucson Electric Power Company Navajo Project) (the "1997 Bonds"), all of which are currently outstanding, the proceeds of which were loaned to the Company to finance and refinance the costs to the Company of constructing, improving and equipping certain air pollution control facilities described in Exhibit A hereto (hereinafter collectively referred to as the "Facilities"), located at an electric generating station operated within Coconino County, which is known as the Navajo Generating Station;

WHEREAS, the Pollution Control Corporation proposes to issue and sell its revenue bonds, pursuant to an Indenture of Trust, dated as of December 1, 2010 (the "Indenture"), between the Pollution Control Corporation and U.S. Bank Trust National Association, as trustee (the "Trustee"), for the purpose of refinancing, by the payment or redemption of the 1997 Bonds, or provision therefor, the portion of the costs of the Facilities previously financed and refinanced from the proceeds of the 1997 Bonds;

WHEREAS, the Company has elected to cause and is causing to be delivered to the Trustee an irrevocable direct pay letter of credit issued by JP Morgan Chase Bank, N.A. (the "Initial Letter of Credit), however, nothing herein shall require the Company to maintain the Initial Letter of Credit or any other credit facility;

NOW, THEREFORE, the parties hereto, intending to be legally bound hereby and in consideration of the premises, DO HEREBY AGREE as follows:

ARTICLE I

DEFINITIONS

SECTION 1.01. Definitions. The terms used in this Agreement shall for all purposes of this Agreement have the meanings specified in Section 1.01 of the Indenture, unless the context clearly requires otherwise.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

SECTION 2.01. *Representations and Warranties of the Pollution Control Corporation.* The Pollution Control Corporation makes the following representations and warranties as the basis for the undertakings on the part of the Company contained herein:

(a) The Pollution Control Corporation is an Arizona nonprofit corporation and a political subdivision of the State of Arizona created and existing under the Constitution and laws of the State of Arizona;

(b) The Pollution Control Corporation has the power to enter into this Agreement and the Indenture and to perform and observe the agreements and covenants on its part contained herein and therein, including without limitation the power to issue and sell the Bonds as contemplated herein and in the Indenture, and by proper action has duly authorized the execution and delivery hereof and thereof;

(c) The execution and delivery of this Agreement and the Indenture by the Pollution Control Corporation do not, and consummation of the transactions contemplated hereby and fulfillment of the terms hereof and thereof by the Pollution Control Corporation will not, result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Pollution Control Corporation is now a party or by which it is now bound, or any order, rule or regulation applicable to the Pollution Control Corporation of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction over the Pollution Control Corporation or over any of its properties, or the Constitution or laws of the State of Arizona;

(d) With the exception of the approval of the Coconino County Board of Supervisors obtained on November 16, 2010, no consent, approval, authorization or other order of any regulatory body or administrative agency or other governmental body is legally required for the Pollution Control Corporation's participation in the transactions contemplated by this Agreement, except such as may have been obtained or may be required under the securities laws of any jurisdiction; and

(e) The Pollution Control Corporation has found and determined that all requirements of the Act with respect to the issuance of the Bonds and the execution and delivery of the Indenture and this Agreement have been complied with and that the entering into of the Indenture and this Agreement will be in furtherance of the purposes of the Act.

SECTION 2.02. *Representations and Warranties of the Company.* The Company makes the following representations and warranties as the basis for the undertakings on the part of the Pollution Control Corporation contained herein:

(a) The Company is a corporation duly organized and existing in good standing under the laws of the State of Arizona;

(b) The Company has power to enter into this Agreement and to perform and observe the agreements and covenants on its part contained herein and by proper corporate action has duly authorized the execution and delivery hereof and of all other documents required hereby to be executed by the Company;

(c) The execution and delivery of this Agreement by the Company do not, and consummation of transactions contemplated hereby and fulfillment of the terms hereof by the Company will not, result in a breach of any of the terms or provisions of, or constitute a default under, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company is a party or by which it is now bound, or the Restated Articles of Incorporation or bylaws of the Company, or any order, rule or regulation applicable to the Company of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction over the Company or over any of its properties, or any statute of any jurisdiction applicable to the Company;

(d) The Arizona Corporation Commission has approved all matters relating to the Company's participation in the transactions contemplated by this Agreement which require said approval, and no other consent, approval, authorization or other order of any regulatory body or administrative agency or other governmental body is legally required for the Company's participation therein, except such as may have been obtained or may be required under the securities laws of any jurisdiction;

(e) The Facilities to be refinanced constitute "pollution control facilities" as such term is defined in the Act; and

(f) All of the proceeds of the Bonds will be expended to refinance the Facilities through the payment or redemption of the 1997 Bonds, or provisions therefor.

ARTICLE III

THE FACILITIES

SECTION 3.01. *Facilities; Property of the Company.* An undivided interest in the Facilities shall be the property of the Company and the Pollution Control Corporation shall have no right, title or interest in the Facilities.

SECTION 3.02. *Maintenance of Facilities; Remodeling.* The Company shall at all times exercise all of its rights, powers, elections and options under the Plant Agreements to cause the Facilities, and every element and unit thereof, to be maintained, preserved and kept in thorough repair, working order and condition and to cause all needful and proper repairs and renewals thereto to be made; provided, however, that the Company may exercise all of its rights, powers, elections and options under the Plant Agreements to cause the operation of the Facilities, or any element or unit thereof, to be discontinued if, in the judgment of the Company, it is no longer advisable to operate the same, or if the Company intends to sell or dispose of the same and within a reasonable time shall endeavor to effectuate such sale or disposition.

The Company may, subject to the provisions of Section 6.05 hereof, at its own expense consent to the remodeling of the Facilities or to the making of such substitutions, modifications and improvements to the Facilities from time to time as it, in its discretion, may deem to be desirable for its uses and purposes, which remodeling, substitutions, modifications and improvements shall be included under the terms of this Agreement as part of the Facilities.

SECTION 3.03. *Insurance.* The Company shall exercise all of its rights, powers, elections and options under the Plant Agreements to keep the Facilities insured against fire and other risks to the extent usually insured against by companies owning and operating similar property, by reputable insurance companies or, at the Company's election, with respect to all or any element or unit of the Facilities, by means of an adequate insurance fund set aside and maintained by it out of its own earnings or in conjunction with other companies through an insurance fund, trust or other agreement or, by means of unfunded self insurance as may be reasonable and customary by companies owning and operating similar property. All proceeds of such insurance shall be for the account of the Company.

SECTION 3.04. *Condemnation.* The Company shall be entitled to the entire proceeds of any condemnation award or portion thereof made for damages to or takings of the Facilities or other property of the Company.

ARTICLE IV

ISSUANCE OF THE BONDS; THE LOAN; DISPOSITION OF PROCEEDS OF THE BONDS

SECTION 4.01. *Issuance of the Bonds.* The Pollution Control Corporation shall issue the Bonds under and in accordance with the Indenture, subject to the provisions of the bond purchase agreement among the Pollution Control Corporation, the initial purchaser or purchasers of the Bonds and the Company. The Company hereby approves the issuance of the Bonds and all terms and conditions thereof.

SECTION 4.02. *Issuance of Other Obligations.* The Pollution Control Corporation and the Company expressly reserve the right to enter into, to the extent permitted by law, but shall not be obligated to enter into, an agreement or agreements other than this Agreement with respect to the issuance by the Pollution Control Corporation, under an indenture or indentures other than the Indenture, of obligations to provide additional funds to pay the cost of construction

of the Facilities or obligations to refund all or any principal amount of the Bonds, or any combination thereof.

SECTION 4.03. *The Loan; Disposition of Bond Proceeds.* The Pollution Control Corporation shall cause the proceeds of the Bonds to be deposited with the trustee for the 1997 Bonds to be applied to the payment of the 1997 Bonds upon the redemption thereof.

The Pollution Control Corporation shall establish the Bond Fund with the Trustee in accordance with Section 4.01 of the Indenture.

SECTION 4.04. *Investment of Moneys in Funds and Accounts.* The Company and the Pollution Control Corporation agree that any moneys held in any fund or account created by the Indenture shall be invested as provided in the Indenture.

ARTICLE V

LOAN PAYMENTS; PURCHASE PAYMENTS; OTHER OBLIGATIONS

SECTION 5.01. *Loan Payments.* In consideration of the issuance of the Bonds and the disposition of the proceeds thereof as contemplated in Section 4.03 hereof, the Company shall pay, or cause to be paid, to the Trustee for the account of the Pollution Control Corporation an amount equal to the aggregate principal amount of the Bonds from time to time Outstanding and, as interest on its obligation to pay such amount, an amount equal to premium, if any, and interest on such Bonds, such amounts to be paid in installments due on the dates, in the amounts and in the manner provided in the Indenture for the Pollution Control Corporation to cause amounts to be deposited in the Bond Fund for the payment of the principal of and premium, if any, and interest on the Bonds whether at stated maturity, upon redemption or acceleration or otherwise; provided, however, that the obligation of the Company to make any such payment hereunder shall be reduced by the amount of any reduction under the Indenture of the amount of the corresponding payment required to be made by the Pollution Control Corporation thereunder.

Notwithstanding the foregoing, while any Credit Facility is in effect with respect to the Bonds, the Company's obligation to make Loan Payments hereunder in respect of the principal of, and premium, if any, and accrued interest on the Bonds shall be deemed to have been satisfied to the extent that moneys shall have been paid by a Credit Facility Issuer to the Trustee for such payment in respect of the Bonds, and no Event of Default shall occur hereunder by reason of any failure of the Company to make any such Loan Payment to the Trustee under the preceding paragraph.

SECTION 5.02. *Purchase Payments.* To the extent that moneys on deposit in the Remarketing Proceeds Account of the Purchase Fund established under the Indenture are insufficient to pay the full purchase price of Bonds payable pursuant to Section 5.03 of the Indenture on the applicable Purchase Date, the Company shall promptly pay to the Trustee as Purchase Payments for deposit in the Company Fund established under Section 5.07 of the Indenture amounts sufficient to cover such shortfalls in sufficient time to enable the Trustee to deliver the purchase price of Bonds payable pursuant to Section 5.03 of the Indenture; provided, however, that the obligation of the Company to make any Purchase Payment hereunder shall be

deemed to have been satisfied to the extent that moneys shall have been paid by a Credit Facility Issuer to the Trustee for such payment in respect of the Bonds.

SECTION 5.03. *Loan Payments Assigned; Obligation Absolute.* It is understood and agreed that all Loan Payments are, by the Indenture, to be pledged by the Pollution Control Corporation to the Trustee, and that all rights and interest of the Pollution Control Corporation hereunder (except for the Pollution Control Corporation's rights under Section 5.04, Section 5.05, Section 6.03 and Section 8.05 hereof and any rights of the Pollution Control Corporation to receive notices, certificates, requests, requisitions and other communications hereunder) are to be pledged and assigned to the Trustee. The Company assents to such pledge and assignment and agrees that the obligation of the Company to make the Loan Payments and the Purchase Payments shall be absolute, irrevocable and unconditional and shall not be subject to cancellation, termination or abatement, or to any defense other than payment or to any right of set off, counterclaim or recoupment arising out of any breach by the Pollution Control Corporation or the Trustee or any other party under this Agreement, the Indenture or otherwise, or out of any obligation or liability at any time owing to the Company by the Pollution Control Corporation, the Trustee or any other party, and, further, that the Loan Payments and Purchase Payments and the other payments due hereunder shall continue to be payable at the times and in the amounts herein and therein specified, whether or not the Facilities, or any portion thereof, shall have been completed or shall have been destroyed by fire or other casualty, or title thereto, or the use thereof, shall have been taken by the exercise of the power of eminent domain, and that there shall be no abatement of or diminution in any such payments by reason thereof, whether or not the Facilities shall be used or useful, whether or not any applicable laws, regulations or standards shall prevent or prohibit the use of the Facilities, or for any other reason, all of the foregoing being subject, however, to the provisions of Section 6.01 and Section 7.01 hereof.

SECTION 5.04. *Payment of Expenses.* The Company shall pay all Administration Expenses, including, without limitation, Administration Expenses incurred at and subsequent to the time the Bonds are deemed to have been paid in accordance with Article IX of the Indenture. The payment of the compensation and the reimbursement of expenses and advances of the Trustee under the Indenture shall be made directly to the Trustee.

SECTION 5.05. *Indemnification.* The Company releases the Pollution Control Corporation, the Trustee and the County of Coconino and their respective directors, officers, employees and agents from, agrees that the Pollution Control Corporation, the County of Coconino and the Trustee shall not be liable for, and agrees to indemnify and hold the Pollution Control Corporation, the County of Coconino, the Trustee and any predecessor Trustee and their directors, officers, employees and agents free and harmless from, any liability (including, without limitation, attorneys' and other agents' fees and expenses) for any loss or damage to property or any injury to or death of any person that may be occasioned by any cause whatsoever pertaining to the Facilities, except in any case as a result of the negligence or willful misconduct of the party otherwise to be indemnified.

The Company will indemnify and hold the Pollution Control Corporation, the Trustee and any predecessor Trustee, free and harmless from any loss, claim, damage, tax, penalty, liability, disbursement, litigation expenses, attorneys' and other agents' fees and expenses or

court costs arising out of, or in any way relating to, the execution or performance of this Agreement, the issuance or sale of the Bonds, actions taken under the Indenture or any other cause whatsoever pertaining to the Facilities, except in any case as a result of the negligence or willful misconduct of the party otherwise to be indemnified.

The Company will indemnify and hold the Pollution Control Corporation and its directors, officers, employees and agents free and harmless from any loss, claim, damage, tax, penalty, liability, disbursement, litigation expenses, attorney's fees and expenses or court costs arising out of or in any way relating to any untrue statement or alleged untrue statement of any material fact or omission or alleged omission to state a material fact necessary to make the statements made, in light of the circumstances under which they were made, not misleading in any official statement or other offering material utilized in connection with the sale of any Bonds.

SECTION 5.06. *Payment of Taxes; Discharge of Liens.* The Company shall: (a) pay, or make provision for payment of, all lawful taxes and assessments, including income, profits, property or excise taxes, if any, or other municipal or governmental charges, levied or assessed by any federal, state or municipal government or political body upon the Facilities or any part thereof or upon the Pollution Control Corporation with respect to the Loan Payments and Purchase Payments, when the same shall become due; and (b) pay or cause to be satisfied and discharged or make adequate provision to satisfy and discharge, within sixty (60) days after the same shall accrue, any lien or charge upon the Loan Payments and Purchase Payments, and all lawful claims or demands for labor, materials, supplies or other charges which, if unpaid, might be or become a lien upon such amounts; provided, that, if the Company shall first notify the Pollution Control Corporation and the Trustee of its intention so to do, the Company may in good faith contest any such lien or charge or claims or demands in appropriate legal proceedings, and in such event may permit the items so contested and identified as such by the Company to remain undischarged and unsatisfied during the period of such contest and any appeal therefrom, unless the Trustee shall notify the Company in writing that, in the opinion of counsel to the Trustee, based upon material facts disclosed to the Trustee without any duty of investigation, by nonpayment of any such items the lien of the Indenture as to the Loan Payments will be materially endangered, in which event the Company shall promptly pay and cause to be satisfied and discharged all such unpaid items. The Pollution Control Corporation shall cooperate fully with the Company in any such contest.

ARTICLE VI

SPECIAL COVENANTS

SECTION 6.01. *Maintenance of Legal Existence.* Except as permitted in this Section 6.01, the Company shall maintain its legal existence, shall not sell, transfer or otherwise dispose of all of its assets, as or substantially as an entirety, and shall not consolidate with or merge with or into another entity. Unless such action would violate the Company's covenant in Section 6.04, the Company may consolidate with or merge into another entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia, or sell, transfer or otherwise dispose of all of its assets, as or substantially as an entirety, to any Person, if the surviving or resulting Person (if other than the Company) or the

transferee Person, as the case may be, prior to or simultaneously with such merger, consolidation, sale, transfer or disposition, assumes, by delivery to the Trustee and the Pollution Control Corporation of an instrument in writing satisfactory in form to the Trustee, all the obligations of the Company under this Agreement, including, without limitation, the obligations of the Company under Section 5.01 and Section 5.02 hereof. Upon such an assumption following any such consolidation or merger or sale, transfer or other disposition of assets, the Company shall be released and discharged from all liability in respect of all obligations under this Agreement. Notwithstanding the foregoing, in the case of any such sale, transfer or other disposition of assets, which do not include the Facilities, the Company shall remain liable in respect of all obligations under this Agreement other than the obligations under Section 5.01 and Section 5.02 hereof, and the transferee shall not be required to assume any obligations hereunder other than the obligations under Section 5.01 and Section 5.02 hereof; provided, however, that the transferee shall be required to assume all such other obligations unless the Company shall have delivered to the Pollution Control Corporation and the Trustee an opinion of Bond Counsel to the effect that the non-assumption by the transferee of such other obligations will not impair the validity under the Act of the Bonds and will not, in and of itself, adversely affect the exclusion from gross income for federal tax purposes of interest on the Bonds.

If consolidation, merger or sale, transfer or other disposition is made as permitted by this Section 6.01, the provisions of this Section 6.01 shall continue in full force and effect and no further consolidation, merger or sale or other transfer shall be made except in compliance with the provisions of this Section 6.01.

Anything in this Agreement to the contrary notwithstanding, the sale, transfer or other disposition by the Company of all of its facilities (a) for the generation of electric energy, (b) for the transmission of electric energy or (c) for the distribution of electric energy, in each case considered alone, or all of its facilities described in clauses (a) and (b), considered together, or all of its facilities described in clauses (b) and (c), considered together, shall in no event be deemed to constitute a sale, transfer or other disposition of all the properties of the Company, as or substantially as an entirety, unless, immediately following such sale, transfer or other disposition, the Company shall own no properties in the other such categories of property not so sold, transferred or otherwise disposed of. The character of particular facilities shall be determined by reference to the Uniform System of Accounts prescribed for public utilities and licensees subject to the Federal Power Act, as amended, to the extent applicable.

SECTION 6.02. *Permits or Licenses*. In the event that it may be necessary for the proper performance of this Agreement on the part of the Company or the Pollution Control Corporation that any application or applications for any permit or license to do or to perform certain things be made to any governmental or other agency by the Company or the Pollution Control Corporation, the Company and the Pollution Control Corporation each shall, upon the request of either, execute such application or applications.

SECTION 6.03. *Pollution Control Corporation's Access to Facilities*. The Pollution Control Corporation shall have the right, upon appropriate prior notice to the Company, to have reasonable access to the Facilities during normal business hours for the purpose of making examinations and inspections of the same.

SECTION 6.04. *Tax-Exempt Status of Interest on Bonds.* (a) It is the intention of the parties hereto that interest on the Bonds shall be and remain excluded from gross income for federal income tax purposes, and to that end the covenants and agreements of the Pollution Control Corporation and the Company in this Section 6.04 and the Tax Agreement are for the benefit of the beneficial owners from time to time of the Bonds.

(b) Each of the Company and the Pollution Control Corporation covenants and agrees for the benefit of the beneficial owners from time to time of the Bonds that it will not directly or indirectly use or permit the use of (to the extent within its control) the proceeds of any of the Bonds or any other funds, or take or omit to take any action, if and to the extent such use, or the taking or omission to take such action, would cause any of the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the 1986 Code or otherwise subject interest on the Bonds to federal income taxation by reason of failing to qualify under Section 103 of the 1986 Code or under Section 103 of the 1954 Code and Title XIII of the Tax Reform Act of 1986, as applicable, and any applicable regulations promulgated thereunder. To such ends, the Pollution Control Corporation and the Company will comply with all requirements of such Section 148 to the extent applicable to the Bonds. In the event that at any time the Pollution Control Corporation or the Company is of the opinion that for purposes of this Section 6.04(b) it is necessary to restrict or limit the yield on the investment of any moneys held by the Trustee under the Indenture, the Pollution Control Corporation or the Company shall so notify the Trustee in writing.

Without limiting the generality of the foregoing, the Company and the Pollution Control Corporation agree that there shall be paid from time to time all amounts required to be rebated to the United States of America pursuant to Section 148(f) of the Code and any applicable Treasury Regulations. This covenant shall survive payment in full or defeasance of the Bonds and the satisfaction and discharge of the Indenture. The Company specifically covenants to pay or cause to be paid the Rebate Requirement as defined and described in the Tax Agreement.

(c) The Pollution Control Corporation certifies and represents that it has not taken, and the Pollution Control Corporation covenants and agrees that it will not take, any action which results in interest paid on the Bonds being included in gross income of the beneficial owners of the Bonds for federal tax purposes by failing to qualify under Section 103 of the 1986 Code or under Section 103 of the 1954 Code and Title XIII of the Tax Reform Act of 1986, as applicable, and any regulations thereunder; and the Company certifies and represents that it has not taken or (to the extent within its control) permitted to be taken, and the Company covenants and agrees that it will not take or (to the extent within its control) permit to be taken any action which will cause the interest on the Bonds to become includable in gross income for federal income tax purposes; provided, however, that neither the Company nor the Pollution Control Corporation shall be deemed to have violated these covenants if the interest on any of the Bonds becomes taxable to a person solely because such person is a "substantial user" of the Facilities or other facilities treated as financed or refinanced by the Bonds for federal income tax purposes or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code or Section 147(a) of the 1986 Code; and provided, further, that none of the covenants and agreements herein contained shall require either the Company or the Pollution Control Corporation to enter an appearance or intervene in any administrative, legislative or judicial proceeding in connection with any changes in applicable laws, rules or regulations or in connection with any decisions of any court or administrative agency or other governmental body affecting the taxation of interest

on the Bonds. The Company acknowledges having read Section 8.08 of the Indenture and agrees to perform all duties imposed on it by such Section 8.08, by this Section and by the Tax Agreement. Insofar as Section 8.08 of the Indenture and the Tax Agreement impose duties and responsibilities on the Company, they are specifically incorporated herein by reference.

(d) Notwithstanding any provision of this Section 6.04 and Section 8.08 of the Indenture or the Tax Agreement, if the Company shall provide to the Pollution Control Corporation and the Trustee an opinion of Bond Counsel to the effect that any specified action required under this Section 6.04 or Section 8.08 of the Indenture or the Tax Agreement is no longer required or that some further or different action is required to maintain the exclusion from gross income of interest on the Bonds for federal income tax purposes, the Company, the Trustee and the Pollution Control Corporation may conclusively rely upon such opinion in complying with the requirements of this Section 6.04, and the covenants hereunder shall be deemed to be modified to that extent.

SECTION 6.05. *Use of Facilities.* So long as any Bonds are Outstanding and the Facilities are operated by or for the benefit of the Company, the Company shall exercise all of its rights, powers, elections and options under the Plant Agreements to cause the Facilities to be used for purposes contemplated by the Act and in the Tax Agreement.

SECTION 6.06. *Financing Statements.* The Company shall file and record, or cause to be filed and recorded, all financing statements and continuation statements referred to in Section 8.07 of the Indenture.

ARTICLE VII

ASSIGNMENT, LEASING AND SELLING

SECTION 7.01. *Conditions.* The Company's interest in this Agreement may be assigned as a whole or in part, and its interest in the Facilities may be leased, sold, transferred or otherwise disposed of by the Company as a whole or in part (whether an interest in a specific element or unit or an undivided interest), to any Person; provided, however, that no such assignment, lease, sale, transfer or other disposition (a) shall relieve the Company from its primary liability for its obligations under Section 5.01 and Section 5.02 hereof or (b) shall be made unless the assignee, lessee, purchaser or other transferee, as the case may be, prior to or simultaneously with such assignment, lease, sale, transfer or other disposition, assumes, by delivery of an instrument in writing satisfactory in form to the Trustee and the Pollution Control Corporation, all other obligations of the Company hereunder to the extent of the interest assigned, leased, sold, transferred or otherwise disposed of, and the Company shall be released of and discharged from such obligations to the extent so assumed. Notwithstanding the foregoing, (a) if (i) the Company's interest in this Agreement shall be assigned as a whole or in undivided part, (ii) the Company's interest in the Facilities shall be leased as a whole or in undivided part and the term of such leasehold or the term of any extension or extensions thereof at the option of the Company shall extend beyond the maturity date of the Bonds or (iii) the Company's interest in the Facilities shall be sold, transferred or otherwise disposed of as a whole or in undivided part, and (b) in the event that the assignee, lessee, purchaser or other transferee shall assume the obligations of the Company under Section 5.01 and Section 5.02 hereof for the remaining term

of this Agreement, to the extent of such assignment, lease, sale, transfer or other disposition, the Company shall be released from and discharged of all liability in respect of such obligations to the extent so assumed (but only to such extent); provided, however, that the release and discharge of the Company pursuant to clause (b) shall be conditioned upon the delivery by the Company to the Pollution Control Corporation and the Trustee of a certificate of an Independent Expert (as hereinafter defined) describing the interests so assigned, leased, sold, transferred or otherwise disposed of, together with all other rights, interests, assets and/or properties assigned, leased, sold, transferred or otherwise disposed of by the Company to the same Person in the same or a related transaction, stating that such rights, interests, assets and/or properties so described constitute facilities for the generation, transmission and/or distribution of electric energy and stating that, in the opinion of such Independent Expert, the Fair Value (as hereinafter defined) of such rights, interests, assets and/or properties to the Person acquiring the same is not less than an amount equal to 10/7 of the sum of (x) the aggregate principal amount of the Bonds then Outstanding and (y) the outstanding principal amount of all other obligations of the Company representing indebtedness for borrowed money or for the deferred purchase price of property which are being assumed by such Person; provided, further, that after any such assumption, release and discharge as aforesaid, the Company may again assume such obligations under Section 5.01 hereof, in whole or in part, at any time and from time to time, and, to the extent of any such assumption by the Company (but only to such extent), the aforesaid assignee, lessee, purchaser or other transferee shall be released from and discharged of all liability in respect of such obligations.

Anything herein to the contrary notwithstanding, the Company shall not make any assignment, lease or sale as provided in the immediately preceding paragraph unless it shall have furnished to the Pollution Control Corporation and the Trustee an opinion of Bond Counsel to the effect that the proposed assignment, lease or sale will not impair the validity under the Act of the Bonds and will not adversely affect the exclusion of interest on the Bonds from gross income for federal tax purposes.

After any lease, sale, transfer or other disposition of any element or unit of the Facilities, or any interest therein, the Company may, at its option, cause such element or unit, or interest therein, to no longer be deemed to be part of the Facilities for the purposes of this Agreement by delivering to the Pollution Control Corporation and the Trustee the agreements or other documents required pursuant to Section 7.02 hereof together with an instrument signed by an Authorized Company Representative stating that such element or unit, or interest therein, shall no longer be deemed to be part of the Facilities for the purposes of this Agreement.

For purposes of this Section 7.01:

(a) "Independent Expert" means a Person which (i) is an engineer, appraiser or other expert and which, with respect to any certificate to be delivered pursuant to this Section, is qualified to pass upon the matter set forth in such certificate and (ii)(A) is in fact independent, (B) does not have any direct material financial interest in the transferee or in any obligor upon the Bonds or under this Agreement or in any affiliate of the transferee or any such obligor, (C) is not connected with the transferee or any such obligor as an officer, employee, promoter, underwriter, trustee, partner, director or any person performing similar functions and (D) is approved by the Trustee in the exercise of

reasonable care; for purposes of this definition "engineer" means a Person engaged in the engineering profession or otherwise qualified to pass upon engineering matters (including, but not limited to, a Person licensed as a professional engineer, whether or not then engaged in the engineering profession); and for purposes of this definition "appraiser" means a Person engaged in the business of appraising property or otherwise qualified to pass upon the Fair Value or fair market value of property.

(b) "Fair Value" means the fair value of the interests, rights, assets and/or properties assigned, leased, sold, transferred or otherwise disposed of (but, in the case of a lease, only to the extent of such lease) as may be determined by reference to (i) except in the case of a lease, the amount which would be likely to be obtained in an arm's-length transaction with respect to such interests, rights, assets and/or properties between an informed and willing buyer and an informed and willing seller, under no compulsion, respectively, to buy or sell, (ii) in the case of a lease, the amount (discounted to present value at a rate not lower than the taxable equivalent of the yield to maturity of the Bonds based on prevailing market prices immediately prior to the first public announcement of the proposed transaction) which would be likely to be obtained in an arm's-length transaction with respect to such interests, rights, assets and/or properties between an informed and willing lessee and an informed and willing lessor, neither under any compulsion to lease; (iii) the amount of investment with respect to such interests, rights, assets and/or properties which, together with a reasonable return thereon, would be likely to be recovered through ordinary business operations or otherwise, (iv) the cost, accumulated depreciation and replacement cost with respect to such interests, rights, assets and/or properties and/or (v) any other relevant factors; provided, however, that (x) Fair Value shall be determined without deduction for any mortgage, deed of trust, pledge, security interest, encumbrance, lease, reservation, restriction, servitude, charge or similar right or any other lien of any kind and (y) the Fair Value to the transferee of any property shall not reflect any reduction relating to the fact that such property may be of less value to a Person which is not the owner, lessee or operator of the property or any portion thereof than to a Person which is such owner, lessee or operator. Fair Value may be determined, without physical inspection, by the use of accounting and engineering records and other data maintained by the Company or the transferee or otherwise available to the Independent Expert certifying the same.

SECTION 7.02. *Instrument Furnished to the Pollution Control Corporation and Trustee.* The Company shall, within fifteen (15) days after the delivery thereof, furnish to the Pollution Control Corporation and the Trustee a true and complete copy of the agreements or other documents effectuating any such assignment, lease, sale, transfer or other disposition.

SECTION 7.03. *Limitation.* This Agreement shall not be assigned nor shall the Facilities be leased, sold, transferred or otherwise disposed of, in whole or in part, except as provided in this Article VII or in Section 6.01 or 5.03 hereof. This Article VII shall not apply to any sale, transfer or other disposition by the Company of all of its assets, as or substantially as an entirety, as contemplated in Section 6.01.

ARTICLE VIII

EVENTS OF DEFAULT AND REMEDIES

SECTION 8.01. *Events of Default.* Each of the following events shall constitute and is referred to in this Agreement as an "Event of Default":

(a) a failure by the Company to make any Loan Payment or Purchase Payment, which failure shall have resulted in an "Event of Default" under clause (a), (b) or (c) of Section 10.01 of the Indenture;

(b) a failure by the Company to pay when due any amount required to be paid under this Agreement or to observe and perform any covenant, condition or agreement on its part to be observed or performed (other than a failure described in clause (a) above), which failure shall continue for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Company by the Pollution Control Corporation or the Trustee, unless the Pollution Control Corporation and the Trustee shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Pollution Control Corporation and the Trustee shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Company within such period and is being diligently pursued; or

(c) the dissolution or liquidation of the Company, or failure by the Company promptly to lift any execution, garnishment or attachment of such consequence as will impair its ability to make any payments under this Agreement, or the entry of an order for relief by a court of competent jurisdiction in any proceeding for its liquidation or reorganization under the provisions of any bankruptcy act or under any similar act which may be hereafter enacted, or an assignment by the Company for the benefit of its creditors, or the entry by the Company into an agreement of composition with its creditors (the term "dissolution or liquidation of the Company," as used in this clause, shall not be construed to include the cessation of the corporate existence of the Company resulting either from a merger or consolidation of the Company into or with another entity or a dissolution or liquidation of the Company following a transfer of all or substantially all its assets as an entirety, under the conditions permitting such actions contained in Section 6.01 hereof).

SECTION 8.02. *Force Majeure.* The provisions of Section 8.01 hereof are subject to the following limitations: if by reason of acts of God; strikes, lockouts or other industrial disturbances; acts of public enemies; orders of any kind of the government of the United States or of the State of Arizona, or any department, agency, political subdivision, court or official of any of them, or any civil or military authority; insurrections; riots; epidemics; landslides; lightning; earthquakes; volcanoes; fires; hurricanes; tornadoes; storms; floods; washouts; droughts; arrests; restraint of government and people; civil disturbances; explosions; breakage or accident to machinery; partial or entire failure of utilities; or any cause or event not reasonably within the control of the Company, the Company is unable in whole or in part to carry out any one or more of its agreements or obligations contained herein, other than its obligations under Section 5.01, Section 5.02, Section 5.04, Section 5.06, and Section 6.01 hereof, the Company

shall not be deemed in default by reason of not carrying out said agreement or agreements or performing said obligation or obligations during the continuance of such inability. The Company shall make reasonable effort to remedy with all reasonable dispatch the cause or causes preventing it from carrying out its agreements; provided, that the settlement of strikes, lockouts and other industrial disturbances shall be entirely within the discretion of the Company, and the Company shall not be required to make settlement of strikes, lockouts and other industrial disturbances by acceding to the demands of the opposing party or parties when such course is in the judgment of the Company unfavorable to the Company.

SECTION 8.03. *Remedies*. (b) Upon the occurrence and continuance of any Event of Default described in clause (a) of Section 8.01 hereof, and further upon the condition that, in accordance with the terms of the Indenture, the Bonds shall have been declared to be immediately due and payable pursuant to any provision of the Indenture, the Loan Payments shall, without further action, become and be immediately due and payable.

Any waiver of any "Event of Default" under the Indenture and a rescission and annulment of its consequences shall constitute a waiver of the corresponding Event or Events of Default under this Agreement and a rescission and annulment of the consequences thereof.

(a) Upon the occurrence and continuance of any Event of Default, the Pollution Control Corporation, or the Trustee with respect to the rights of the Pollution Control Corporation assigned to the Trustee by the Indenture, may take any action at law or in equity to collect any payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company hereunder.

(b) Any amounts collected by the Trustee from the Company pursuant to this Section 8.03 shall be applied in accordance with the Indenture.

SECTION 8.04. *No Remedy Exclusive*. No remedy conferred upon or reserved to the Pollution Control Corporation hereby is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or now or hereafter existing at law or in equity or by statute. No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver thereof, but any such right or power may be exercised from time to time and as often as may be deemed expedient. In order to entitle the Pollution Control Corporation to exercise any remedy reserved to it in this Article VIII, it shall not be necessary to give any notice, other than such notice as may be herein expressly required.

SECTION 8.05. *Reimbursement of Attorneys' and Agents' Fees*. If the Company shall default under any of the provisions hereof and the Pollution Control Corporation or the Trustee shall employ attorneys or agents or incur other reasonable expenses for the collection of payments due hereunder or for the enforcement of performance or observance of any obligation or agreement on the part of the Company contained herein, the Company will on demand therefor reimburse the Pollution Control Corporation or the Trustee and any predecessor Trustee,

as the case may be, for the reasonable fees of such attorneys and such other reasonable expenses so incurred.

SECTION 8.06. *Waiver of Breach.* In the event any obligation created hereby shall be breached by either of the parties and such breach shall thereafter be waived by the other party, such waiver shall be limited to the particular breach so waived and shall not be deemed to waive any other breach hereunder. In view of the assignment of certain of the Pollution Control Corporation's rights and interest hereunder to the Trustee, the Pollution Control Corporation shall have no power to waive any breach hereunder by the Company in respect of such rights and interest without the consent of the Trustee, and the Trustee may exercise any of the rights of the Pollution Control Corporation hereunder.

ARTICLE IX

REDEMPTION OF BONDS

SECTION 9.01. *Redemption of Bonds.* The Pollution Control Corporation shall take, or cause to be taken, the actions required by the Indenture to discharge the lien created thereby through the redemption, or provision for payment or redemption, of all Bonds then Outstanding, or to effect the redemption, or provision for payment or redemption, of less than all the Bonds then Outstanding, upon receipt by the Pollution Control Corporation and the Trustee from the Company of a notice designating the principal amount of the Bonds to be redeemed, or for the payment or redemption of which provision is to be made, and, in the case of redemption of Bonds, or provision therefor, specifying the date of redemption and the applicable redemption provision of the Indenture. Such redemption date shall not be less than thirty (30) days from the date such notice is given (unless a shorter notice is satisfactory to the Trustee). Unless otherwise stated therein, such notice shall be revocable by the Company at any time prior to the time at which the Bonds to be redeemed, or for the payment or redemption of which provision is to be made, are first deemed to be paid in accordance with Article IX of the Indenture. The Company shall furnish any moneys or Government Obligations required by the Indenture to be deposited with the Trustee or otherwise paid by the Pollution Control Corporation in connection with any of the foregoing purposes.

SECTION 9.02. *Compliance with the Indenture.* Anything in this Agreement to the contrary notwithstanding, the Pollution Control Corporation and the Company shall take all actions required by this Agreement and the Indenture in order to comply with any provisions of the Indenture requiring the mandatory redemption of Bonds.

ARTICLE X

MISCELLANEOUS

SECTION 10.01. *Term of Agreement.* This Agreement shall remain in full force and effect from the date hereof until the right, title and interest of the Trustee in and to the Trust Estate shall have ceased, terminated and become void in accordance with Article IX of the Indenture and until all payments required under this Agreement shall have been made.

Notwithstanding the foregoing, the covenants contained in Section 5.04, Section 5.05, Section 6.04 and Section 8.05 hereof shall survive the termination of this Agreement.

SECTION 10.02. *Notices*. Except as otherwise provided in this Agreement, all notices, certificates, requests, requisitions and other communications hereunder shall be in writing and shall be sufficiently given and shall be deemed given when mailed by registered mail, postage prepaid, addressed as follows: if to the Pollution Control Corporation, Mangum, Wall, Stoops & Warden P.L.L.C., 100 North Elden Street, P.O. Box 10, Flagstaff, Arizona 86002-0010, Attention: President; if to the Company, at One South Church Avenue, Suite 100, Tucson, Arizona 85701, Attention: Treasurer; and if to the Trustee, at such address as shall be designated by it in the Indenture. A copy of each notice, certificate, request or other communication given hereunder to the Pollution Control Corporation, the Company, or the Trustee shall also be given to the others. The Pollution Control Corporation, the Company, and the Trustee may, by notice given hereunder, designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent. Notwithstanding any other provision of this Agreement to the contrary, any notice required to be delivered hereunder may be delivered by Electronic Notice.

SECTION 10.03. *Parties in Interest*. This Agreement shall inure to the benefit of and shall be binding upon the Pollution Control Corporation, the Company and their respective successors and assigns, and no other person, firm or corporation shall have any right, remedy or claim under or by reason of this Agreement; provided, however, that the rights and remedies granted to the Pollution Control Corporation in Article VIII hereof, shall inure to the benefit of the Trustee, on behalf of the beneficial owners from time to time of the Bonds, and shall be enforceable by the Trustee as a third party beneficiary or as assignee of the Pollution Control Corporation; and provided, further, that neither the County of Coconino, Arizona nor the State of Arizona shall in any event be liable for the payment of the principal of or premium, if any, or interest on the Bonds or for the performance of any pledge, mortgage, obligation or agreement created by or arising out of this Agreement or the issuance of the Bonds, and further that neither the Bonds nor any such obligation or agreement of the Pollution Control Corporation shall be construed to constitute an indebtedness of the County of Coconino, Arizona or the State of Arizona within the meaning of any constitutional or statutory provisions whatsoever, but shall be limited obligations of the Pollution Control Corporation payable solely out of the revenues derived from this Agreement, or from the sale of the Bonds, or from the investment or reinvestment of any of the foregoing, as provided herein and in the Indenture.

SECTION 10.04. *Amendments*. This Agreement may be amended only by written agreement of the parties hereto, subject to the limitations set forth herein and in the Indenture.

SECTION 10.05. *Counterparts*. This Agreement may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original; but such counterparts shall together constitute but one and the same Agreement.

SECTION 10.06. *Severability*. If any clause, provision or section of this Agreement shall, for any reason, be held illegal or invalid by any court, the illegality or invalidity of such clause, provision or section shall not affect any of the remaining clauses, provisions or sections hereof, and this Agreement shall be construed and enforced as if such illegal or invalid clause,

provision or section had not been contained herein. In case any agreement or obligation contained in this Agreement be held to be in violation of law, then such agreement or obligation shall be deemed to be the agreement or obligation of the Pollution Control Corporation or the Company, as the case may be, to the full extent permitted by law.

SECTION 10.07. *Governing Law.* The laws of the State of Arizona shall govern the construction and enforcement of this Agreement, except that the provisions of Section 15.09 of the Indenture, construed as provided in Section 15.07 of the Indenture, shall apply to this Agreement as if contained herein.

SECTION 10.08. *Notice Regarding Cancellation of Contracts.* As required by the provisions of Section 38-511, Arizona Revised Statutes, as amended, notice is hereby given that political subdivisions of the State of Arizona or any of their departments or agencies may, within three (3) years of its execution, cancel any contract, without penalty or further obligation, made by the political subdivisions or any of their departments or agencies on or after September 30, 1988, if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the political subdivisions or any of their departments or agencies is, at any time while the contract or any extension of the contract is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter of the contract. The cancellation shall be effective when written notice from the chief executive officer or governing body of the political subdivision is received by all other parties to the contract unless the notice specifies a later time.

The Company covenants and agrees not to employ as an employee, agent or, with respect to the subject matter of this Agreement, a consultant, any person significantly involved in initiating, negotiating, securing, drafting or creating such Agreement on behalf of the Pollution Control Corporation within three (3) years from the execution hereof, unless a waiver is provided by the Pollution Control Corporation.

[Remainder of Page Intentionally Left Blank]

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be duly executed as of the day and year first above written.

COCONINO COUNTY, ARIZONA
POLLUTION CONTROL CORPORATION

By: _____
Name: Ken Sweet
Title: President

TUCSON ELECTRIC POWER COMPANY

By: _____
Name:
Title:

IN WITNESS WHEREOF, the parties hereto have caused this Loan Agreement to be duly executed as of the day and year first above written.

COCONINO COUNTY, ARIZONA
POLLUTION CONTROL CORPORATION

By: _____
Name: Ken Sweet
Title: President

TUCSON ELECTRIC POWER COMPANY

By: _____
Name: Kentton C. Grant
Title: Vice President and Treasurer

EXHIBIT A

A portion of the costs of the construction, improvement or equipping of the following Facilities will be financed or refinanced with the proceeds of the Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project) issued by Coconino County, Arizona Pollution Control Corporation and referred to in the foregoing Loan Agreement.

SO_2 Removal System. This system consists of the Basic Removal and Disposal System, and other additional features for in-plant SO_2 removal. The Basic Removal and Disposal System includes several five-chamber alkaline scrubbing modules which may be of either a vertical or horizontal design, and associated equipment and piping. The other additional in-plant features include by-pass dampers' and ductwork modifications, connections for steam extraction, induced draft fans sized to overcome the loss of velocity of the flue gas caused by the Basic Removal and Disposal System, chimney coating to protect the stack from corrosion due to lower exit gas temperatures caused by the Basic Removal and Disposal System, miscellaneous electrical equipment and building space needed to accommodate the other SO_2 removal equipment, and a supplementary SO_2 monitoring system.

EXECUTION COPY

INDENTURE OF TRUST
(2010 SERIES A)

BETWEEN

COCONINO COUNTY, ARIZONA
POLLUTION CONTROL CORPORATION

AND

U.S. BANK TRUST NATIONAL ASSOCIATION

DATED AS OF DECEMBER 1, 2010

Authorizing

Coconino County, Arizona
Pollution Control Corporation
Pollution Control Revenue Bonds,
2010 Series A
(Tucson Electric Power Company Navajo Project)

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INDENTURE OF TRUST

THIS INDENTURE OF TRUST (2010 Series A), dated as of December 1, 2010 (this "Indenture"), between COCONINO COUNTY, ARIZONA POLLUTION CONTROL CORPORATION, an Arizona nonprofit corporation and a political subdivision of the State of Arizona (hereinafter called the "Pollution Control Corporation"), and U.S. Bank Trust National Association, as trustee (hereinafter called the "Trustee"),

W I T N E S S E T H:

WHEREAS, the Pollution Control Corporation is authorized and empowered under Title 35, Chapter 6, Arizona Revised Statutes, as amended (the "Act"), to issue its bonds in accordance with the Act and to make secured or unsecured loans for the purpose of financing or refinancing the acquisition, construction, improvement or equipping of pollution control facilities consisting of real and personal properties, including but not limited to machinery and equipment, whether or not now in existence or under construction, which are used in whole or in part to control, prevent, abate, alter, dispose or store, solid waste, thermal, noise, atmospheric or water pollutants, contaminants or products therefrom, whether such facilities serve one or more purposes or functions in addition to controlling, preventing, abating, altering, disposing or storing such pollutants, contaminants or the products therefrom, and to charge and collect interest on such loans and pledge the proceeds of loan agreements as security for the payment of the principal of and interest on bonds, or designated issues of bonds, issued by the Pollution Control Corporation and any agreements made in connection therewith, whenever the Board of Directors of the Pollution Control Corporation finds such loans to be in furtherance of the purposes of the Pollution Control Corporation;

WHEREAS, the Pollution Control Corporation has heretofore issued and sold $36,700,000 aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 1997 Series A (Tucson Electric Power Company Navajo Project) (the "1997 Bonds"), all of which are currently outstanding, the proceeds of which were loaned to the Company to finance and refinance the costs to the Company of constructing, improving and equipping certain air pollution control facilities (hereinafter collectively referred to as the "Facilities"), located at an electric generating station operated within Coconino County, which is known as the Navajo Generating Station;

WHEREAS, the Pollution Control Corporation proposes to issue and sell its revenue bonds as provided herein (the "Bonds"), for the purpose of refinancing, by the payment or redemption of the 1997 Bonds, or provision therefor, the portion of the costs of the Facilities previously refinanced from the proceeds of the 1997 Bonds, all as described in Exhibit A to the Loan Agreement, dated as of December 1, 2010 (the "Loan Agreement"), between the Pollution Control Corporation and the Company;

WHEREAS, the Company has elected to cause and is causing to be delivered to the Trustee on the date of issuance of the Bonds an irrevocable direct-pay letter of credit issued by JPMorgan Chase Bank, N.A. (the "Initial Letter of Credit"), however, nothing herein shall require the Company to maintain such Initial Letter of Credit or any other credit facility;

NOW, THEREFORE, for and in consideration of these premises and the mutual covenants herein contained, of the acceptance by the Trustee of the trusts hereby created, of the purchase and acceptance of the Bonds by the Owners (as hereinafter defined) thereof, and for other good and valuable consideration the receipt and sufficiency of which are hereby acknowledged, in order to secure the payment of the principal of and premium, if any, and interest on the Bonds at any time Outstanding (as hereinafter defined) under this Indenture according to their tenor and effect and the performance and observance by the Pollution Control Corporation of all the covenants and conditions expressed or implied herein and contained in the Bonds, the Pollution Control Corporation does hereby grant, bargain, sell, convey, mortgage, pledge and assign, and grant a security interest in, the Trust Estate (as hereinafter defined) to the Trustee, its successors in trust and their assigns forever;

TO HAVE AND TO HOLD all the same with all privileges and appurtenances hereby conveyed and assigned, or agreed or intended so to be, to the Trustee, its successors in trust and their assigns forever;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth, first, for the equal and proportionate benefit and security of all Owners (as hereinafter defined) of the Bonds issued under and secured by this Indenture without preference, priority or distinction as to the lien of any Bonds over any other Bonds;

PROVIDED, HOWEVER, that if, after the right, title and interest of the Trustee in and to the Trust Estate shall have ceased, terminated and become void in accordance with Article IX hereof, the principal of and premium, if any, and interest on the Bonds shall have been paid to the Owners thereof, or shall have been paid to the Company pursuant to Section 4.04 hereof, then and in that case these presents and the estate and rights hereby granted shall cease, terminate and be void, and thereupon the Trustee shall cancel and discharge this Indenture and execute and deliver to the Pollution Control Corporation and the Company such instruments in writing as shall be requisite to evidence the discharge hereof; otherwise this Indenture is to be and remain in full force and effect.

THIS INDENTURE OF TRUST FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated and delivered, and the Trust Estate and the other estate and rights hereby granted are to be dealt with and disposed of, under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses and purposes as hereinafter expressed, and the Pollution Control Corporation has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective Owners, from time to time, of the Bonds, as follows:

ARTICLE I

DEFINITIONS

Section 1.01. *Definitions.* The terms defined in this Article I shall, for all purposes of this Indenture, have the meanings herein specified, unless the context clearly requires otherwise:

Act:

"Act" shall mean Title 35, Chapter 6, Arizona Revised Statutes, and all acts supplemental thereto or amendatory thereof.

Administration Expenses:

"Administration Expenses" shall mean the reasonable expenses incurred by the Pollution Control Corporation with respect to the Loan Agreement, this Indenture and any transaction or event contemplated by the Loan Agreement or this Indenture, including the compensation and reimbursement of expenses and advances payable to the Trustee.

Affiliate:

"Affiliate" shall mean a Person that directly or indirectly through one or more intermediaries, controls, or is controlled by, or is under common control with, another Person. For this purpose "control" means the direct or indirect ownership of fifty percent (50%) or more of the outstanding capital stock or other ownership interest.

Alternate Credit Facility:

"Alternate Credit Facility" shall mean any Credit Facility delivered to the Trustee as a replacement for or in substitution of an existing Credit Facility pursuant to Section 7.03.

Authorized Company Representative:

"Authorized Company Representative" shall mean each person at the time designated to act on behalf of the Company by written certificate furnished to the Pollution Control Corporation and the Trustee containing the specimen signature of such person and signed on behalf of the Company by its President, any Vice President or its Treasurer, together with its Secretary or any Assistant Secretary.

Authorized Credit Facility Representative:

"Authorized Credit Facility Representative" shall mean each person at the time designated to act on behalf of the Credit Facility Issuer by written certificate furnished to the Trustee containing the specimen signature of such person and signed on behalf of the Credit Facility Issuer by an authorized representative of the Credit Facility Issuer.

Bank:

"Bank" shall mean the issuer of a Letter of Credit, in its capacity as issuer of the Letter of Credit, its successors in such capacity and their assigns.

Bankruptcy Counsel:

"Bankruptcy Counsel" shall mean nationally recognized counsel experienced in bankruptcy matters as selected by the Company.

Bond Counsel:

"Bond Counsel" shall mean any firm or firms of nationally recognized bond counsel experienced in matters pertaining to the validity of, and exclusion from gross income for federal tax purposes of interest on bonds issued by states and political subdivisions, selected by the Company and acceptable to the Pollution Control Corporation.

Bond Fund:

"Bond Fund" shall mean the fund created by Section 4.01 hereof.

Bond Register:

"Bond Register" shall mean the register described in Section 2.03 hereof.

Bonds:

"Bond" or "Bonds" shall mean the bonds authorized to be issued under this Indenture.

Book-Entry Form; Book-Entry System:

"Book-Entry Form" or "Book-Entry System" means a form or system, as applicable, under which physical Bond certificates in fully registered form are registered only in the name of a Depository or its nominee as Owner, with the physical Bond certificates held by and "immobilized" in the custody of the Depository, and the book-entry system maintained by and the responsibility of others than the Pollution Control Corporation or the Trustee is the record that identifies and records the transfer of the interests of the owners of book-entry interests in those Bonds.

Business Day:

"Business Day" shall mean any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Principal Offices of the Trustee or the Credit Facility Issuer (or, in the case of a foreign bank, the licensed branch thereof which has issued, or will honor draws upon, any such Credit Facility), are located are authorized or required by law or executive order to close or (ii) a day on which the New York Stock Exchange or the principal office of the Remarketing Agent is closed.

Commercial Paper Rate:

"Commercial Paper Rate" shall mean the Interest Rate Mode for the Bonds in which the interest rate on such Bonds is determined in accordance with Section 2.02(c)(i).

Commercial Paper Rate Period:

"Commercial Paper Rate Period" shall mean with respect to any Bond bearing interest at a Commercial Paper Rate, each period determined for such Bond in accordance with Section 2.02(c)(i).

Company:

"Company" shall mean Tucson Electric Power Company, a corporation organized and existing under the laws of the State of Arizona, its successors and their assigns, including, without limitation, any successor obligor under Section 6.01 or 7.01 of the Loan Agreement to the extent of the obligations assumed thereunder.

Company Account:

"Company Account" shall mean the account of that name established in the Bond Fund pursuant to Section 4.01.

Company Fund:

"Company Fund" shall mean the fund created by Section 5.07 hereof.

Conversion:

"Conversion" shall mean, with respect to a Bond, any conversion from time to time in accordance with the terms of this Indenture of that Bond, in whole, from one Interest Rate Mode to another Interest Rate Mode, including any conversion from a Ten Year Call Term Rate Period to a new Ten Year Call Term Rate Period, from a Five Year Call Term Rate Period to a new Five Year Call Term Rate Period and from a No Call Term Rate Period to a new No Call Term Rate Period.

Conversion Date:

"Conversion Date" shall mean the date on which any Conversion becomes effective.

Credit Facility:

"Credit Facility" means any direct-pay letter of credit or any bond insurance policy, guaranty, surety bond, line of credit, revolving credit agreement, standby bond purchase agreement or other agreement or security device, and providing for (i) payment of the principal, interest and redemption premium on the Bonds or a portion thereof, (ii) payment of the purchase price of the Bonds or (iii) both (i) and (ii), including, without limitation, any Letter of Credit delivered pursuant to Section 7.01, or any Alternate Credit Facility delivered to the Trustee pursuant to Section 7.03.

Credit Facility Account:

"Credit Facility Account" shall mean the account of that name established in the Bond Fund pursuant to Section 4.01.

Credit Facility Issuer:

"Credit Facility Issuer" shall mean the institution issuing any Credit Facility, including, without limitation, a Bank issuing a Letter of Credit, or the institution issuing any Alternate

Credit Facility. "Principal Office" of any Credit Facility Issuer shall mean the principal office thereof designated in the corresponding Credit Facility and which shall mean, in the case of a foreign bank, the licensed branch or agency thereof in the United States which has issued the Credit Facility. References to the Credit Facility Issuer in this Indenture shall be given no effect unless there is a Credit Facility delivered to and held by the Trustee pursuant to Article VII.

Credit Facility Proceeds Account:

"Credit Facility Proceeds Account" shall mean the account of that name established in the Purchase Fund pursuant to Section 5.03.

Daily Rate:

"Daily Rate" shall mean the Interest Rate Mode for Bonds in which the interest rate on such Bonds is determined on each Business Day in accordance with Section 2.02(c)(ii).

Daily Rate Period:

"Daily Rate Period" shall mean the period beginning on, and including, the Conversion Date of the Bonds to the Daily Rate and ending on, and including, the day preceding the next Business Day and each period thereafter beginning on, and including, a Business Day and ending on, and including, the day preceding the next Business Day until the day preceding the earlier of the Conversion of such Bonds to a different Interest Rate Mode or the maturity of the Bonds.

Date of the Bonds:

"Date of the Bonds" shall mean December 14, 2010.

Depository:

"Depository" shall mean The Depository Trust Company or any successor thereto as a securities repository for the Bonds.

DTC:

"DTC" shall mean The Depository Trust Company.

Electronic Notice:

"Electronic Notice" shall mean notice transmitted by facsimile transmission or any other electronic method acceptable to both the sending and receiving party including, without limitation, email in PDF format.

Eligible Account:

"Eligible Account" shall mean an account that is either (a) maintained with a federal or state-chartered depository institution or trust company that has an S&P short-term debt rating of at least 'A-2' (or, if no short-term debt rating, a long-term debt rating of 'BBB+'); or (b) maintained with the corporate trust department of a federal depository institution or state-

chartered depository institution subject to regulations regarding fiduciary funds on deposit, which, in either case, has corporate trust powers and is acting in its fiduciary capacity.

Event of Bankruptcy

"Event of Bankruptcy" shall mean a petition by or against the Company or by the Pollution Control Corporation under any bankruptcy act or under any similar act which may be enacted which shall have been filed (other than bankruptcy proceedings instituted by the Company or the Pollution Control Corporation against third parties) unless such petition shall have been dismissed and such dismissal shall be final and not subject to appeal.

Event of Default

"Event of Default" shall have the meaning set forth in Section 10.01.

Facilities:

"Facilities" shall mean the real and personal properties, machinery and equipment which are described in Exhibit A to the Loan Agreement, as revised from time to time to reflect any changes therein, additions thereto, substitutions therefor and deletions therefrom permitted by the terms of the Loan Agreement, subject, however, to the provisions of Section 7.01 of the Loan Agreement.

Five Year Call Term Rate:

"Five Year Call Term Rate" shall mean the Interest Rate Mode for Bonds in which the interest rate on such Bonds is determined in accordance with Section 2.02(c)(v) and the Bonds are subject to redemption as described in Section 3.01(a)(iv).

Five Year Call Term Rate Period:

"Five Year Call Term Rate Period" shall mean any period established by the Company pursuant to Section 2.02(e)(i) and beginning on, and including, the Conversion Date of Bonds to the Five Year Call Term Rate and ending on, and including, the day preceding the earliest of the change to a new Five Year Call Term Rate Period, the Conversion of such Bonds to a different Interest Rate Mode or the maturity of the Bonds.

Government Obligations:

"Government Obligations" shall mean:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America entitled to the benefit of the full faith and credit thereof; and

(b) certificates, depository receipts or other instruments which evidence a direct ownership interest in obligations described in clause (a) above or in any specific interest or principal payments due in respect thereof; provided, however, that the

custodian of such obligations or specific interest or principal payments shall be a bank or trust company organized under the laws of the United States of America or of any state or territory thereof or of the District of Columbia, with a combined capital stock surplus and undivided profits of at least $50,000,000; and provided, further, that except as may be otherwise required by law, such custodian shall be obligated to pay to the holders of such certificates, depository receipts or other instruments the full amount received by such custodian in respect of such obligations or specific payments and shall not be permitted to make any deduction therefrom.

Indenture:

"Indenture" shall mean this Indenture of Trust, dated as of December 1, 2010, between the Pollution Control Corporation and the Trustee, and any and all modifications, alterations, amendments and supplements thereto.

Initial Letter of Credit:

"Initial Letter of Credit" shall have the meaning assigned to such term in the Recitals hereto.

Interest Payment Date:

"Interest Payment Date" shall mean (a) (i) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, the fifteenth (15th) calendar day of each month, commencing on January 15, 2011, or, if any such day shall not be a Business Day, the next Business Day, (ii) if the Interest Rate Mode is the Commercial Paper Rate, the day following the last day of each Commercial Paper Rate Period for such Bond and (iii) if the Interest Rate Mode is the Ten Year Call Term Rate, the Five Year Call Term Rate, or the No Call Term Rate, any day in the sixth calendar month following the Conversion to that Ten Year Call Term Rate, Five Year Call Term Rate or No Call Term Rate and in each sixth calendar month thereafter, as designated by the Company at the time of such Conversion, and in all cases, on the day after the last day of the Ten Year Call Term Rate Period, Five Year Call Term Rate Period or the No Call Term Rate Period (whether or not a Business Day), and (b) the Conversion Date, including the Conversion Date which occurs on the effective date of a change to a new Ten Year Call Term Rate Period, Five Year Call Term Rate Period or No Call Term Rate Period for such Bond. In any case, the final Interest Payment Date shall be the maturity date.

Interest Period:

"Interest Period" shall mean for any Bond the period from, and including, each Interest Payment Date for such Bond to, and including, the day next preceding the next Interest Payment Date for such Bond, provided, however, that the first Interest Period for any Bond shall begin on (and include) the Date of the Bonds and the final Interest Period shall end the day next preceding the maturity date of the Bonds.

Interest Rate Mode:

"Interest Rate Mode" shall mean the Commercial Paper Rate, the Daily Rate, the Weekly Rate, the Five Year Call Term Rate, the Ten Year Call Term Rate and the No Call Term Rate.

Investment Securities:

"Investment Securities" shall mean any of the following obligations or securities on which neither the Company nor any of its subsidiaries is the obligor: (a) Government Obligations; (b) interest bearing deposit accounts (which may be represented by certificates of deposit) in national, state or foreign banks having a combined capital and surplus of not less than $100,000,000; (c) bankers' acceptances drawn on and accepted by commercial banks having a combined capital and surplus of not less than $100,000,000; (d) (i) direct obligations of, (ii) obligations the principal of and interest on which are unconditionally guaranteed by, and (iii) any other obligations the interest on which is exempt from federal income taxation issued by, any state of the United States of America, the District of Columbia or the Commonwealth of Puerto Rico, or any political subdivision, agency, authority or other instrumentality of any of the foregoing, which, in any case, are rated by a nationally recognized rating agency in any of its three highest rating categories; (e) obligations of any agency or instrumentality of the United States of America; (f) commercial or finance company paper which is rated by a nationally recognized rating agency in any of its three highest rating categories; (g) corporate debt securities issued by corporations having debt securities rated by a nationally recognized rating agency in any of its three highest rating categories; (h) repurchase agreements with banking or financial institutions having a combined capital and surplus of not less than $100,000,000 with respect to any of the foregoing obligations or securities; (i) shares or interests in registered investment companies whose assets consist of obligations or securities which are described in any other clause of this sentence; and (j) any other obligations which may lawfully be purchased by the Trustee. The commercial banks and banking institutions referred to above may include the entity acting as Trustee hereunder if such entity shall otherwise satisfy the requirements set forth above.

Letter of Credit:

"Letter of Credit" shall mean an irrevocable direct-pay letter of credit issued and delivered to the Trustee in accordance with Section 7.01, including, without limitation, the Initial Letter of Credit.

Loan Agreement:

"Loan Agreement" shall mean the Loan Agreement, dated as of December 1, 2010, between the Pollution Control Corporation and the Company relating to the Bonds, and any and all modifications, alterations, amendments and supplements thereto.

Loan Payments:

"Loan Payments" shall mean the payments required to be made by the Company pursuant to Section 5.01 of the Loan Agreement.

Moody's:

"Moody's" shall mean Moody's Investors Service, Inc., a Delaware corporation, its successors and assigns, and, if such corporation shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "Moody's" shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by the Company. All notices to Moody's shall be sent to 7 World Trade Center, 250 Greenwich Street, New York, New York 10007 Attn: Public Finance-MSPG Surveillance Team, or to such other address as designated in writing by Moody's to the Trustee.

1954 Code:

"1954 Code" shall mean the Internal Revenue Code of 1954, as amended.

1986 Act:

"1986 Act" shall mean the Tax Reform Act of 1986, as amended from time to time.

1986 Code:

"1986 Code" shall mean the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the 1986 Code herein shall be deemed to include the United States Treasury Regulations proposed or in effect thereunder and applicable to the Bonds or the use of proceeds thereof, unless the context clearly requires otherwise. References to any particular 1986 Code section shall, in the event of a successor to the 1986 Code, be deemed to be a reference to the successor to such 1986 Code section.

1997 Bonds:

"1997 Bonds" shall mean the $36,700,000 aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 1997 Series A (Tucson Electric Power Company Navajo Project).

No Call Term Rate:

"No Call Term Rate" shall mean the Interest Rate Mode for Bonds in which the interest rate on such Bonds is determined in accordance with Section 2.02(c)(vi) and the Bonds are subject to redemption as described in Section 3.01(a)(v).

No Call Term Rate Period:

"No Call Term Rate Period" shall mean any period established by the Company pursuant to Section 2.02(f)(i) and beginning on, and including, the Conversion Date of Bonds to the No Call Term Rate and ending on, and including, the day preceding the earliest of the change to a new No Call Term Rate Period, the Conversion of such Bonds to a different Interest Rate Mode or the maturity of the Bonds.

Notice by Mail or Electronic Means:

"Notice by Mail" or "notice" of any action or condition "by Mail or Electronic Means" shall mean a written notice meeting the requirements of this Indenture mailed by first class mail to the Owners of specified registered Bonds at the addresses shown in the registration books maintained pursuant to Section 2.09 hereof or notice delivered by electronic means including, without limitation, email in PDF format.

Outstanding:

"Outstanding," when used in reference to the Bonds, shall mean, as at any particular date, the aggregate of all Bonds authenticated and delivered under this Indenture except:

(a) those canceled by the Trustee at or prior to such date or delivered to or acquired by the Trustee at or prior to such date for cancellation;

(b) on or after any Purchase Date for Bonds pursuant to Article V hereof, all Bonds (or portions of Bonds) which have been purchased on such date, but which have not been delivered to the Trustee, provided that funds sufficient for such purchase are on deposit with the Trustee in accordance with the provisions hereof;

(c) those deemed to be paid in accordance with Article IX hereof; and

(d) those in lieu of or in exchange or substitution for which other Bonds shall have been authenticated and delivered pursuant to this Indenture, unless proof satisfactory to the Trustee and the Company is presented that such Bonds are held by a bona fide holder in due course.

Owner:

"Owner" shall mean the person in whose name any Bond is registered upon the registration books maintained pursuant to Section 2.09 hereof. Each of the Company and the Credit Facility Issuer may be an Owner.

Person:

"Person" shall mean (i) any corporation, limited liability company, partnership, joint venture, association, joint-stock company, business trust, or unincorporated organization, in each case formed or organized under the laws of the United States of America, any state thereof or the District of Columbia, or (ii) the United States of America or any state thereof, or any political subdivision of either thereof, or any agency, authority or other instrumentality of any of the foregoing.

Plant:

"Plant" shall mean the Navajo Generating Station, an electric power generating plant near Page, Arizona, in Coconino County, Arizona, and any additions or improvements thereto or replacements thereof.

Plant Agreements:

"Plant Agreements" shall mean all contracts relating to the ownership, construction and operation of the Plant, including the Facilities, as from time to time amended or supplemented.

Pledged Bonds:

"Pledged Bonds" shall mean Bonds purchased pursuant to Sections 5.01(a) and 5.01(b) from moneys received by the Trustee from a demand for payment under the Credit Facility, if any, then in effect until subsequently remarketed pursuant to Section 5.02.

Pollution Control Corporation:

"Pollution Control Corporation" shall mean Coconino County, Arizona Pollution Control Corporation, an Arizona nonprofit corporation and a political subdivision of the State of Arizona incorporated for and with the approval of the County of Coconino, Arizona, pursuant to the provisions of the Constitution of the State of Arizona and the Act, its successors and their assigns.

Prevailing Market Conditions:

"Prevailing Market Conditions" shall mean, without limitation, the following factors: existing short-term market rates for securities, the interest on which is excluded from gross income for federal income tax purposes; indexes of such short-term rates; the existing market supply and demand and the existing yield curves for short-term and long-term securities for obligations of credit quality comparable to the Bonds, the interest on which is excluded from gross income for federal income tax purposes; general economic conditions, economic conditions in the electric utilities industry and financial conditions that may affect or be relevant to the Bonds; and such other facts, circumstances and conditions as the Remarketing Agent, in its sole discretion, shall determine to be relevant to the remarketing of the Bonds at the principal amount thereof.

Purchase Date:

"Purchase Date" shall mean (i) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, any Business Day as set forth in Section 5.01(a)(i) and Section 5.01(a)(ii), respectively, and (ii) each day that such Bond is subject to mandatory purchase pursuant to Section 5.01(b); provided, however, that the date of the stated maturity of the Bonds shall not be a Purchase Date.

Purchase Fund:

"Purchase Fund" shall mean the fund so designated which is established pursuant to Section 5.03.

Purchase Payments:

"Purchase Payments" shall mean the amounts required to be paid by the Company pursuant to Section 5.02 of the Loan Agreement.

Rate Period:

"Rate Period" shall mean any period during which a single interest rate is in effect for a Bond.

Rating Agency:

"Rating Agency" shall mean Moody's, S&P and any other nationally recognized securities rating agency which has assigned a rating on the Bonds or, for purposes of Section 14.02(i) hereof, which was requested to assign a rating to the Bonds by the Company.

Ratings Confirmations:

"Ratings Confirmations" shall mean a certificate or letter from Moody's, if the Bonds are then rated by Moody's, and from S&P, if the Bonds are then rated by S&P, to the effect that the cancellation, expiration or termination of an existing Credit Facility or the cancellation, expiration or termination of an existing Credit Facility and the substitution of an Alternative Credit Facility in lieu thereof, as the case may be, will not, by itself, result in a reduction or withdrawal of its ratings then in effect on the Bonds.

Rebate Fund:

"Rebate Fund" shall mean the fund created by Section 8.08 hereof.

Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement:

"Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement" shall mean all moneys paid or payable to the Trustee for the account of the Pollution Control Corporation by the Company in respect of the Loan Payments and payments pursuant to Section 9.01 of the Loan Agreement, including all moneys drawn by the Trustee under a Credit Facility, including a Letter of Credit, and all receipts of the Trustee which, under the provisions of this Indenture, reduce the amount of such payments.

Record Date:

"Record Date" shall mean (a) with respect to any Interest Period during which the Interest Rate Mode is the Commercial Paper Rate, the Daily Rate or the Weekly Rate, the close of business on the last Business Day of such Interest Period, and (b) with respect to any Interest Period during which the Interest Rate Mode is a Term Rate Period, the Business Day before payment unless, upon a Conversion, the Company designates some other Record Date to conform to industry conventions at the time of Conversion.

Reimbursement Agreement:

"Reimbursement Agreement" shall mean the Reimbursement Agreement, dated as of December 14, 2010, between the Company, the financial institutions from time to time parties thereto and JPMorgan Chase Bank, N.A., as administrative agent and as issuer of the Initial Letter of Credit, as the same may be amended from time to time, and any other agreement of the

Company with a Credit Facility Issuer setting forth the obligations of the Company to such Credit Facility Issuer arising out of any payments under a Credit Facility.

Remarketing Agent:

"Remarketing Agent" shall mean Wells Fargo Bank, National Association, and its successor or successors as provided in Section 12.01. "Principal Office" of the Remarketing Agent shall mean the office or offices designated in writing to the Trustee, the Credit Facility Issuer and the Company, which designation may be provided in the Remarketing Agreement entered into with such Remarketing Agent.

Remarketing Agreement:

"Remarketing Agreement" shall mean the Remarketing Agreement between the Company and the Remarketing Agent, as the same may be amended from time to time, and any remarketing agreement between the Company and a successor Remarketing Agent.

Remarketing Proceeds Account:

"Remarketing Proceeds Account" shall mean the account of that name established in the Purchase Fund pursuant to Section 5.03.

SIFMA Swap Index:

"SIFMA Swap Index" shall mean, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data, Inc., and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or any person acting in cooperation with or under the sponsorship of SIFMA and effective from such date; provided, however, that, if such index is no longer provided by Municipal Market Data, Inc. or its successor, the "Municipal Index" shall mean such other reasonably comparable index selected by the Remarketing Agent.

S&P:

"S&P" shall mean Standard & Poor's Ratings Service, a division of The McGraw Hill Companies and its successors and assigns, and, if such division shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by the Company. All notices to S&P shall be sent to 55 Water Street, New York, New York 10041-0003, Attention: LOC Surveillance, or to such other address as designated in writing by S&P to the Trustee.

Supplemental Indenture:

"Supplemental Indenture" shall mean any indenture of the Pollution Control Corporation modifying, altering, amending, supplementing or confirming this Indenture for any purpose, in accordance with the terms hereof.

Supplemental Loan Agreement:

"Supplemental Loan Agreement" shall mean any agreement between the Pollution Control Corporation and the Company modifying, altering, amending or supplementing the Loan Agreement, in accordance with the terms thereof and hereof.

Tax Agreement:

"Tax Agreement" shall mean that tax certificate and agreement, dated the date of the initial authentication and delivery of the Bonds, between the Pollution Control Corporation and the Company, relating to the requirements of the 1986 Code, the 1954 Code and the 1986 Act, and any and all modifications, alterations, amendments and supplements thereto.

Ten Year Call Term Rate:

"Ten Year Call Term Rate" shall mean the Interest Rate Mode for Bonds in which the interest rate on such Bonds is determined in accordance with Section 2.02(c)(iv) and the Bonds are subject to redemption as described in Section 3.01(a)(iii).

Term Rate Period:

"Term Rate Period" shall mean, as applicable, a Ten Year Term Rate Period, a Five Year Term Rate Period or a No Call Term Rate Period.

Ten Year Call Term Rate Period:

"Ten Year Call Term Rate Period" shall mean any period established by the Company pursuant to Section 2.02(d)(i) and beginning on, and including, the Conversion Date of Bonds to the applicable Ten Year Call Term Rate and ending on, and including, the day preceding earliest of the change to a new Ten Year Call Term Rate Period, the Conversion of such Bonds to a different Interest Rate Mode or the maturity of the Bonds.

Trust Estate:

"Trust Estate" shall mean at any particular time all right, title and interest of the Pollution Control Corporation in and to the Loan Agreement (except its rights under Sections 5.04, 5.05, 6.03 and 8.05 thereof and any rights of the Pollution Control Corporation to receive notices, certificates, requests, requisitions and other communications thereunder), including without limitation, the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement, the Bond Fund and all moneys and Investment Securities from time to time on deposit therein (excluding, however, any moneys or Investment Securities held in the Rebate Fund), any and all other moneys and obligations (other than Bonds) which at such time are deposited or are required to be deposited with, or are held or are required to be held by or on behalf of, the Trustee in trust under any of the provisions of this Indenture and all other rights, titles and interests which at such time are subject to the lien of this Indenture; provided, however, that in no event shall there be included in the Trust Estate (a) moneys or obligations deposited with or held by the Trustee in the Rebate Fund pursuant to Section 8.08 hereof or (b) moneys or obligations deposited with or paid to the Trustee for the redemption or payment of Bonds which

are deemed to have been paid in accordance with Article IX hereof or moneys held pursuant to Section 4.04 hereof.

Trustee; Principal Office thereof:

"Trustee" shall mean U.S. Bank Trust National Association, as trustee under this Indenture, its successors in trust and their assigns. "Principal Office" of the Trustee shall mean the principal corporate trust office of the Trustee, which office at the date of acceptance by the Trustee of the duties and obligations imposed on the Trustee by this Indenture is located at the address specified in Section 15.08 hereof except that (i) with respect to presentation of Bonds for payment or for registration of transfer and exchange such term shall mean the office of the Trustee at which, at any particular time, its corporate trust business shall be conducted and (ii) with respect to tenders of Bonds shall mean the office of the Trustee at which, at any particular time, its tender operations shall be conducted.

Weekly Rate:

"Weekly Rate" means the Interest Rate Mode for the Bonds in which the interest rate on such Bonds is determined weekly in accordance with Section 2.02(c)(iii).

Weekly Rate Period:

"Weekly Rate Period" means the period beginning on, and including, the date of original issuance of the Bonds or any subsequent Conversion Date of Bonds to the Weekly Rate and ending on, and including, the next Tuesday and thereafter the period beginning on, and including, any Wednesday and ending on, and including, the earliest of the following Tuesday, the day preceding the Conversion of such Bonds to a different Interest Rate Mode or the maturity of the Bonds.

ARTICLE II

THE BONDS

Section 2.01. *Creation of Bonds.* There is hereby authorized and created under this Indenture, for the purpose of providing moneys to pay, or redeem, or provide for the redemption therefor, of the 1997 Bonds, an issue of Bonds, entitled to the benefit, protection and security of this Indenture, in the aggregate principal amount of Thirty-Six Million Seven Hundred Thousand Dollars ($36,700,000). Each of the Bonds shall be designated by the title "Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bond, 2010 Series A (Tucson Electric Power Company Navajo Project)".

Section 2.02. *Denominations and Maturity; Interest Rates.*

(a) Denominations and Maturity. The Bonds shall be issuable as fully registered bonds only, when in Weekly Rate or Daily Rate, in denominations of $100,000 and any larger denomination constituting an integral multiple of $5,000, when in the Commercial Paper Rate, in denominations of $100,000 and any larger denomination constituting an integral multiple of

$1,000, and when in the Five Year Call Term Rate, Ten Year Call Term Rate or No Call Term Rate, in denominations of $5,000 and any integral multiple thereof.

The Bonds shall be dated as of the Date of the Bonds. Each Bond shall bear interest from the last Interest Payment Date to which interest has accrued and has been paid or duly provided for, or if no interest has been paid or duly provided for, from the Date of the Bonds until payment of the principal or redemption price thereof shall have been made or provided for in accordance with the provisions of this Indenture, whether upon maturity, redemption or otherwise.

The Bonds shall mature on October 1, 2032 (the "Maturity Date").

(b) Interest Rates on the Bonds. During each Interest Period for each Interest Rate Mode, the interest rate or rates for the Bonds shall be determined in accordance with Section 2.02(c) and shall be payable on an Interest Payment Date for such Interest Period; provided that the interest rate or rates borne by the Bonds shall not exceed the lesser of ten percent (10%) per annum or the maximum interest rate permitted by the Credit Facility, if any. Interest on Bonds while they accrue interest at the Daily Rate, Weekly Rate or Commercial Paper Rate shall be computed upon the basis of a 365 or 366-day year, as applicable, for the actual number of days elapsed. Interest on Bonds while they accrue interest at the Five Year Call Term Rate, Ten Year Call Term Rate or No Call Term Rate shall be computed upon the basis of a 360 day year, consisting of twelve 30 day months. Each Bond shall bear interest on overdue principal and, to the extent permitted by law, on overdue interest at the rate borne by such Bond on the day before the default or Event of Default occurred, provided that if the Interest Rate Mode was then the Commercial Paper Rate, the default rate for all of the Bonds shall be equal to the highest interest rate then in effect for any Bond.

(c) Interest Rate Modes. The Bonds shall bear interest at the Weekly Rate from the date of original issuance until the Interest Rate Mode is converted to a different Interest Rate Mode.

Interest rates on (and, if the Interest Rate Mode is the Commercial Paper Rate, Commercial Paper Rate Periods for) Bonds shall be determined as follows:

(i) (A) If the Interest Rate Mode for Bonds is the Commercial Paper Rate, the interest rate on a Bond for a specific Commercial Paper Rate Period shall be the rate established by the Remarketing Agent no later than 12:30 p.m. (New York City time) on the first day of that Commercial Paper Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent taking into account then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bond on that day at a price equal to the principal amount thereof.

(B) Each Commercial Paper Rate Period applicable for a Bond shall be determined separately by the Remarketing Agent on or prior to the first day of such Commercial Paper Rate Period as being the Commercial Paper Rate Period permitted hereunder which, in the judgment of the Remarketing Agent, taking into account then Prevailing Market Conditions, will, with respect to such Bond, be the period which, if implemented on such day, would result in the Remarketing Agent being able to remarket such Bond at the principal amount thereof at the

lowest interest rate then available and for the longest Commercial Paper Rate Period available hereunder at such rate, provided that on such determination date, if the Remarketing Agent determines that the current or anticipated future market conditions or anticipated future events are such that a different Commercial Paper Rate Period would result in a lower average interest cost on such Bond over the succeeding twelve (12) month period, then the Remarketing Agent shall select the Commercial Paper Rate Period which in the judgment of the Remarketing Agent would permit such Bond to achieve such lower average interest cost. Each Commercial Paper Rate Period shall be from one day to 270 days in length, shall end on a day preceding a Business Day and, if a Credit Facility is then in effect, shall not be longer than a period equal to the maximum number of days' interest coverage provided by such Credit Facility minus fifteen days and if such 15th day is not a Business Day, then the immediately preceding Business Day.

(C) Notwithstanding subsection (B) above:

(1) if a Credit Facility is in effect and if no Alternate Credit Facility has taken effect, no new Commercial Paper Rate Period shall be established for any Bond unless the last Interest Payment Date for such Commercial Paper Rate Period occurs at least 15 days prior to the expiration, termination or cancellation of the then current Credit Facility;

(2) if the Company has previously determined to convert the Interest Rate Mode for any Bonds from the Commercial Paper Rate, no new Commercial Paper Rate Period for any such Bond to be converted shall be established unless the last day of such Commercial Paper Rate Period occurs prior to the Conversion Date;

(3) no Commercial Paper Rate Period may be established after the making of a determination requiring mandatory redemption of all Bonds pursuant to Section 3.01(c) unless the Remarketing Agent discloses such determination to the purchaser (and evidence of the making of each such disclosure shall be furnished to the Trustee in writing, the Pollution Control Corporation and the Company prior to the establishment of such Commercial Paper Rate Period) and unless the last day of such Commercial Paper Rate Period occurs prior to the redemption date;

(4) the Commercial Paper Rate Period for any Bond held by the Trustee pursuant to Section 5.05 shall be the period from and including the date of purchase pursuant to Section 5.01 through the next day immediately preceding a Business Day, which period will be re-established automatically until the day preceding the earliest of the Conversion to a different Interest Rate Mode, the maturity of the Bonds or the sale of such Bond pursuant to Section 5.02(b), and during such Commercial Paper Rate Period such Bond shall not bear interest but shall nevertheless remain Outstanding under this Indenture; and

(5) if the Remarketing Agent fails to set the length of a Commercial Paper Rate Period for any Bond, or if there is no Remarketing Agent in place, a new Commercial Paper Rate Period lasting through the next day immediately preceding a Business Day (or until the earlier stated maturity of the Bonds) will be established automatically and, if in that instance the Remarketing Agent fails for whatever reason to determine the interest for such Bond, or if there is no Remarketing Agent in place, then the interest rate for such Bond for that

Commercial Paper Rate Period shall be the interest rate in effect for such Bond for the preceding Commercial Paper Rate Period.

(ii) If the Interest Rate Mode for Bonds is the Daily Rate, the interest rate on such Bonds for any Business Day shall be the rate established by the Remarketing Agent no later than 10:30 a.m. (New York City time) on such Business Day as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, taking into account the then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bonds on such Business Day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon as of such day. For any day which is not a Business Day or in the event that the interest rate on a Bond is not or cannot be determined by the Remarketing Agent for whatever reason, or if there is no Remarketing Agent in place, the interest rate on Bonds in the Daily Rate shall be the interest rate for such Bonds in effect for the next preceding Business Day.

(iii) If the Interest Rate Mode for Bonds is the Weekly Rate, the interest rate on such Bonds for a particular Weekly Rate Period shall be the rate established by the Remarketing Agent no later than 10:00 a.m. (New York City time) on the first day of such Weekly Rate Period, or, if such day is not a Business Day, on the next preceding Business Day, as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, taking into account the then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bonds on such first day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon.

(iv) If the Interest Rate Mode for Bonds is the Ten Year Call Term Rate, the interest rate on such Bonds for a particular Ten Year Call Term Rate Period shall be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Ten Year Call Term Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, taking into account the then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bonds on such first day at a price equal to the principal amount thereof.

(v) If the Interest Rate Mode for Bonds is the Five Year Call Term Rate, the interest rate on such Bonds for a particular Five Year Call Term Rate Period shall be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such Five Year Call Term Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, taking into account the then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bonds on such first day at a price equal to the principal amount thereof.

(vi) If the Interest Rate Mode for Bonds is the No Call Term Rate, the interest rate on such Bonds for a particular No Call Term Rate Period shall be the rate established by the Remarketing Agent no later than 12:00 noon (New York City time) on the Business Day preceding the first day of such No Call Term Rate Period as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, taking into account the then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bonds on such first day at a price equal to the principal amount thereof.

(vii) The Remarketing Agent shall provide the Trustee and the Company with prompt Electronic Notice of each interest rate (and if the Interest Rate Mode for Bonds is the Commercial Paper Rate, of all Commercial Paper Rate Periods) determined under this Section 2.02(c).

(viii) In the event that the interest rate on a Bond is not or cannot be determined by the Remarketing Agent for whatever reason pursuant to (iii), (iv), (v) or (vi) above, or if there is no Remarketing Agent in place, the Interest Rate Mode of such Bond shall remain in or, as applicable, be converted automatically to the Weekly Rate (without the necessity of complying with the requirements of Section 2.02(g), including, but not limited to, the requirement of mandatory purchase) and the Weekly Rate for such Weekly Rate Period shall be equal to the 100% of the SIFMA Swap Index. Anything in this Section 2.02(c)(viii) to the contrary notwithstanding, if a Credit Facility is then in effect, the Rate Period determined shall not extend beyond the remaining term of such Credit Facility minus fifteen (15) days and if such fifteenth day is not a Business Day, then the immediately preceding Business Day.

(d) Ten Year Call Term Rate Period.

(i) Selection of Ten Year Call Term Rate Period. The Ten Year Call Term Rate Period for the Bonds shall be established by the Company in the notice given pursuant to Section 2.02(g). Each Ten Year Call Term Rate Period shall be at least ten years in duration and shall end on the day next preceding an Interest Payment Date; provided that no Ten Year Call Term Rate Period shall extend beyond the final maturity date of the Bonds. Anything in this Section 2.02(d) to the contrary notwithstanding, if a Credit Facility is then in effect, no Ten Year Call Term Rate Period shall extend beyond the remaining term of such Credit Facility minus fifteen (15) days and if such fifteenth day is not a Business Day, then the immediately preceding Business Day.

(ii) Change of Ten Year Call Term Rate Period. The Company may change the Bonds from a Ten Year Call Term Rate Period to a new Ten Year Call Term Rate Period or any other Rate Period on any Business Day on which the Bonds are subject to optional redemption pursuant to Section 3.01(a)(iii) by notifying the Trustee, the Credit Facility Issuer, if any, and the Remarketing Agent in writing at least five Business Days prior to the twentieth (20th) day prior to the proposed effective date of the change; provided that, if a Credit Facility is then in effect, the Company shall not be entitled to elect a change in the Ten Year Call Term Rate Period on a date on which the purchase price determined under Section 5.01(b)(i) includes any premium unless the Trustee has received written confirmation from the Credit Facility Issuer, on or before the date on which the Trustee must provide notice of such change to the Bondholders under Section 2.02(d)(iii), that it can draw under a Credit Facility on the proposed effective date of the change in an aggregate amount sufficient to enable the Trustee to pay the premium due upon the mandatory purchase of such Bonds on such proposed effective date pursuant to Section 5.01(b)(i). The notice delivered by the Company shall specify (A) the information required to be contained in the notice given by the Trustee to the Bondholders pursuant to Section 2.02(d)(iii), (B) the last day of any new Term Rate Period, (C) the purchase price for Bonds determined under Section 5.01(b)(i), and (D) that such change is subject to cancellation by the Company. Any such change in the Ten Year Call Term Rate Period may be cancelled by the Company by telephonic notice (to be confirmed in writing) to the Trustee, in

which case the Company's notice thereof shall be of no effect and no such change shall occur. Notwithstanding the foregoing, no change in the Ten Year Call Term Rate Period shall be effective unless the Credit Facility, if any, held or to be held by the Trustee after such change in the Ten Year Call Term Rate Period shall extend for the length of any new Rate Period plus fifteen (15) days.

(iii) Notice of Change in Ten Year Call Term Rate Period. The Trustee shall notify the affected Bondholders of any change in the Ten Year Call Term Rate Period pursuant to Section 2.02(d)(ii) by Mail or Electronic Means, at least twenty (20) but not more than sixty (60) days before the effective date of such change. The notice will state:

(A) that there is to be a new Term Rate Period; and

(B) the effective date of the new Term Rate Period and that, on such effective date, Bonds will be purchased (and the purchase price therefor) and that if any owner of the Bonds shall fail to deliver a Bond for purchase with an appropriate instrument of transfer to the Trustee for purchase on said date, and if the Trustee is in receipt of the purchase price therefor, any such Bond not delivered shall nevertheless be deemed purchased on such effective date and shall cease to accrue interest on and from such date.

(iv) Cancellation of Change in Ten Year Call Term Rate Period. Notwithstanding any provision of this Section 2.02(d), the Ten Year Call Term Rate Period shall not be changed if: (A) the Remarketing Agent has not determined the interest rate for the new Rate Period in accordance with this Section 2.02(d) or (B) all of the Bonds that are to be purchased pursuant to Section 5.01(b) are not remarketed or sold by the Remarketing Agent or (C) such change is cancelled by the Company as provided in Section 2.02(d)(ii) above. If such change fails to occur, the Bonds shall be converted automatically to the Weekly Rate and the initial interest rate shall be equal to 100% of the SIFMA Swap Index. If the proposed change of the Ten Year Call Term Rate Period is cancelled as provided in this paragraph, any mandatory purchase of such Bonds will remain effective. Anything in this Section 2.02(d)(iv) to the contrary notwithstanding, if a Credit Facility is then in effect, any Term Rate Period determined upon a cancellation of a change in the Ten Year Call Term Rate Period shall not extend beyond the remaining term of such Credit Facility minus fifteen (15) days and if such fifteenth day is not a Business Day, then the immediately preceding Business Day.

(e) Five Year Call Term Rate Period.

(i) Selection of Five Year Call Term Rate Period. The Five Year Call Term Rate Period for the Bonds shall be established by the Company in the notice given pursuant to Section 2.02(g). Each Five Year Call Term Rate Period shall be at least five years in duration and shall end on the day next preceding an Interest Payment Date; provided that no Five Year Call Term Rate Period shall extend beyond the final maturity date of the Bonds. Anything in this Section 2.02(e) to the contrary notwithstanding, if a Credit Facility is then in effect, no Five Year Call Term Rate Period shall extend beyond the remaining term of such Credit Facility minus fifteen (15) days and if such fifteenth day is not a Business Day, then the immediately preceding Business Day.

(ii) Change of Five Year Call Term Rate Period. The Company may change the Bonds from a Five Year Call Term Rate Period to a new Five Year Call Term Rate Period or any other Rate Period on any Business Day on which the Bonds are subject to optional redemption pursuant to Section 3.01(a)(iv) by notifying the Trustee, the Credit Facility Issuer and the Remarketing Agent in writing at least five Business Days prior to the twentieth (20th) day prior to the proposed effective date of the change; provided that, if a Credit Facility is then in effect, the Company shall not be entitled to elect a change in the Five Year Call Term Rate Period on a date on which the purchase price determined under Section 5.01(b)(i) includes any premium unless the Trustee has received written confirmation from the Credit Facility Issuer, on or before the date on which the Trustee must provide notice of such change to the Bondholders under Section 2.02(e)(iii), that it can draw under a Credit Facility on the proposed effective date of the change in an aggregate amount sufficient to enable the Trustee to pay the premium due upon the mandatory purchase of such Bonds on such proposed effective date pursuant to Section 5.01(b)(i). Such notice shall specify (A) the information required to be contained in the notice given by the Trustee to the Bondholders pursuant to Section 2.02(e)(iii), (B) the last day of any new Term Rate Period, and (C) the purchase price for Bonds determined under Section 5.01(b)(i) and (D) that such change is subject to cancellation by the Company. Any such change in the Five Year Call Term Rate Period may be cancelled by the Company by telephonic notice (to be confirmed in writing) to the Trustee, in which case the Company's notice thereof shall be of no effect and no such change shall occur. Notwithstanding the foregoing, no change in the Five Year Call Term Rate Period shall be effective unless the Credit Facility, if any, held or to be held by the Trustee after such change in the Five Year Call Term Rate Period shall extend for the length of any new Rate Period plus fifteen (15) days.

(iii) Notice of Change in Five Year Call Term Rate Period. The Trustee shall notify the affected Bondholders of any change in the Five Year Call Term Rate Period pursuant to Section 2.02(e)(ii) by Mail or Electronic Means, at least twenty (20) but not more than sixty (60) days before the effective date of such change. The notice will state:

(A) that there is to be a new Rate Period; and

(B) the effective date of the new Rate Period and that, on such effective date, Bonds will be purchased (and the purchase price therefor) and that if any owner of the Bonds shall fail to deliver a Bond for purchase with an appropriate instrument of transfer to the Trustee for purchase on said date, and if the Trustee is in receipt of the purchase price therefor, any such Bond not delivered shall nevertheless be deemed purchased on such effective date and shall cease to accrue interest on and from such date.

(iv) Cancellation of Change in Five Year Call Term Rate Period. Notwithstanding any provision of this Section 2.02(e), the Five Year Call Term Rate Period shall not be changed if: (A) the Remarketing Agent has not determined the interest rate for the new Rate Period in accordance with this Section 2.02(e) or (B) all of the Bonds that are to be purchased pursuant to Section 5.01(b) are not remarketed or sold by the Remarketing Agent or (C) such change is cancelled by the Company as provided in Section 2.02(e)(ii) above. If such change fails to occur, the Bonds shall be converted automatically to the Weekly Rate and the initial interest rate shall be equal to the 100% of the SIFMA Swap Index. If the proposed change of the Five Year Call Term Rate Period is cancelled as provided in this paragraph, any

mandatory purchase of such Bonds will remain effective. Anything in this Section 2.02(e)(iv) to the contrary notwithstanding, if a Credit Facility is then in effect, the Five Year Call Rate Period determined upon a cancellation of a change in the Five Year Call Term Rate Period shall not extend beyond the remaining term of such Credit Facility minus fifteen (15) days and if such fifteenth day is not a Business Day, then the immediately preceding Business Day.

(f) No Call Term Rate Period.

(i) Selection of No Call Term Rate Period. The No Call Term Rate Period for the Bonds shall be established by the Company in the notice given pursuant to Section 2.02(g). Each No Call Term Rate Period shall be at least one year in duration and shall end on the day next preceding an Interest Payment Date; provided that no No Call Term Rate Period shall extend beyond the final maturity date of the Bonds. Anything in this Section 2.02(f) to the contrary notwithstanding, if a Credit Facility is then in effect, no No Call Term Rate Period shall extend beyond the remaining term of such Credit Facility minus fifteen (15) days and if such fifteenth day is not a Business Day, then the immediately preceding Business Day.

(ii) Change of No Call Term Rate Period. The Company may change the Bonds from a No Call Term Rate Period to a new No Call Term Rate Period or any other Rate Period on any Business Day on which the Bonds are subject to optional redemption pursuant to Section 3.01(a)(v) by notifying the Trustee, the Credit Facility Issuer and the Remarketing Agent in writing at least five Business Days prior to the twentieth (20th) day prior to the proposed effective date of the change; provided that, if a Credit Facility is then in effect, the Company shall not be entitled to elect a change in the No Call Term Rate Period on a date on which the purchase price determined under Section 5.01(b)(i) includes any premium unless the Trustee has received written confirmation from the Credit Facility Issuer, on or before the date on which the Trustee must provide notice of such change to the Bondholders under Section 2.02(f)(iii), that it can draw under a Credit Facility on the proposed effective date of the change in an aggregate amount sufficient to enable the Trustee to pay the premium due upon the mandatory purchase of such Bonds on such proposed effective date pursuant to Section 5.01(b)(i). Such notice shall specify (A) the information required to be contained in the notice given by the Trustee to the Bondholders pursuant to Section 2.02(f)(iii), (B) the last day of such new Rate Period, and (C) the purchase price for Bonds determined under Section 5.01(b)(i) and (D) that such change is subject to cancellation by the Company. Any such change in the No Call Term Rate Period may be cancelled by the Company by telephonic notice (to be confirmed in writing) to the Trustee, in which case the Company's notice thereof shall be of no effect and no such change shall occur. Notwithstanding the foregoing, no change in the No Call Term Rate Period shall be effective unless the Credit Facility, if any, held or to be held by the Trustee after such change in the No Call Term Rate Period shall extend for the length of any new Rate Period plus fifteen (15) days.

(iii) Notice of Change in No Call Term Rate Period. The Trustee shall notify the affected Bondholders of any change in the No Call Term Rate Period pursuant to Section 2.02(f)(ii) by Mail or Electronic Means, at least twenty (20) but not more than sixty (60) days before the effective date of such change. The notice will state:

(A) that there is to be a new Rate Period; and

(B) the effective date of the new Term Rate Period and that, on such effective date, Bonds will be purchased (and the purchase price therefor) and that if any owner of the Bonds shall fail to deliver a Bond for purchase with an appropriate instrument of transfer to the Trustee for purchase on said date, and if the Trustee is in receipt of the purchase price therefor, any such Bond not delivered shall nevertheless be deemed purchased on such effective date and shall cease to accrue interest on and from such date.

(iv) Cancellation of Change in No Call Term Rate Period. Notwithstanding any provision of this Section 2.02(f), the No Call Term Rate Period shall not be changed if: (A) the Remarketing Agent has not determined the interest rate for the new Rate Period in accordance with this Section 2.02(f) or (B) all of the Bonds that are to be purchased pursuant to Section 5.01(b) are not remarketed or sold by the Remarketing Agent or (C) such change is cancelled by the Company as provided in Section 2.02(f)(ii) above. If such change fails to occur, the Bonds shall be converted automatically to the Weekly Rate and the initial interest rate shall be equal to the 100% of the SIFMA Swap Index. If the proposed change of the No Call Term Rate Period is cancelled as provided in this paragraph, any mandatory purchase of such Bonds will remain effective. Anything in this Section 2.02(f)(iv) to the contrary notwithstanding, if a Credit Facility is then in effect, the Rate Period determined upon a cancellation of a change in the No Call Term Rate Period shall not extend beyond the remaining term of such Credit Facility minus fifteen (15) days and if such fifteenth day is not a Business Day, then the immediately preceding Business Day.

(g) Conversion of Interest Rate Mode.

(i) Method of Conversion. The Interest Rate Mode for all of the Bonds is subject to Conversion to a different Interest Rate Mode from time to time by the Company, such right to be exercised by notifying the Trustee, the Credit Facility Issuer, if any, and the Remarketing Agent at least five Business Days prior to (x) in the cases of Conversion from the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate, the thirtieth (30th) day prior to the effective date of such proposed Conversion and (y) in all other cases, the fifteenth day prior to such proposed effective date; provided that, in any event, with respect to Conversion from the Commercial Paper Rate, the effective date of such Conversion may not occur until the latest Interest Payment Date relating to the Commercial Paper Rate Period then in effect for the Bonds to be converted, and, provided further, that no new Commercial Paper Rate Period for such Bonds may be established subsequent to such notice which would have an Interest Payment Date later than the proposed date of Conversion; and provided, further, that, if a Credit Facility is then in effect, the Company shall not be entitled to elect to convert Bonds to a different Interest Rate Mode on a date on which the purchase price determined under Section 5.01(b)(i) includes any premium, unless the Trustee has received written confirmation, on or before the date on which the Trustee must provide notice of such Conversion to Bondholders under Section 2.02(g)(iii), from the Credit Facility Issuer that it can draw under the Credit Facility on the proposed effective date of the Conversion in an aggregate amount sufficient to enable the Trustee to pay any premium due upon any mandatory purchase of Bonds on such proposed effective date pursuant to Section 5.01(b)(i); and provided, further, that if a Credit Facility is then in effect the Company may not elect an Interest Rate Mode other than the Daily Rate or the Weekly Rate without the consent of the Credit Facility Issuer. The notice of the Company shall specify the effective date of such Conversion and the information required by

Section 2.02(g)(iii). If the Conversion is to the Ten Year Call Term Rate, such notice shall specify the information required pursuant to Section 2.02(d)(iii). If the Conversion is to the Five Year Call Term Rate, such notice shall specify the information required pursuant to Section 2.02(e)(iii). If the Conversion is to the No Call Term Rate, such notice shall specify the information required pursuant to Section 2.02(f)(iii). In addition, in the case of a Conversion to the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate from the Daily Rate, Weekly Rate or Commercial Paper Rate, as the case may be, or any Conversion to the Daily Rate, Weekly Rate or Commercial Paper Rate from the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate, such Conversion shall be conditioned upon the delivery to the Pollution Control Corporation, the Trustee and the Company on or prior to the Conversion Date of an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by this Indenture and will not, in and of itself, adversely affect any exclusion of interest on the Bonds from gross income for purposes of federal income taxation. Any such Conversion may be cancelled by the Company by telephonic notice (to be confirmed in writing) to the Trustee, the Credit Facility Issuer, if any, and the Remarketing Agent by the opening of business on the Conversion Date, in which case, the Company's notice of Conversion shall be of no effect and the Conversion shall not occur, provided, however, that any mandatory purchase of Bonds on the proposed conversion date shall remain effective.

(ii) Limitations. Any Conversion of the Interest Rate Mode for the Bonds pursuant to paragraph (i) above must comply with the following:

(A) the Conversion Date must be a date on which the Bonds are subject to optional redemption pursuant to Section 3.01(a);

(B) if the proposed Conversion Date would not be an Interest Payment Date except for such Conversion, the Conversion Date must be a Business Day;

(C) if the Conversion is from the Commercial Paper Rate, (1) the Conversion Date shall be no earlier than the latest Interest Payment Date established for the Bonds prior to the giving of notice to the Remarketing Agent of the proposed Conversion and (2) no further Interest Payment Date may be established for such Bonds while the Interest Rate Mode is then the Commercial Paper Rate if such Interest Payment Date would occur after the effective date of that Conversion;

(D) after a determination is made requiring mandatory redemption of all Bonds pursuant to Section 3.01(c), no change in the Interest Rate Mode may be made prior to the redemption of Bonds pursuant to Section 3.01(c);

(E) the Credit Facility, if any, held or to be held by the Trustee after Conversion (1) must cover the principal of and interest (computed on the basis of a 365 day year for the Daily Rate, the Weekly Rate and the Commercial Paper Rate, and on the basis of a 360 day year consisting of twelve 30 day months for the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate) which will accrue on the Outstanding Bonds for the maximum permitted period between the Interest Payment Dates for the proposed Interest Rate Mode plus at least two (2) days and, (2) in the case of the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate, must extend for the entire length of such Ten

Year Call Term Rate Period, Five Year Call Term Rate Period or the No Call Rate Period, plus fifteen (15) days;

(F) Notwithstanding any other provision of this Indenture to the contrary, the Company shall not be entitled to elect a Conversion if the purchase price upon such Conversion includes any premium unless the Trustee has received a written opinion of Bond Counsel stating that such Conversion will not, in and of itself, adversely affect any exclusion of interest on the Bonds from gross income for purposes of federal income taxation.

(iii) Notice to Bondholders of Conversion of Interest Rate. The Trustee, at the expense of the Company, shall notify the Remarketing Agent and the Owners of each Conversion by Mail or Electronic Means at least fifteen (15) days but not more than thirty (30) days before the Conversion Date if the Interest Rate Mode is the Commercial Paper Rate, the Daily Rate or the Weekly Rate and at least twenty (20) days but not more than sixty (60) days before the Conversion Date if the Interest Rate Mode is the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate. The notice shall state:

(A) that the Interest Rate Mode will be converted and what the new Interest Rate Mode will be;

(B) the Conversion Date; and

(C) (1) that Bonds will be subject to mandatory purchase on the Conversion Date in accordance with Section 5.01(b), (2) the purchase price, and (3) that if any owner of Bonds shall fail to deliver a Bond for purchase with an appropriate instrument of transfer to the Trustee on the Conversion Date, and if the Trustee is in receipt of the purchase price therefor, such Bond not delivered shall nevertheless be purchased on the Conversion Date and shall cease to accrue interest on and from such date.

If the Conversion is to the Ten Year Call Term Rate, the notice will also state the information required by Section 2.02(d)(iii). If the Conversion is to the Five Year Call Term Rate, the notice will also state the information required by Section 2.02(e)(iii). If the Conversion is to the No Call Term Rate, the notice will also state the information required by Section 2.02(f)(iii).

(iv) Cancellation of Conversion of Interest Rate Mode. Notwithstanding any provision of this Section 2.02, the Interest Rate Mode for Bonds shall not be converted if: (A) the Remarketing Agent has not determined the initial interest rate for the new Interest Rate Mode in accordance with this Section 2.02 or (B) the Conversion is cancelled by the Company as provided in Section 2.02(g)(i) above or (C) in the case of a Conversion requiring an opinion of Bond Counsel, the Trustee shall have failed to receive from Bond Counsel prior to the opening of business on the Conversion Date the opinion of such Bond Counsel required under Section 2.02(g)(i). If such Conversion fails to occur, such Bonds shall be converted automatically to the Weekly Rate and the initial interest rate shall be equal to the 100% of the SIFMA Swap Index. If the proposed Conversion of Bonds is cancelled as provided in this paragraph, any mandatory purchase of Bonds shall nevertheless be effective and such Bonds shall bear interest as provided in the two preceding sentences. Anything in this Section 2.02(g)(iv) to the contrary notwithstanding, if a Credit Facility is then in effect, the Rate Period determined upon a failed

Conversion shall not extend beyond the remaining term of such Credit Facility minus fifteen (15) days and if such fifteenth day is not a Business Day, then the immediately preceding Business Day.

(v) Additional Requirements for Conversion to Commercial Paper Rate. The following additional conditions must be satisfied before a Conversion to a Commercial Paper Rate shall become effective: (A) the Company must engage, at its expense, a commercial paper issuing and paying agent (the "Issuing Agent"), reasonably acceptable to the Pollution Control Corporation, having access to DTC's electronic money market issuing and payment system and otherwise eligible to serve as an issuing and paying agent under DTC's policies and procedures for the issuance and payment of commercial paper; (B) the Remarketing Agent must arrange for the execution and delivery to DTC of any required DTC letter of representation for the eligibility of the Bonds in the Commercial Paper Rate in DTC's book entry system and the provision of any needed CUSIP numbers; (C) the Pollution Control Corporation and the Company shall take all other action needed to comply with DTC requirements applicable to the issuance and payment of the Bonds while in the Commercial Paper Rate; and (D) the Pollution Control Corporation and the Company shall enter into any amendment of this Indenture and the Agreement, as applicable, that is needed to comply with DTC's requirements concerning the issuance and payment of the Bonds in the Commercial Paper Rate.

(h) Binding Effect of Determination and Computations. The determination of each interest rate in accordance with the terms of this Indenture shall be conclusive and binding upon the Owners of the Bonds, the Pollution Control Corporation, the Company, the Trustee, the Remarketing Agent and the Credit Facility Issuer, if any.

(i) Further Restriction on any Conversion. Notwithstanding anything else herein to the contrary, any Conversion which would result in the same Credit Facility being in effect for only a portion of the Bonds, shall not be permitted.

Section 2.03. *Form of Bonds.* Bonds shall be authenticated and delivered hereunder solely as fully registered bonds without coupons. Bonds shall be numbered as determined by the Trustee.

Principal of and premium, if any, on the Bonds shall be payable to the Owners of such Bonds upon presentation and surrender of such Bonds at the Principal Office of the Trustee. Interest on the Bonds shall be paid by check drawn upon the Trustee and mailed to the Owners of such Bonds as of the close of business on the Record Date with respect to each interest payment date at the registered addresses of such Owners as they shall appear as of the close of business on such Record Date on the registration books maintained pursuant to Section 2.09 hereof notwithstanding the cancellation of any such Bond upon any exchange or registration of transfer subsequent to such Record Date, except that if and to the extent that there should be a default on the payment of interest on any Bond, such defaulted interest shall be paid to the Owners in whose name such Bond (or any Bond or Bonds issued upon any exchange or registration of transfer thereof) is registered as of the close of business on a date selected by the Trustee in its discretion, but not more than fifteen (15) days or less than ten (10) days prior to the date of payment of such defaulted interest; notwithstanding the foregoing, upon request to the Trustee by an Owner of not less than $1,000,000 in aggregate principal amount of Bonds, interest on such

Bonds and, after presentation and surrender of such Bonds, the principal thereof shall be paid to such Owner by wire transfer to the account maintained within the continental United States specified by such Owner or, if such Owner maintains an account with the entity acting as Trustee, by deposit into such account; provided that if the Interest Rate Mode is the Commercial Paper Rate, the Daily Rate or the Weekly Rate, interest payable on any Bond shall, at the written request of the registered owner, received by the Trustee at least one Business Day prior to the applicable Record Date (or on or one Business Day prior to an Interest Payment Date if the Interest Rate Mode is the Commercial Paper Rate), be payable to the registered owner in immediately available funds by wire transfer to a bank account of such registered owner within the United States or by deposit into a bank account maintained with the Trustee, in either case, to the bank account number of such owner specified in such written request and entered by the Trustee on the Bond Register maintained by the Trustee pursuant to Section 2.09 hereof; provided further, however, that if the Interest Rate Mode is the Commercial Paper Rate, interest on any Bond payable on the Interest Payment Date following the end of the Commercial Paper Rate Period shall be paid only upon presentation and surrender of such Bond at the Principal Office of the Trustee. Payment as aforesaid shall be made in such coin or currency of the United States of America as, at the respective times of payment, shall be legal tender for the payment of public and private debts.

The Bonds and the form for registration of transfer and the form of certificate of authentication to be printed on the Bonds are to be in substantially the forms thereof set forth in Exhibits A, B and C hereto, respectively, with necessary or appropriate variations, omissions and insertions as permitted or required by this Indenture, including, without limitation, such variations as shall be required in connection with a Conversion.

Section 2.04. *Execution of Bonds.* The Bonds shall be executed on behalf of the Pollution Control Corporation by the President or a Vice President of the Pollution Control Corporation and shall be attested by the Secretary or an Assistant Secretary of the Pollution Control Corporation. Each of the foregoing officers may execute or cause to be executed with a facsimile signature in lieu of a manual signature the Bonds, provided the signature of either the President or a Vice President of the Pollution Control Corporation or the Secretary or Assistant Secretary of the Pollution Control Corporation shall, if required by applicable laws, be manually subscribed.

In case any officer of the Pollution Control Corporation whose signature or a facsimile of whose signature shall appear on the Bonds shall cease to be such officer before the authentication by the Trustee and delivery of such Bonds, such signature or such facsimile shall nevertheless be valid and sufficient for all purposes, the same as if such officer had remained in office until delivery; and any Bond may be signed on behalf of the Pollution Control Corporation by such persons as, at the time of execution of such Bond, shall be the proper officers of the Pollution Control Corporation, even though at the date of such Bond or of the execution and delivery of this Indenture any such person was not such officer.

Section 2.05. *Authentication of Bonds.* Only such Bonds as shall have endorsed thereon a certificate of authentication substantially in the form set forth in Exhibit C hereto duly executed by the Trustee shall be entitled to any right or benefit under this Indenture. No Bond shall be valid or obligatory for any purpose unless and until such certificate of authentication shall have

been duly executed by the Trustee, and such executed certificate of authentication of the Trustee upon any such Bonds shall be conclusive evidence that such Bond has been authenticated and delivered under this Indenture. The Trustee's certificate of authentication on any Bond shall be deemed to have been executed by it if signed with an authorized signature of the Trustee, but it shall not be necessary that the same person sign the certificate of authentication on all of the Bonds issued hereunder. This Section 2.05 is subject to the provisions of Section 11.17 hereof.

Section 2.06. *Bonds Not General Obligations.* Any obligation or liability of the Pollution Control Corporation created by or arising out of this Indenture or otherwise incurred in connection with the issuance of the Bonds (including without limitation any liability created by or arising out of the representations, warranties or covenants set forth herein or otherwise) shall not impose a debt or pecuniary liability upon the Pollution Control Corporation or the State of Arizona or any political subdivision thereof, or a charge upon the general credit or taxing powers of any of the foregoing, but shall be payable solely out of the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement or other amounts payable by the Company to the Pollution Control Corporation hereunder or otherwise (including without limitation any amounts derived from indemnifications given by the Company).

Neither the issuance of the Bonds nor the delivery of this Indenture shall, directly or indirectly or contingently, obligate the Pollution Control Corporation or the State of Arizona or any political subdivision thereof to levy any form of taxation therefor or to make any appropriation for their payment. Nothing in the Bonds or in this Indenture or the proceedings of the Pollution Control Corporation or the Coconino County Board of Supervisors authorizing the Bonds or in the Act or in any other related document shall be construed to authorize the Pollution Control Corporation to create a debt of the Pollution Control Corporation or the State of Arizona or any political subdivision thereof within the meaning of any constitutional or statutory provision of the State. The principal of, and premium, if any, and interest on, the Bonds shall be payable solely from the funds pledged for their payment in accordance with the Indenture and available therefor under this Indenture. Neither the Pollution Control Corporation, the County of Coconino, the State of Arizona nor any political subdivision thereof shall in any event be liable for the payment of the principal of, premium, if any, or interest on, the Bonds or for the performance of any pledge, obligation or agreement of any kind whatsoever which may be undertaken by the Pollution Control Corporation. No breach of any such pledge, obligation or agreement may impose any pecuniary liability upon the Pollution Control Corporation or the State of Arizona or any political subdivision thereof, or any charge upon the general credit or against the taxing power of Coconino County, Arizona or the State of Arizona or any political subdivision thereof. The Pollution Control Corporation has no taxing power.

Section 2.07. *Prerequisites to Authentication of Bonds.* The Pollution Control Corporation shall execute and deliver to the Trustee and the Trustee shall authenticate the Bonds and deliver said Bonds to the initial purchasers thereof as may be directed hereinafter in this Section 2.07.

Prior to the delivery on original issuance by the Trustee of any authenticated Bonds, there shall be or have been delivered to the Trustee:

(a) a duly certified copy of a resolution of the Board of Directors of the Pollution Control Corporation authorizing the execution and delivery of this Indenture and the Loan Agreement and the issuance of the Bonds;

(b) an original duly executed counterpart or a duly certified copy of the Loan Agreement;

(c) the Initial Letter of Credit;

(d) a request and authorization to the Trustee on behalf of the Pollution Control Corporation, signed by any duly authorized officer of the Pollution Control Corporation, to authenticate and deliver the Bonds in the aggregate principal amount determined by this Indenture to the purchaser or purchasers therein identified upon payment to the Trustee, but for the account of the Pollution Control Corporation, of a sum specified in such request and authorization; and

(e) a written statement on behalf of the Company, executed by the President, any Vice President or the Treasurer, (i) approving the issuance and delivery of the Bonds and (ii) consenting to each and every provision of this Indenture.

Section 2.08. *Lost or Destroyed Bonds or Bonds Canceled in Error.* If any Bond, whether in temporary or definitive form, is lost (whether by reason of theft or otherwise), destroyed (whether by mutilation, damage, in whole or in part, or otherwise) or canceled in error, the Pollution Control Corporation may execute and the Trustee may authenticate a new Bond of like tenor and denomination and bearing a number not contemporaneously outstanding; provided that (a) in the case of any mutilated Bond, such mutilated Bond shall first be surrendered to the Trustee and (b) in the case of any lost Bond or Bond destroyed in whole, there shall be first furnished to the Pollution Control Corporation, the Trustee and the Company evidence of such loss or destruction. In every case, the applicant for a substitute Bond shall furnish the Pollution Control Corporation, the Trustee and the Company such security or indemnity as may be required by any of them. In the event any lost or destroyed Bond or a Bond canceled in error shall have matured or is about to mature, or has been called for redemption, instead of issuing a substitute Bond the Trustee may, in its discretion, pay the same without surrender thereof if there shall be first furnished to the Pollution Control Corporation, the Trustee and the Company evidence of such loss, destruction or cancellation, together with indemnity, satisfactory to them. Upon the issuance of any substitute Bond, the Pollution Control Corporation and the Trustee may require the payment of a sum sufficient to cover any tax or other governmental charge that may be imposed in relation thereto. The Trustee may charge the Owner of any such Bond with the Trustee's reasonable fees and expenses in connection with any transaction described in this Section 2.08.

Every substitute Bond issued pursuant to the provisions of this Section 2.08 by virtue of the fact that any Bond is lost, destroyed or canceled in error shall constitute an additional contractual obligation of the Pollution Control Corporation, whether or not the Bond so lost, destroyed or canceled shall be at any time enforceable, and shall be entitled to all the benefits of this Indenture equally and proportionately with any and all other Bonds duly issued hereunder. All Bonds shall be held and owned upon the express condition that, to the extent permitted by

law, the foregoing provisions are exclusive with respect to the replacement or payment of lost, destroyed or improperly canceled Bonds, notwithstanding any law or statute now existing or hereafter enacted.

Section 2.09. *Transfer, Registration and Exchange of Bonds.* The Trustee shall maintain and keep, at its Principal Office, books for the registration and registration of transfer of Bonds, which, at all reasonable times, shall be open for inspection by the Pollution Control Corporation, the Trustee and the Company; and, upon presentation for such purpose of any Bond entitled to registration or registration of transfer at the Principal Office of the Trustee, the Trustee shall register or register the transfer in such books, under such reasonable regulations as the Trustee may prescribe. The Trustee shall make all necessary provisions to permit the exchange or registration of transfer of Bonds at its Principal Office.

The transfer of any Bond shall be registered upon the registration books of the Trustee at the written request of the Owner thereof or his attorney duly authorized in writing, upon surrender thereof at the Principal Office of the Trustee, together with a written instrument of transfer satisfactory to the Trustee duly executed by the Owner or his duly authorized attorney. Upon the registration of transfer of any such Bond or Bonds, the Pollution Control Corporation shall issue in the name of the transferee, in authorized denominations, a new Bond or Bonds in the same aggregate principal amount and in the same Interest Rate Mode as the surrendered Bond or Bonds. In addition, if such Bond bears interest at the Commercial Paper Rate, the Trustee will make the appropriate insertions on the face of the Bond.

The Pollution Control Corporation and the Trustee may deem and treat the Owner of any Bond as the absolute owner of such Bond, whether such Bond shall be overdue or not, for the purpose of receiving payment of, or on account of, the principal of and premium, if any, and, except as provided in Section 2.03 hereof, interest on, such Bond and for all other purposes, and neither the Pollution Control Corporation nor the Trustee shall be affected by any notice to the contrary. All such payments so made to any such Owner or upon his order shall be valid and effective to satisfy and discharge the liability upon such Bond to the extent of the sum or sums so paid.

Bonds, upon surrender thereof at the Principal Office of the Trustee may, at the option of the Owner thereof, be exchanged for an equal aggregate principal amount of Bonds of any authorized denomination.

In all cases in which the privilege of exchanging Bonds or registering the transfer of Bonds is exercised, the Pollution Control Corporation shall execute and the Trustee shall authenticate and deliver Bonds in accordance with the provisions of this Indenture. For every such exchange or registration of transfer of Bonds, whether temporary or definitive, the Pollution Control Corporation or the Trustee may make a charge sufficient to reimburse it for any tax or other governmental charge required to be paid with respect to such exchange or registration of transfer, which sum or sums shall be paid by the person requesting such exchange or registration of transfer as a condition precedent to the exercise of the privilege of making such exchange or registration of transfer. The Trustee shall not be obligated to make any exchange or registration of transfer of any Bonds called for redemption.

The Bonds are to be initially registered in the name of Cede & Co., as nominee for the Depository. Such Bonds shall not be transferable or exchangeable, nor shall any purported transfer be registered, except as follows:

(a) such Bonds may be transferred in whole, and appropriate registration of transfer effected, if such transfer is by such nominee to the Depository, or by the Depository to another nominee thereof, or by any nominee of the Depository to any other nominee thereof, or by the Depository or any nominee thereof to any successor securities Depository or any nominee thereof; and

(b) such Bond may be exchanged for definitive Bonds registered in the respective names of the beneficial holders thereof, and thereafter shall be transferable without restriction, if:

(i) the Depository shall have notified the Company and the Trustee that it is unwilling or unable to continue to act as securities Depository with respect to such Bonds and the Trustee shall not have been notified by the Company within ninety (90) days of the identity of a successor securities Depository with respect to such Bonds;

(ii) the Company shall have delivered to the Trustee a written instrument to the effect that such Bonds shall be so exchangeable on and after a date specified therein; or

(iii) (1) an Event of Default shall have occurred and be continuing, (2) the Trustee shall have given notice of such Event of Default pursuant to Section 11.19 hereof and (3) there shall have been delivered to the Pollution Control Corporation, the Company and the Trustee an opinion of counsel to the effect that the interests of the beneficial owners of such Bonds in respect thereof will be materially impaired unless such owners become owners of definitive Bonds.

The Bonds delivered to the Depository may contain a legend reflecting the foregoing restrictions on registration of transfer and exchange.

Section 2.10. *Other Obligations.* The Pollution Control Corporation expressly reserves the right to issue, to the extent permitted by law, but shall not be obligated to issue, obligations under another indenture or indentures to provide additional funds to pay the cost of construction of the Facilities or to refund all or any principal amount of the Bonds, or any combination thereof.

Section 2.11. *Temporary Bonds.* Pending the preparation of definitive Bonds, the Pollution Control Corporation may execute and the Trustee shall authenticate and deliver temporary Bonds. Temporary Bonds shall be issuable as registered Bonds without coupons, of any authorized denomination, and substantially in the form of the definitive Bonds but with such omissions, insertions and variations as may be appropriate for temporary Bonds, all as may be determined by the Pollution Control Corporation. Temporary Bonds may contain such reference to any provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Pollution Control Corporation and be authenticated by the Trustee upon the same conditions and in substantially the same manner, and with like effect, as the definitive

Bonds. As promptly as practicable the Pollution Control Corporation shall execute and shall furnish definitive Bonds and thereupon temporary Bonds may be surrendered in exchange therefor without charge at the Principal Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds a like aggregate principal amount of definitive Bonds of authorized denominations. Until so exchanged the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds.

Section 2.12. *Cancellation of Bonds.* All Bonds which shall have been surrendered to the Trustee for payment or redemption, and all Bonds which shall have been surrendered to the Trustee for exchange or registration of transfer, shall be delivered to the Trustee for cancellation. All Bonds delivered to or acquired by the Trustee for cancellation shall be canceled and disposed of by the Trustee in accordance with its customary procedures.

Section 2.13. *Payment of Principal and Interest.* For the payment of interest on the Bonds, the Pollution Control Corporation shall cause to be deposited in the Bond Fund, on each interest payment date, solely out of the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement and other moneys pledged therefor, an amount sufficient to pay the interest to become due on such interest payment date. The obligation of the Pollution Control Corporation to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Bond Fund available on such interest payment date for the payment of interest on the Bonds.

For the payment of the principal of the Bonds upon maturity, the Pollution Control Corporation shall cause to be deposited in the Bond Fund, on the stated or accelerated date of maturity, solely out of the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement and other moneys pledged therefor, an amount sufficient to pay the principal of the Bonds. The obligation of the Pollution Control Corporation to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Bond Fund available on the maturity date for the payment of the principal of the Bonds.

Section 2.14. *Applicability of Book-Entry Provisions.* Anything in this Indenture to the contrary notwithstanding, (a) the provisions of the Blanket Issuer Letter of Representations, dated October 12, 1995, between the Pollution Control Corporation and The Depository Trust Company relating to the manner of and procedures for payment and redemption of Bonds and the purchase of Bonds in accordance with the terms hereof and the payment of the purchase price and related matters shall apply so long as such Depository shall be the Owner of all Outstanding Bonds and (b) the Pollution Control Corporation and the Trustee, as applicable, may enter into a similar agreement, on terms satisfactory to the Company, with any subsequent Depository and the provisions thereof shall apply so long as such Depository shall be the Owner of all Outstanding Bonds.

Section 2.15. *Disposition of Proceeds.* The proceeds from the issuance and sale of the Bonds shall be applied as provided in Section 4.03 of the Loan Agreement.

ARTICLE III

REDEMPTION OF BONDS

Section 3.01. *Redemption Provisions.* (a)(i) Optional Redemption. Whenever the Interest Rate Mode for Bonds is the Daily Rate or Weekly Rate, such Bonds shall be subject to redemption by the Pollution Control Corporation at the direction of the Company, on any Business Day, in whole or in part, at a redemption price of 100% of the principal amount thereof, plus accrued interest, if any, to the redemption date.

(ii) Whenever the Interest Rate Mode for a Bond is the Commercial Paper Rate, such Bond shall be subject to redemption at the option of the Pollution Control Corporation, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof on the Interest Payment Date for each Commercial Paper Rate Period for that Bond.

(iii) Whenever the Interest Rate Mode for Bonds is the Ten Year Call Term Rate, such Bonds shall be subject to redemption at the option of the Pollution Control Corporation, upon the direction of the Company, in whole or in part, (A) at any time on or after the tenth anniversary of the commencement of the then current Ten Year Call Term Rate Period, at a redemption price equal to 100% of the principal amount thereof, plus interest accrued, if any, to the redemption date and (B) on the final Interest Payment Date for such Ten Year Call Term Rate Period at a redemption price equal to 100% of the principal amount thereof.

(iv) Whenever the Interest Rate Mode for Bonds is the Five Year Call Term Rate, such Bonds shall be subject to redemption at the option of the Pollution Control Corporation, upon the direction of the Company, in whole or in part, (A) at any time on or after the fifth anniversary of the commencement of the then current Five Year Call Term Rate Period, at a redemption price equal to 100% of the principal amount thereof, interest accrued, if any, to the redemption date and (B) on the final Interest Payment Date for such Five Year Call Term Rate Period at a redemption price equal to 100% of the principal amount thereof.

(v) Whenever the Interest Rate Mode for Bonds is the No Call Term Rate, such Bonds shall be subject to redemption at the option of the Pollution Control Corporation, upon the direction of the Company, in whole or in part on the final Interest Payment Date for such No Call Term Rate Period at a redemption price equal to 100% of the principal amount thereof.

If the Company has given notice of a change in the Ten Year Call Term Rate Period pursuant to Section 2.02(d) notice of a change in the Five Year Call Term Rate Period pursuant to Section 2.02(e), notice of a change in the No Call Term Rate Period pursuant to Section 2.02(f) or notice of Conversion of the Interest Rate Mode for the Bonds to the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate pursuant to Section 2.02(g) and, at least thirty (30) days prior to such change in the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Rate Period for the Bonds or such Conversion of an Interest Rate Mode for the Bonds to the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate the Company has provided (i) a certification of the Remarketing Agent to the

Trustee and the Pollution Control Corporation that the redemption provisions applicable to the subject Bonds are not consistent with Prevailing Market Conditions and (ii) an opinion of Bond Counsel that a change in the redemption provisions of the subject Bonds will not, in and of itself, adversely affect any exclusion of interest on such Bonds from gross income for purposes of federal income taxation, the redemption provisions may be revised, effective as of the date of such change in the Ten Year Call Term Rate Period, the Five Year Call Term Rate Period or the No Call Term Rate Period or the Conversion Date, as determined by the Remarketing Agent in its judgment, taking into account the then Prevailing Market Conditions as set forth in such certification, which shall be appended by the Trustee to its counterpart of this Indenture. Any such revision of the redemption provisions shall not be considered an amendment of or a supplement to this Indenture and shall not require the consent of any Bondholder or any other Person or entity.

(b) Extraordinary Optional Redemption. Whenever the Interest Rate Mode for Bonds is the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate, the Bonds shall be subject to redemption by the Pollution Control Corporation, at the direction of the Company, in whole at any time at 100% of the principal amount thereof plus accrued interest, if any, to the redemption date, if:

(i) the Company shall have determined that the continued operation of the Facilities or the Plant is impracticable, uneconomical or undesirable for any reason;

(ii) all or substantially all of the Facilities or the Plant shall have been condemned or taken by eminent domain; or

(iii) the operation of the Facilities or the Plant shall have been enjoined or shall have otherwise been prohibited by, or shall conflict with, any order, decree, rule or regulation of any court or of any federal, state or local regulatory body, administrative agency or other governmental body.

(c) Mandatory Redemption. The Bonds shall be subject to mandatory redemption by the Pollution Control Corporation, at 100% of the principal amount thereof plus accrued interest to the redemption date, on the 180th day (or such earlier date as may be designated by the Company) after a final determination by a court of competent jurisdiction or an administrative agency, to the effect that, as a result of a failure by the Company to perform or observe any covenant, agreement or representation contained in the Loan Agreement, the interest payable on the Bonds is included for federal income tax purposes in the gross income of the owners thereof, other than any owner of a Bond who is a "substantial user" of the Facilities or other facilities deemed financed or refinanced by the Bonds for federal income tax purposes or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code or Section 147(a) of the 1986 Code. No determination by any court or administrative agency shall be considered final for the purposes of this Section 3.01(c) unless the Company shall have been given timely notice of the proceeding which resulted in such determination and an opportunity to participate in such proceeding, either directly or through an owner of a Bond, and until the conclusion of any appellate review sought by any party to such proceeding or the expiration of the time for seeking such review. The Bonds shall be redeemed either in whole or in part in such principal amount that, in the opinion of Bond Counsel, the interest payable on the Bonds, including the Bonds

remaining outstanding after such redemption, would not be included in the gross income of any owner thereof, other than an owner of a Bond who is a "substantial user" of the Facilities or other facilities deemed financed or refinanced by the Bonds for federal income tax purposes or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code or Section 147(a) of the 1986 Code.

Section 3.02. *Selection of Bonds to be Redeemed.* If less than all the Bonds shall be called for redemption under any provision of this Indenture permitting such partial redemption, the particular Bonds or portions of Bonds to be redeemed shall be selected by the Trustee, in such manner as the Trustee in its discretion may deem proper, in the aggregate principal amount designated to the Trustee by the Company or otherwise as required by this Indenture; provided, however, that if, as indicated in a certificate of an Authorized Company Representative delivered to the Trustee, the Company shall have offered to purchase all Bonds then Outstanding and less than all such Bonds have been tendered to the Company for such purchase, the Trustee, at the direction of an Authorized Company Representative, shall select for redemption all such Bonds which shall not have been so tendered. The Trustee shall treat any Bond of a denomination greater than the minimum authorized denomination for the Interest Rate Mode then applicable to the Bonds as representing that number of separate Bonds each of that minimum authorized denomination (and, if any Bond is not in a denomination that is an integral multiple of the minimum authorized denomination for such Interest Rate Mode, one separate Bond of the remaining principal amount of the Bond) as can be obtained by dividing the actual principal amount of such Bond by that minimum authorized denomination; provided that no Bond shall be redeemed in part if it results in the unredeemed portion of the Bond being in a principal amount other than an authorized denomination. If it is determined that one or more, but not all, of the units of principal amount represented by any such Bond is to be called for redemption, then, upon notice of intention to redeem such unit or units, the Owner of such Bond shall forthwith surrender such Bond to the Trustee for (y) payment to such Owner of the redemption price (including the redemption premium, if any, and accrued interest to the date fixed for redemption) of the unit or units of principal amount called for redemption and (z) delivery to such Owner of a new Bond or Bonds in the aggregate principal amount of the unredeemed balance of the principal amount of any such Bond. Bonds representing the unredeemed balance of the principal amount of any such Bond shall be delivered to the Owner thereof, without charge therefor. If the Owner of any such Bond of a denomination greater than the portion called for redemption shall fail to present such Bond to the Trustee for payment and exchange as aforesaid, such Bond shall, nevertheless, become due and payable on the date fixed for redemption to the extent of the unit or units of principal amount called for redemption (and to that extent only).

Section 3.03. *Procedure for Redemption.* (a) In the event any of the Bonds are called for redemption, the Trustee shall give notice, in the name of the Pollution Control Corporation, of the redemption of such Bonds, which notice shall (i) specify the Bonds to be redeemed, the redemption date, the redemption price, and the place or places where amounts due upon such redemption will be payable (which shall be the Principal Office of the Trustee) and, if less than all of the Bonds are to be redeemed, the numbers of the Bonds to be redeemed, and the portion of the principal amount of any Bond to be redeemed in part, (ii) state any condition to such redemption and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Bonds or portions thereof to be redeemed shall cease to bear interest. Such notice may set forth any additional information relating to such redemption. Such notice shall be given

by Mail or Electronic Means at least twenty (20) days prior to the date fixed for redemption to the Owners of the Bonds to be redeemed; provided, however, that failure duly to give such Notice by Mail or Electronic Means, or any defect therein, shall not affect the validity of any proceedings for the redemption of Bonds as to which there shall have been no such failure or defect. If a notice of redemption shall be unconditional, or if the conditions of a conditional notice or redemption shall have been satisfied, then upon presentation and surrender of Bonds so called for redemption at the place or places of payment, such Bonds shall be redeemed. The Trustee shall promptly deliver to the Company a copy of each such notice of redemption.

(b) With respect to any notice of redemption of Bonds in accordance with Section 3.01(a) hereof, unless, upon the giving of such notice, such Bonds shall be deemed to have been paid within the meaning of Article IX hereof, such notice shall state that such redemption shall be conditional upon the receipt, by the Trustee at or prior to the opening of business on the date fixed for such redemption, of moneys sufficient to pay the principal of and premium, if any, and interest on such Bonds to be redeemed, and that if such moneys shall not have been so received said notice shall be of no force and effect and the Pollution Control Corporation shall not be required to redeem such Bonds and such failure to redeem shall not constitute an Event of Default hereunder. In the event that such notice of redemption contains such a condition and such moneys are not so received or any other condition referenced in the notice of redemption shall not have been met, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received or such other conditions were not satisfied.

(c) Any Bonds and portions of Bonds which have been duly selected for redemption shall cease to bear interest on the specified redemption date provided that moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds shall be on deposit with the Trustee on the date fixed for redemption so that such Bonds will be deemed to be paid in accordance with Article IX hereof.

(d) In addition to any conditional calls otherwise permitted pursuant to the terms of this Indenture, any notice of redemption delivered pursuant to Section 3.01(a) hereof may be revoked by the Company by written notice delivered to the Trustee by the Company on or prior to the date set for redemption date. In the event that a notice of redemption is so revoked by the Company, such notice shall be of no force and effect, the redemption shall not be made, such failure to redeem shall not constitute an Event of Default hereunder and the Trustee shall, within a reasonable time thereafter, give notice, in the manner in which the notice of redemption was given, that such notice of redemption was revoked by the Company.

Section 3.04. *Payment of Redemption Price.* For the redemption of any of the Bonds, the Pollution Control Corporation shall cause to be deposited in the Bond Fund, on the redemption date, solely out of the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement, an amount sufficient to pay the principal of and premium, if any, and interest to become due on such redemption date. The obligation of the Pollution Control Corporation to cause any such deposit to be made hereunder shall be reduced by the amount of moneys in the Bond Fund available on such redemption date for payment of the principal of and premium, if any, and accrued interest on the Bonds to be redeemed.

Section 3.05. *No Partial Redemption After Default.* Anything in this Indenture to the contrary notwithstanding, if there shall have occurred and be continuing an Event of Default defined in clause (a), (b) or (c) of the first paragraph of Section 10.01 hereof, there shall be no redemption of less than all of the Bonds at the time Outstanding other than a partial redemption in connection with an offer by the Company to purchase all Bonds Outstanding as contemplated in the first proviso to the first sentence of Section 3.02 hereof.

Section 3.06. *Purchase in Lieu of Redemption.* Bonds subject to optional redemption or extraordinary optional redemption as provided in this Article may be purchased in lieu of redemption on the applicable redemption date at a purchase price equal to the redemption price thereof, plus accrued interest, if any, thereon to, but not including, the date of such purchase, if the Trustee has received a written request from the Company on or before the Business Day prior to the date the Bonds would otherwise be subject to redemption specifying that the moneys provided or to be provided by the Company shall be used to purchase such Bonds in lieu of redemption. Moneys received for such purpose shall be held by the Trustee in the Bond Fund in trust for the Owner of the Bonds so purchased. While a Credit Facility is in place in respect of any Bonds, any such purchase of such Bonds will be made from moneys received from a drawing on such Credit Facility and applied as provided herein. No purchase of Bonds by the Company pursuant to this subsection or advance or use of any moneys to effectuate any such purpose shall be deemed to be a payment or redemption of the Bonds or any portion thereof, and such purchase shall not operate to extinguish or discharge the indebtedness evidenced by such Bonds.

ARTICLE IV

THE BOND FUND

Section 4.01. *Creation of Bond Fund.* (a) There is hereby created and established with the Trustee a trust fund in the name of the Pollution Control Corporation to be designated "Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project) Bond Fund" to be held for the benefit of the Owners of the Bonds, the moneys in which, in accordance with Section 4.01(c), the Trustee shall make available to pay (i) the principal or redemption price of Bonds as they mature or become due, upon surrender and (ii) the interest on Bonds as it becomes payable. The Bond Fund shall be an Eligible Account. There are hereby established with the Trustee within the Bond Fund two separate and segregated accounts, to be designated "Company Account" and "Credit Facility Account". The Credit Facility Account and the Company Account are maintained as separate and segregated accounts and any moneys held therein shall not be commingled with any other moneys or funds. The Bond Fund, and all moneys and certificated securities therein, shall be kept in the possession of the Trustee. Neither the Pollution Control Corporation nor the Company shall have any interest in the Credit Facility Account.

(b) There shall be deposited into the accounts of the Bond Fund from time to time the following:

(i) into the Company Account, (A) all Loan Payments, and (B) all other moneys received by the Trustee under and pursuant to the provisions of this Indenture or any of

the provisions of the Loan Agreement, when accompanied by directions from the Company that such moneys are to be paid to the Bond Fund; and

(ii) into the Credit Facility Account, all moneys drawn by the Trustee under a Credit Facility, if any, to pay principal or redemption price of the Bonds and interest on the Bonds and deposited directly therein, and only such moneys.

(c) Except as provided in subsection (e) of this Section, moneys in the Bond Fund shall be used solely for the payment of the principal or redemption price of the Bonds and interest on the Bonds from the following source or sources but only in the following order of priority:

(i) proceeds of the Credit Facility, if any, deposited directly into, and held in, the Credit Facility Account, provided that, in no event shall moneys held in the Credit Facility Account be used to pay any premium which may be due on the Bonds pursuant to Section 3.01(a) unless the Credit Facility, if any, then in effect is available to pay such premium, and provided further, that in no event shall moneys in the Credit Facility Account be used to pay any amount which may be due on Bonds held pursuant to Section 5.05 or any other Bonds registered in the name of the Company; and

(ii) moneys held in the Company Account.

(d) Except with respect to payments of principal or redemption price of and interest on Bonds held pursuant to Section 5.05 or any other Bonds registered in the name of the Company, the Trustee shall draw upon or demand payment under the Credit Facility, if any, then held by the Trustee in accordance with its terms in an amount, after taking into account any moneys then on deposit in the Credit Facility Account, and in a manner so as to provide immediately available funds for principal or redemption price and interest to the Bondholders when due, whether upon maturity, redemption, acceleration, Interest Payment Date or otherwise, with the Trustee making any such drawing or demand under such Credit Facility in respect of interest on the Bonds in an amount sufficient to pay interest through the date such drawing or demand is payable in accordance with the terms of such Credit Facility. If such Credit Facility fails, by the time provided in the Credit Facility on the date such payment is due, to honor a drawing to provide the immediately available funds for principal or redemption price and interest on the Bonds or the Credit Facility has been repudiated, the Trustee shall immediately (but in no event later than 2:30 p.m. (New York City time) on such date) notify the Company in writing or by Electronic Notice and the Company shall pay amounts sufficient for the principal or redemption price of and interest on the Bonds when due.

(e) While the Credit Facility is in effect and there is no default in the payment of principal or redemption price of or interest on the Bonds, any amounts in the Company Account shall be paid to the Credit Facility Issuer to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement (as certified in writing by the Credit Facility Issuer to the Trustee and the Company). Any amounts remaining in the Bond Fund (first, from the Credit Facility Account, and second, from the Company Account) after payment in full of the principal or redemption price of and interest on the Bonds (or provision for payment thereof) and payment of any outstanding fees, expenses and indemnities of the Trustee

(including its reasonable attorney fees and expenses) shall be paid, first, to the Credit Facility Issuer, to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement (as certified in writing by the Credit Facility Issuer to the Trustee and the Company) and, second, to the Company.

(f) In the event that the Bond Fund no longer qualifies as an Eligible Account, the Trustee shall, within thirty (30) calendar days, move the Bond Fund to another financial institution such that the Eligible Account requirement will again be satisfied.

Section 4.02. *Liens.* The Pollution Control Corporation shall not create any lien upon the Bond Fund or upon the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement other than the lien hereby created.

Section 4.03. *Custody of Bond Fund; Withdrawal of Moneys.* The Bond Fund shall be in the custody of the Trustee but in the name of the Pollution Control Corporation and the Pollution Control Corporation hereby authorizes and directs the Trustee to withdraw from the Bond Fund funds constituting part of the Trust Estate sufficient to pay the principal of and premium, if any, and interest on the Bonds as the same shall become due and payable, and to withdraw from the Bond Fund funds sufficient to pay any other amounts payable therefrom as the same shall become due and payable.

Section 4.04. *Bonds Not Presented for Payment.* In the event any Bonds shall not be presented for payment when the principal thereof and premium, if any, thereon become due, either at maturity or at the date fixed for redemption thereof or otherwise, if moneys sufficient to pay such Bonds are held by the Trustee for the benefit of the Owners thereof, the Trustee shall segregate and hold such moneys in trust, without liability for interest thereon, for the benefit of the Owners of such Bonds, who shall, except as provided in the following paragraph, thereafter be restricted exclusively to such fund or funds for the satisfaction of any claim of whatever nature on their part under this Indenture or relating to said Bonds.

Any moneys which the Trustee shall segregate and hold in trust for the payment of the principal of and premium, if any, or interest on any Bond and remaining unclaimed for one (1) year after such principal, premium, if any, or interest has become due and payable shall, upon the Company's written request to the Trustee, be paid to the Company; provided, however, that before the Trustee shall be required to make any such repayment, the Trustee shall, at the expense of the Company, cause notice to be given once by Mail or Electronic Means to the effect that such money remains unclaimed and that, after a date specified therein, which shall not be less than thirty (30) days from the date of such notice by Mail or Electronic Means, any unclaimed balance of such moneys then remaining will be paid to the Company. After the payment of such unclaimed moneys to the Company, the Owner of such Bond shall thereafter look only to the Company for the payment thereof, and all liability of the Pollution Control Corporation and the Trustee with respect to such moneys shall thereupon cease.

Section 4.05. *Moneys Held in Trust.* All moneys and Investment Securities held by the Trustee in the Bond Fund, and all moneys required to be deposited with or paid to the Trustee for deposit into the Bond Fund, and all moneys withdrawn from the Bond Fund and held by the Trustee, shall be held by the Trustee, in trust, and such moneys and Investment Securities (other

than moneys held pursuant to Section 4.04 hereof and moneys or Investment Securities held in the Rebate Fund established in furtherance of the obligations of the Company under clause (b) of Section 6.04 of the Loan Agreement), while so held or so required to be deposited or paid, shall constitute part of the Trust Estate and be subject to the lien and security interest created hereby in favor of the Trustee, for the benefit of the Owners from time to time of the Bonds. The Company shall have no right, title or interest in the Bond Fund, except such rights as may arise after the right, title and interest of the Trustee in and to the Trust Estate and all covenants, agreements and other obligations of the Pollution Control Corporation under this Indenture shall have ceased, terminated and become void and shall have been satisfied and discharged in accordance with Article IX hereof.

ARTICLE V

PURCHASE AND REMARKETING OF BONDS

Section 5.01. *Purchase of Bonds.*

(a) Purchase of the Bonds on Demand of Owner.

(i) During Daily Rate Period. If the Interest Rate Mode for Bonds is the Daily Rate, any such Bond shall be purchased on the demand of the owner thereof, on any Business Day during a Daily Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon written notice or Electronic Notice to the Remarketing Agent and to the Trustee, at its Principal Office not later than 11:00 a.m. (New York City time) on such Business Day of such Owner's demand for purchase pursuant to this Section 5.01(a)(i), which notice (A) states the principal amount (or portion thereof in an authorized denomination) of such Bond to be purchased, (B) states the Purchase Date on which such Bond shall be purchased and (C) irrevocably requests such purchase and agrees to deliver such Bond, if not in Book-Entry Form, duly endorsed in blank for transfer, with all signatures guaranteed, to the Trustee at or prior to 11:00 a.m. (New York City time) on such Purchase Date.

The Trustee shall promptly, but in no event later than 11:15 a.m. (New York City time) on such Business Day, provide the Credit Facility Issuer with Electronic Notice of the receipt of the notice referred to in the preceding paragraph.

(ii) During Weekly Rate Period. If the Interest Rate Mode for Bonds is the Weekly Rate, any such Bond shall be purchased on the demand of the owner thereof, on any Business Day during a Weekly Rate Period at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date, upon written notice to the Trustee, at its Principal Office at or before 5:00 p.m. (New York City time) on a Business Day not later than the seventh day prior to the Purchase Date, which notice (A) states the principal amount (or portion thereof in an authorized denomination) of such Bond to be purchased, (B) states the Purchase Date on which such Bond shall be purchased and (C) irrevocably requests such purchase and agrees to deliver such Bond, if not in Book-Entry Form, duly endorsed in blank for transfer, with all signatures guaranteed, to the Trustee at or prior to 12:00 Noon (New York City time) on such Purchase Date.

The Trustee shall promptly, but in no event later than 4:00 p.m. (New York City time) on the next succeeding Business Day, provide the Remarketing Agent and the Credit Facility Issuer with Electronic Notice of the receipt of the notice referred to in the preceding paragraph.

(iii) Notwithstanding any other provision of this Section 5.01(a), the Owner of a Bond may demand purchase of a portion of such Bond only if the portion to be purchased and the portion to be retained by such Owner each will be in an authorized denomination.

(b) Mandatory Purchases of Bonds.

(i) Mandatory Purchase on Conversion Date. Bonds shall be subject to mandatory purchase at a purchase price equal to the principal amount thereof plus accrued interest, if any, plus if the Interest Rate Mode for such Bonds is the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate, the redemption premium, if any, which would be payable under Section 3.01(a) if those Bonds were redeemed on the Purchase Date (A) on each Conversion Date for such Bonds for any Conversion and (B) on the effective date of any change in the Ten Year Call Term Rate Period, the Five Year Call Term Rate Period or the No Call Term Rate Period for such Bonds by the Company pursuant to Section 2.02(d)(ii), Section 2.02(e)(ii) or Section 2.02(f)(ii), as applicable.

(ii) Mandatory Purchase on Cancellation, Substitution, Expiration or Termination of Credit Facility. The Bonds shall be subject to mandatory purchase at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the Purchase Date, on the Business Day preceding the date of cancellation, termination or substitution by the Trustee at the written request of the Company of the then current Credit Facility or the fifteenth day (or if such day is not a Business Day, the preceding Business Day) preceding the stated expiration of the term of the then current Credit Facility, if any; provided, that, if the then current Credit Facility, if any, shall be cancelled, terminated or substituted by the Trustee at the request of the Company, including such cancellation in connection with the delivery of an Alternate Credit Facility, the Purchase Date shall be a Business Day on which the Bonds are subject to optional redemption and the purchase price in such event shall also include, if applicable, a premium equal to the redemption premium which would be payable under Section 3.01(a) if the Bonds were redeemed on the Purchase Date; provided, further, that the Bonds shall not be so purchased if the Company shall have furnished Ratings Confirmation to the Trustee.

(iii) Mandatory Purchase at Direction of Credit Facility Issuer. If a Credit Facility is in effect, the Bonds shall be subject to mandatory purchase at a purchase price equal to the principal amount thereof, plus accrued interest, if any, to the Purchase Date, if the Trustee receives written notice from the Credit Facility Issuer directing such mandatory purchase upon the occurrence and continuance of an event of default under the Reimbursement Agreement. Such mandatory purchase shall occur on the second Business Day after the date of receipt by the Trustee of the notice sent by the Credit Facility Issuer. Upon receipt of such notice, the Trustee shall immediately: (A) draw on that Credit Facility in an amount sufficient to pay the principal and interest which will be due on the Purchase Date and hold such amount uninvested and without any liability for interest until the Purchase Date when such amount shall be applied to pay the amounts due to the owners of the Bonds on the Purchase Date, and (B) notify the

Remarketing Agent and, as soon as practicable but in no event less than one Business Day prior to the Purchase Date, Owners of such mandatory purchase by Mail or Electronic Means in accordance with Section 7.05(b).

(iv) Mandatory Purchase on Business Day After End of Commercial Paper Rate Period, Ten Year Call Term Rate Period, Five Year Call Term Rate Period or No Call Term Rate Period. Whenever the Interest Rate Mode for a Bond is the Commercial Paper Rate, the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate, such Bond shall be subject to mandatory purchase on the Business Day following the end of each Commercial Paper Rate Period, Ten Year Call Term Rate Period, Five Year Call Term Rate Period or No Call Term Rate Period, as the case may be, for such Bond at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date.

(c) Payment of Purchase Price. The purchase price of any Bond purchased pursuant to Section 5.01 (and delivery of a replacement Bond in exchange for the portion of any Bond not purchased if such Bond is purchased in part only) shall be payable on the Purchase Date upon delivery of such Bond to the Trustee on such Purchase Date; provided that such Bond must be delivered to the Trustee at or prior to 12:00 Noon (New York City time) for payment by the close of business on the date of such purchase.

In the event any Purchase Date for a Bond is also an Interest Payment Date for such Bond, interest on such Bond shall be paid to the Owner pursuant to the provisions set forth in Section 2.13.

Any Bond delivered for payment of the purchase price shall be accompanied by an instrument of transfer thereof, in form satisfactory to the Trustee executed in blank by the owner thereof and with all signatures guaranteed by a member of an Approved Signature Guarantee Medallion Program. The Trustee may refuse to accept delivery of any Bond for which an instrument of transfer satisfactory to it has not been provided and shall have no obligation to pay the purchase price of such Bond until a satisfactory instrument is delivered.

If the owner of any Bond (or portion thereof) that is subject to purchase pursuant to this Article fails to deliver such Bond with an appropriate instrument of transfer to the Trustee for purchase on the Purchase Date, and if the Trustee is in receipt of the purchase price therefor, such Bond (or portion thereof) shall nevertheless be purchased on the Purchase Date hereof. Any owner who so fails to deliver such Bond for purchase on (or before) the Purchase Date shall have no further rights thereunder, except the right to receive the purchase price thereof from those moneys deposited with the Trustee in the Purchase Fund pursuant to Section 5.03 upon presentation and surrender of such Bond to the Trustee properly endorsed for transfer in blank with all signatures guaranteed. The Trustee shall, as to any Bonds which have not been delivered to it, promptly notify the Remarketing Agent of such non delivery. Upon such notification, the Trustee shall place a stop transfer against an appropriate amount of Bonds registered in the name of the Owner(s) on the Register, commencing with the lowest serial number Bond registered in the name of such Owner(s) (until stop transfers have been placed against an appropriate amount of Bonds) until the appropriate purchased Bonds are surrendered to the Trustee.

The Trustee shall hold all Bonds delivered pursuant to this Section 5.01 in trust for the benefit of the Owners thereof until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such Bondholders, and thereafter shall deliver replacement Bonds, prepared by the Trustee in accordance with the directions of the Remarketing Agent and authenticated by the Trustee, for any Bonds purchased in accordance with the directions of the Remarketing Agent, to the Remarketing Agent for delivery to the purchasers thereof.

Section 5.02. *Remarketing of Bonds.* (a) Upon the receipt by the Remarketing Agent of any notice pursuant to Section 5.01(a), the Remarketing Agent, subject to the terms of the Remarketing Agreement, shall use its best efforts to offer for sale and sell the Bonds in respect of which such notice has been given. Unless otherwise instructed by the Company and with the consent of the Credit Facility Issuer, the Remarketing Agent, subject to the terms of the Remarketing Agreement, shall use its best efforts to offer for sale and sell any Bonds purchased pursuant to Section 5.01(b)(i), (ii) and (iv). Any such Bonds shall be offered: (i) at a price equal to the principal amount thereof, plus interest accrued, if any, to the Purchase Date, and (ii) pursuant to terms calling for payment of the purchase price on such Purchase Date against delivery of such Bonds; provided, however, in no event shall the Remarketing Agent sell any Bond if the amount to be received from the sale of such Bond (including accrued interest, if any) is less than the principal amount thereof, plus accrued interest to the sale date. The Remarketing Agent, the Trustee or the Credit Facility Issuer may purchase any Bond offered pursuant to this Section 5.02 for their respective accounts.

(b) The Remarketing Agent shall, subject to the terms of the Remarketing Agreement, use its best efforts to offer for sale and sell, on behalf of the Company, Bonds held pursuant to Section 5.05 other than Bonds purchased pursuant to Section 5.01(b)(iii) and, at the direction of the Company, any Bonds held for the Company by the Trustee pursuant to Section 5.04(a)(iii)(A); provided that any Bonds held pursuant to Section 5.05 shall only be released as provided in Section 5.05. Any such Bonds shall be offered at a purchase price equal to the principal amount thereof plus accrued interest, if any, thereon to the date of purchase. If any Bonds to be remarketed have been called for redemption, the Remarketing Agent shall give notice thereof to prospective purchasers of Bonds.

Section 5.03. *Purchase Fund; Purchase of Bonds Delivered to Trustee.* (a) There is hereby established with the Trustee a Purchase Fund, which shall be an Eligible Account, the moneys in which shall be used solely to pay the purchase price of Bonds purchased pursuant to Section 5.01. There are hereby established with the Trustee within the Purchase Fund two separate and segregated accounts, to be designated "Remarketing Proceeds Account" and "Credit Facility Proceeds Account". The Purchase Fund and the accounts therein shall be maintained as separate and segregated accounts and any moneys held therein shall not be commingled with moneys in the Company Fund established by Section 5.07 or in any other account or with any other funds of the Trustee, shall be held on and after any Purchase Date solely for the benefit of the owners of Bonds purchased on such Purchase Date pursuant to Section 5.01, shall not secure any other Bonds or be available for any purpose except as described in this paragraph and shall not be invested. Neither the Pollution Control Corporation nor the Company shall have any interest in the Purchase Fund.

(b) There shall be deposited into the accounts of the Purchase Fund from time to time the following:

(i) into the Remarketing Proceeds Account, only such moneys representing proceeds from the resale by the Remarketing Agent of Bonds, as described in Section 5.02(a), to Persons other than the Company, its Affiliates, the Pollution Control Corporation or any guarantor of the Bonds, delivered by the Remarketing Agent to the Trustee pursuant to Section 5.07 and deposited directly therein; and

(ii) into the Credit Facility Proceeds Account, only such moneys drawn by the Trustee under a Credit Facility, if any, for the purchase of Bonds.

(c) On each date Bonds are to be purchased pursuant to Section 5.01, such Bonds shall be purchased, but only from the funds listed below, from the owners thereof. Funds for the payment of such purchase price shall be derived from the following sources in the order of priority indicated, provided that funds derived from Section 5.03(c)(iii) shall not be combined with funds derived from Section 5.03(c)(i) or (ii) to purchase any Bonds (or authorized denomination thereof):

(i) Proceeds of the remarketing of such Bonds to Persons other than the Company, its Affiliates, the Pollution Control Corporation or any guarantor of the Bonds pursuant to Section 5.02(a) and furnished to the Trustee by the Remarketing Agent and deposited directly into, and held in, the Remarketing Proceeds Account;

(ii) Proceeds of a draw on the Credit Facility, if any, deposited by the Trustee directly into, and held in, the Credit Facility Proceeds Account; and

(iii) Moneys paid by the Company (including the proceeds of the remarketing of such Bonds to the Company, its Affiliates, the Pollution Control Corporation or any guarantor of the Bonds) to pay the purchase price furnished to the Trustee.

(d) In the event that the Purchase Fund no longer qualifies as an Eligible Account, the Trustee shall, within 30 calendar days, move the Purchase Fund to another financial institution such that the Eligible Account requirement will again be satisfied.

Anything herein to the contrary notwithstanding, the Trustee shall not be obligated to use its own funds to purchase any Bonds hereunder.

Section 5.04. *Delivery of Remarketed or Purchased Bonds.* (a) Bonds purchased pursuant to Section 5.03 shall be delivered as follows:

(i) Bonds sold by the Remarketing Agent to Persons or entities other than the Company, its Affiliates, the Pollution Control Corporation or any guarantor of the Bonds, shall be delivered by the Remarketing Agent to the purchasers thereof.

(ii) Bonds, the principal and interest portions of the purchase price of which are paid with moneys described in Section 5.03(c)(ii), shall be delivered to the Trustee to be held pursuant to Section 5.05.

(iii) Bonds purchased solely with moneys described in Section 5.03(c)(iii) shall, at written direction of the Company, be (A) delivered to or held by the Trustee for the account of the Company, (B) delivered to the Trustee for cancellation or (C) delivered to the Company.

(b) If, on any date prior to the release of Bonds held by or for the account of the Company pursuant to Section 5.04(a)(iii), all Bonds are called for redemption pursuant to Section 3.01(a) or Section 3.01(b) or an acceleration of the Bonds pursuant to Section 10.01 occurs, such Bonds shall be deemed to have been paid and shall thereupon be delivered to and cancelled by the Trustee.

Section 5.05. *Bonds Pledged to the Credit Facility Issuer.* The Trustee shall register in its name as the Credit Facility Issuer's designee or such other party designated by the Credit Facility Issuer any Bonds delivered to the Trustee pursuant to Section 5.04(a)(ii) upon receipt of notice from the Trustee of such delivery. Thereafter, the Trustee shall hold such Bonds pledged for the account of and subject to the security interest in favor of the Credit Facility Issuer. Each such Bond shall constitute a Pledged Bond until released as provided herein, shall be deposited in a separate custodial account established by the Trustee for the Credit Facility Issuer, and shall be released only (a) in the case of Bonds which were not purchased pursuant to Section 5.01(b)(ii) or Section 5.01(b)(iii), after the Trustee shall have been notified in writing (either by hand delivery or facsimile transmission) by the Credit Facility Issuer that the Credit Facility has been reinstated for the principal and interest portions of the drawing made to pay the purchase price of such Bond and (b) either upon telephonic notice (promptly confirmed within one Business Day in writing) to the Trustee from the Remarketing Agent that such Bond has been remarketed at a purchase price equal to the principal amount thereof plus accrued interest, if any, thereon to the date of purchase or upon Electronic Notice from the Credit Facility Issuer which directs the Trustee to release such Bond to the Company. Upon the remarketing of a Pledged Bond as described in the preceding sentence, such Bond shall be released and delivered to the purchaser thereof as identified by the Remarketing Agent against receipt of such purchase price from the purchaser on such date. The proceeds received from the remarketing of any Pledged Bond shall be paid by wire transfer and in immediately available funds on the Purchase Date to the Credit Facility Issuer. Upon receipt of the above described Electronic Notice from the Credit Facility Issuer, the Trustee shall deliver such Bonds to the Company to be held pursuant to Section 5.04(a)(iii).

On each Interest Payment Date prior to the release of Pledged Bonds, the Trustee shall apply moneys credited to the Company Account of the Bond Fund to the payment of the principal, redemption price, if any, and interest on such Pledged Bonds in the manner provided in Section 4.01, but shall not draw on the Credit Facility or otherwise use moneys credited to the Credit Facility Account of the Bond Fund for that purpose to any extent whatsoever.

If, on any date prior to the release of Pledged Bonds, all Bonds are called for redemption pursuant to Article III hereof or the Trustee declares an acceleration of the Bonds pursuant to Section 10.01 hereof, then those Pledged Bonds shall be deemed to have been paid by the Credit Facility Issuer in respect of principal of the Bonds upon such redemption or acceleration and shall thereupon be delivered to the Trustee for cancellation.

It is recognized and agreed by the Trustee that such Pledged Bonds are held by the Trustee for the benefit of the Credit Facility Issuer as a secured creditor.

Notwithstanding anything to the contrary in this Section 5.05, if and for so long as the Bonds are to be registered in accordance with Section 2.14, the registration requirements under this Section shall be deemed satisfied if Pledged Bonds are (i) registered in the name of the Depository or its nominee in accordance with Section 2.14, (ii) credited on the books of the Depository to the account of the Trustee (or its nominee) and (iii) further credited on the books of the Trustee (or such nominee) to the account of the Credit Facility Issuer (or its designee).

Section 5.06. *Drawings on Credit Facility.* (a) The Trustee shall prior to 12:00 noon (New York City time) on each Purchase Date draw under the Credit Facility, if any, held by the Trustee in accordance with its terms in a manner so as to furnish immediately available funds by 2:00 p.m. (New York City time) on such Purchase Date, in an amount sufficient, together with moneys described in Section 5.03(c)(i) and available for such purchase, to enable the Trustee to pay the purchase price of such Bonds to be purchased on such Purchase Date, from moneys on deposit in the Credit Facility Proceeds Account, provided however, that in no event shall moneys in the Credit Facility Proceeds Account be used to pay any amount which may be due on Bonds held pursuant to Section 5.05.

(b) If any Credit Facility permits any drawings to be made later than is provided herein, the Trustee shall make any drawing required under this Section 5.06 in accordance with the terms of the Credit Facility for drawing thereunder in a manner so as to be reasonably assured that immediately available funds will be available to the Trustee by 2:00 p.m. (New York City time) on a Purchase Date to pay the purchase price and the Trustee shall deposit those moneys directly into the Credit Facility Proceeds Account.

(c) If the Credit Facility Issuer fails by 2:00 p.m. on any Purchase Date, for any reason, to provide an amount sufficient, together with moneys described in Section 5.03(c)(i) and available for such purchase, to enable the Trustee to pay the purchase price of such Bonds to be purchased on such Purchase Date or the Credit Facility has been repudiated, the Trustee shall immediately notify the Company by telephone and by Electronic Notice of such failure to pay and the Company shall furnish immediately available funds by 3:00 p.m. (New York City time) on such Purchase Date, in an amount sufficient, together with moneys described in Section 5.03(c)(i) and available for such purchase, to enable the Trustee to pay the purchase price of such Bonds to be purchased on such Purchase Date.

Section 5.07. *Delivery of Proceeds of Sale.* The proceeds of the remarketing of any Bonds by the Remarketing Agent shall be delivered by the Remarketing Agent directly to the Trustee no later than 11:30 a.m. (New York City time) on the Purchase Date, and, except as described in the next sentence, all such remarketing proceeds shall be deposited directly into the Remarketing Proceeds Account. The proceeds of any remarketing of Bonds by the Remarketing Agent to the Company, its affiliates, the Pollution Control Corporation or any guarantor of the Bonds shall be delivered to the Trustee in accordance with the first sentence of this Section, separate and segregated from any other moneys and identified by the Remarketing Agent as to source, but shall not be deposited in the Purchase Fund but shall instead be deposited in a fund known as the "Company Fund" which is hereby established with the Trustee and which shall be

maintained as a separate and segregated account and any moneys held therein shall not be commingled with moneys in the Purchase Fund or any other account or with any other funds of the Trustee. In the absence of any of the aforesaid identifications, the Trustee may conclusively assume that no moneys representing the proceeds from the remarketing by the Remarketing Agent of any Bonds were proceeds from the remarketing of Bonds to the Company, its Affiliates, the Pollution Control Corporation or any guarantor of the Bonds.

If a Credit Facility is then in effect, the moneys in the Company Fund shall be paid, to the extent not needed on such date to pay the purchase price of Bonds, first, to the Credit Facility Issuer, to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement (as certified in writing by the Credit Facility Issuer to the Trustee and the Company) and, second, to the Company. If any Bonds held by the Trustee for the account of the Company pursuant to Section 5.04(a)(iii)(A) are remarketed by the Remarketing Agent pursuant to Section 5.02(b), then the proceeds received from such remarketing shall be remitted by the Trustee to the Company. If any Bonds held by the Trustee pursuant to Section 5.05 are remarketed by the Remarketing Agent pursuant to Section 5.02(b), then the proceeds received from such remarketing shall, on the date of such remarketing, be delivered by the Remarketing Agent to the Trustee, for the account of the Credit Facility Issuer, with Electronic Notice of the amount of such proceeds given by the Remarketing Agent to the Credit Facility Issuer, the Trustee and the Company, against delivery of such Bonds, subject to Section 5.05 hereof.

Section 5.08. *Limitations on Purchase.* Anything in this Indenture to the contrary notwithstanding, there shall be no purchase of (a) less than the entire amount of any Bond unless the amount to be purchased and the amount to be retained by the owner are in authorized denominations or (b) any Bond upon the demand of the Owner if the Bonds have been declared due and payable pursuant to Section 10.01.

Section 5.09. *Duties of the Trustee with Respect to Tenders.* The Trustee agrees:

(i) to hold all Bonds delivered to it pursuant to Section 5.01, as agent and bailee of, and in escrow for the benefit of, the respective owners thereof until moneys representing the purchase price of such Bonds shall have been delivered to or for the account of or to the order of such owners;

(ii) to hold all moneys (without investment thereof or responsibility for interest thereon) delivered to it hereunder for the purchase of Bonds pursuant to Section 5.01 as agent and bailee of, and in escrow for the benefit of, the Person or entity which shall have so delivered such moneys until the Bonds purchased with such moneys shall have been delivered to or for the account of such Person or entity and thereafter to hold such moneys (without investment thereof) as agent and bailee of, and in escrow for the benefit of, the Person or entity which shall be entitled thereto on the Purchase Date;

(iii) to hold Bonds for the account of the Company as contemplated by Section 5.04(a)(iii);

(iv) to hold for the Credit Facility Issuer Bonds purchased pursuant to Section 5.01 with moneys representing the proceeds of a drawing under the Credit Facility by the Trustee as contemplated by Section 5.05; and

(v) to keep such books and records as shall be consistent with corporate trust industry practice and to make such books and records available for inspection by the Pollution Control Corporation and the Company at all reasonable times upon prior written notice.

ARTICLE VI

INVESTMENTS

Section 6.01. *Investments.* The moneys in the Bond Fund (except moneys in the Credit Facility Account) shall, at the direction of the Company, be invested and reinvested in Investment Securities. Any Investment Securities may be purchased subject to options or other rights in third parties to acquire the same. Subject to the further provisions of this Section 6.01, such investments shall be made by the Trustee as directed and designated by the Company in a certificate of, or telephonic advice promptly confirmed by a certificate of, an Authorized Company Representative. As and when any amounts thus invested may be needed for disbursements from the Bond Fund, the Trustee shall request the Company to designate such investments to be sold or otherwise converted into cash to the credit of the Bond Fund as shall be sufficient to meet such disbursement requirements and shall then follow any directions in respect thereto of an Authorized Company Representative. As long as no Event of Default shall have occurred and be continuing, the Company shall have the right to designate the investments to be sold and to otherwise direct the Trustee in the sale or conversion to cash of the investments made with the moneys in the Bond Fund, provided that the Trustee shall be entitled to conclusively assume the absence of any such Event of Default unless it has notice thereof within the meaning of Section 11.05 hereof. Moneys held in the Credit Facility Account shall not be invested and the Trustee shall not be liable for the payment of interest thereon.

ARTICLE VII

CREDIT FACILITIES

Section 7.01. *Letter of Credit.* Each Letter of Credit shall provide for direct-payments to or upon the order of the Trustee as hereinafter set forth and shall be the irrevocable obligation of the Bank to pay to or upon the order of the Trustee, upon request and in accordance with the terms thereof (and the Trustee agrees to draw on the Letter of Credit at such times and in such amounts as may be required to provide the following amounts at the required times), up to (a) an amount equal to the principal amount of the Bonds (i) to pay the principal of the Bonds when due whether at stated maturity, upon redemption or acceleration or (ii) to enable the Trustee to pay the portion of the purchase price equal to the principal amount of Bonds purchased pursuant to Section 5.01 to the extent remarketing proceeds are not available in the Remarketing Proceeds Account for such purpose, plus (b) an amount equal to at least 45 days' interest accrued on the Bonds computed at the assumed maximum rate of ten percent (10%) per annum (the "Interest Component") (i) to pay interest on the Bonds when due or (ii) to enable the Trustee to pay the portion of the purchase price of the Bonds purchased pursuant to Section 5.01 equal to the

interest accrued, if any, on such Bonds to the extent remarketing proceeds are not available for such purpose in the Remarketing Proceeds Account. The Trustee will draw upon the Initial Letter of Credit for the aforementioned amounts only while the Interest Rate Mode for such Bonds is the Daily Rate or the Weekly Rate.

Each Letter of Credit shall provide that if, in accordance with the terms of the Indenture, the Bonds shall become immediately due and payable pursuant to any provision of the Indenture, the Trustee shall be entitled to draw on the Letter of Credit to the extent of the aggregate principal amount of the Bonds then Outstanding plus, to the extent available under the Credit Facility, an amount sufficient to pay interest on all Outstanding Bonds, less amounts for which the Letter of Credit shall not have been reinstated. In no event will the Trustee be entitled to make drawings under the Letter of Credit for the payment of any amount due on any Bond held pursuant to Section 5.05 or otherwise registered in the name of the Company.

Except as provided in Section 4.01(e) and Section 10.10 hereof, the Trustee shall have no responsibility to reimburse the Bank for any drawings on the Letter of Credit or any other Credit Facility Issuer for any drawings on the Credit Facility.

Section 7.02. *Termination.* If at any time there shall cease to be any Bonds Outstanding hereunder or if any then current Credit Facility is otherwise terminated, the Trustee shall promptly surrender any such Credit Facility to the Credit Facility Issuer for cancellation. The Trustee shall comply with the procedures set forth in the Credit Facility relating to the termination thereof.

At any time the Bonds are subject to optional redemption in whole pursuant to Section 3.01(a), the Trustee shall upon such optional redemption, at the written direction of the Company, but subject to the conditions contained in this paragraph, deliver any Credit Facility for cancellation in accordance with the terms thereof which cancellation may be without substitution therefor or replacement thereof; provided, that the Company shall not be entitled to give any such direction if the purchase price of any Bonds to be purchased pursuant to Section 5.01(b)(ii) in connection with such cancellation, determined under such Section 5.01(b)(ii), includes any premium unless the Trustee has received written confirmation from the Credit Facility Issuer that the Trustee can draw under the Credit Facility on the Purchase Date related to such purchase of Bonds in an aggregate amount sufficient to pay the premium due upon such purchase of Bonds on such Purchase Date. If the Interest Rate Mode for Bonds is the Commercial Paper Rate, in addition to the written confirmation to the Trustee the Company shall notify the Remarketing Agent to establish a Commercial Paper Rate Period for each such Bond in accordance with Section 2.02(c)(i)(C)(1). Any such cancellation shall not become effective, surrender of such Credit Facility shall not take place and that Credit Facility shall not terminate, in any event, until payment by the issuer of that Credit Facility shall have been made for any and all drawings by the Trustee effected on or before such cancellation date (including, if applicable, any drawings for payment of the purchase price of Bonds to be purchased pursuant to Section 5.01(b)(ii) in connection with such cancellation). Notice of any proposed cancellation of the Credit Facility shall be given by the Company in writing to the Trustee at least twenty five (25) days prior to the effective date of such cancellation. Upon such cancellation, the Trustee shall surrender such Credit Facility to the Credit Facility Issuer in accordance with its terms.

Section 7.03. *Alternate Credit Facilities.* Subject to the conditions of this Section 7.03, the Company may, at its option, provide for the delivery to the Trustee of an Alternate Credit Facility, including, without limitation, a Letter of Credit, having administrative terms acceptable to the Trustee. At least twenty five (25) days prior to the proposed effective date of the proposed Alternate Credit Facility, the Company shall give notice, which notice, if the Interest Rate Mode is the Commercial Paper Rate, shall also contain a certification with respect to the length of each Commercial Paper Rate Period permitted hereunder after delivery of such Alternate Credit Facility, of such replacement to the Trustee, the Remarketing Agent and the then current Credit Facility Issuer. If (A)(x) all of the Bonds are then subject to optional redemption pursuant to Section 3.01(a) and (y) if the purchase price of any Bonds to be purchased pursuant to Section 5.01(b)(ii) in connection with cancellation, termination or substitution of the existing Credit Facility, determined under such Section 5.01(b)(ii), includes any premium and the Trustee has received written confirmation from the Credit Facility Issuer that the Trustee can draw under the Credit Facility (other than the Alternate Credit Facility being delivered in connection with such cancellation) on the Purchase Date related to such purchase of Bonds in an aggregate amount sufficient to pay the premium due upon such purchase of Bonds on such Purchase Date, or (B) the Company shall have provided to the Trustee Ratings Confirmations, then the Trustee shall (i) give the notice provided for in Section 7.05 and (ii) on the date of delivery of such Alternate Credit Facility, accept such Alternate Credit Facility and surrender the previously held Credit Facility, if any, to the previous Credit Facility Issuer for cancellation promptly on the day the Alternate Credit Facility becomes effective; provided, further, however, that such Credit Facility shall not be surrendered for cancellation until payment by the issuer of the Credit Facility to be surrendered shall have been made for any and all drawings by the Trustee effected on or before the date of such surrender for cancellation (including any drawings for payment of the purchase price of Bonds to be purchased pursuant to Section 5.01(b)(ii) in connection with such cancellation, termination or substitution). If the Interest Rate Mode for Bonds is the Commercial Paper Rate, and if the preceding sentence is applicable, the notices required under this Section 7.03 shall be delivered in sufficient time to permit the Remarketing Agent to establish a Commercial Paper Rate Period for each such Bond in accordance with Section 2.02(c)(i)(C)(1).

As a condition to accepting any Alternative Credit Facility, any Alternate Credit Facility delivered to the Trustee must be accompanied by an opinion of counsel to the issuer or provider of such Credit Facility stating that such Credit Facility is a legal, valid, binding and enforceable obligation of such issuer or obligor in accordance with its terms and an opinion of Bond Counsel delivered to the Trustee stating that the delivery of such Alternate Credit Facility to the Trustee is authorized under this Indenture and that the delivery of such Alternate Credit Facility will not, in and of itself, adversely affect the exclusion from gross income of the interest on the Bonds for federal income tax purposes. In addition, if the Company grants a security interest in any cash, securities or investment property to the issuer or provider of such Alternate Credit Facility, the Company must furnish the Trustee with an opinion of Bond Counsel stating that such grant will not, in and of itself, adversely affect any exclusion of interest on the Bonds from gross income for purposes of federal income taxation nor adversely affect any security interest created under the Indenture in favor of the holders of the Bonds.

Section 7.04. *Mandatory Purchase of Bonds.*

(a) Prior to Expiration of Credit Facility. On the fifteenth day (or if such day is not a Business Day, the preceding Business Day) preceding the stated expiration of the term of the then current Credit Facility if such Credit Facility is not extended and if the Company shall not have delivered Ratings Confirmations to the Trustee, the Bonds shall become subject to mandatory purchase in accordance with Section 5.01(b)(ii) and the Trustee shall give notice thereof in accordance with Section 7.05(a).

(b) Prior to Cancellation, Substitution or Termination of Credit Facility. Upon notice delivered by the Company pursuant to Section 7.02 or Section 7.03, if such notice shall not have been accompanied by Ratings Confirmations, the Bonds shall become subject to mandatory purchase pursuant to Section 5.01(b)(ii) and the Trustee shall give notice thereof in accordance with Section 7.05(a).

(c) At Direction of Credit Facility Issuer. Upon receipt of written notice delivered to the Trustee by the Credit Facility Issuer that states that an event of default has occurred and is continuing under the Reimbursement Agreement, the Bonds shall become subject to mandatory purchase pursuant to Section 5.01(b)(iii) and the Trustee shall give notice thereof in accordance with Section 7.05(b) and Section 5.01(b)(iii).

Section 7.05. *Notices.* (a) At the expense of the Company, the Trustee shall notify the Owners by Mail or Electronic Means of any expiration, termination, a substitution or cancellation of the Credit Facility which will subject the Bonds to mandatory purchase in accordance with Section 5.01(b)(ii) at least fifteen (15), but not more than twenty five (25), days before any Purchase Date resulting from such expiration, termination, substitution or cancellation. The notice will state:

(i) that the Credit Facility is expiring or being cancelled, substituted or terminated;

(ii) the Purchase Date; and

(iii) that the Bonds will be subject to mandatory purchase (and the purchase therefor) on the Purchase Date in accordance with Section 5.01(b)(ii) and that if any Owner shall fail to deliver a Bond for purchase with an appropriate instrument of transfer to the Trustee on the Purchase Date, and if the Trustee is in receipt of the purchase price therefor, such Bond not delivered shall nevertheless be purchased on the Purchase Date and shall cease to accrue interest on and from such date.

(b) The Trustee shall, as soon as practicable but in no event later than one Business Day prior to the Purchase Date, notify the Owners by Mail or Electronic Means, of a mandatory purchase of Bonds at the direction of the Credit Facility Issuer as a result of the receipt by the Trustee of a notice from the Credit Facility Issuer stating that an event of default has occurred and is continuing under the Reimbursement Agreement. The notice will state:

(i) that the Bonds are subject to mandatory purchase at the direction of the Credit Facility Issuer as a result of an event of default occurring and continuing under the Reimbursement Agreement;

(ii) the Purchase Date, which shall occur on the second Business Day after the date of receipt by the Trustee of the notice from the Credit Facility Issuer; and

(iii) that the Bonds will be subject to mandatory purchase (and the purchase price therefor) on the Purchase Date in accordance with Section 5.01(b)(iii) and that if any owner shall fail to deliver a Bond for purchase with an appropriate instrument of transfer to the Trustee on the Purchase Date, and if the Trustee is in receipt of the purchase price therefor, such Bond not delivered shall nonetheless be purchased on the Purchase Date and cease to accrue interest on and from such date; and

(c) At the expense of the Company, the Trustee shall notify the Owners by Mail or Electronic Means of any expiration, termination, substitution or cancellation of the Credit Facility which will not subject the Bonds to mandatory purchase in accordance with Section 5.01(b)(ii) at least fifteen (15), but not more than twenty five (25), days before any such expiration, termination, substitution or cancellation. The notice will state:

(i) that the existing Credit Facility is expiring or being cancelled, substituted or terminated;

(ii) if an Alternate Credit Facility is being provided, the identity of the issuer of the Alternate Credit Facility;

(iii) that the Trustee has received Ratings Confirmations; and

(iv) that the Bonds will not be subject to mandatory purchase in accordance with Section 5.01(b)(ii).

(d) Copies of any notices required by this Section 7.05 shall also be sent to the Pollution Control Corporation and the Remarketing Agent.

Section 7.06. *Other Credit Enhancement; No Credit Facility.* Anything else to the contrary in this Article VII or in this Indenture notwithstanding, upon a mandatory purchase of the Bonds as set forth in Section 5.01(b)(i), Section 5.01(b)(ii) or Section 5.01(b)(iii), the Company shall not be required to provide a Credit Facility or other credit enhancement or the Company may provide credit or liquidity enhancement other than a Credit Facility providing for (i) the payment of the principal, interest and redemption payment on the Bonds or a portion thereof or (ii) payment of the purchase price of the Bonds; provided, however, such credit or liquidity enhancement shall have administrative provisions reasonably satisfactory to the Trustee and the Remarketing Agent, and the Company shall provide the Trustee with an opinion of Bond Counsel stating that the other credit or liquidity enhancement or the delivery of such other credit or liquidity enhancement, or both, will not, in and of itself, adversely affect any exclusion of interest on the Bonds from gross income for purposes of federal income taxation. In addition, no Credit Facility shall be required upon Conversion to any Term Rate Period including, without limitation, from a Ten Year Call Term Rate Period to a new Ten Year Call Term Rate Period, from a Five Year Call Term Rate Period to a new Five Year Call Term Rate Period or and from a No Call Term Rate Period to a new No Call Term Rate Period.

ARTICLE VIII

GENERAL COVENANTS

Section 8.01. *No General Obligations.* Each and every covenant herein made, including all covenants made in the various sections of this Article VIII, is predicated upon the condition that neither Coconino County, Arizona nor the State of Arizona shall in any event be liable for the payment of the principal of, or premium, if any, or interest on the Bonds or for the performance of any pledge, mortgage, obligation or agreement created by or arising out of this Indenture or the issuance of the Bonds, and further that neither the Bonds, nor the premium, if any, or interest thereon, nor any such obligation or agreement of the Pollution Control Corporation shall be construed to constitute an indebtedness of Coconino County, Arizona or the State of Arizona within the meaning of any constitutional or statutory provisions whatsoever. The Bonds and the interest and premium, if any, and the purchase price thereon shall be limited obligations of the Pollution Control Corporation payable solely from the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement and the other moneys pledged therefor.

The Pollution Control Corporation shall promptly cause to be paid, solely from the sources stated herein, the principal of and premium, if any, and interest on and the purchase price of every Bond issued under this Indenture at the place, on the dates and in the manner provided herein and in said Bonds according to the true intent and meaning thereof.

Section 8.02. *Performance of Covenants of the Pollution Control Corporation; Representations.* The Pollution Control Corporation shall faithfully perform at all times any and all covenants, undertakings, stipulations and provisions contained in this Indenture, in any and every Bond executed, authenticated and delivered hereunder, and in all proceedings pertaining thereto. The Pollution Control Corporation represents that it is duly authorized under the Constitution and laws of the State of Arizona to issue the Bonds authorized hereby, to enter into the Loan Agreement and this Indenture, and to pledge and assign to the Trustee the Trust Estate, and that the Bonds in the hands of the Owners thereof are and will be valid and binding limited obligations of the Pollution Control Corporation.

Section 8.03. *Maintenance of Rights and Powers; Compliance with Laws.* The Pollution Control Corporation shall at all times use its best efforts to maintain its corporate existence or assure the assumption of its obligations under this Indenture by any public body succeeding to its powers under the Act; and it shall at all times use its best efforts to comply with all valid acts, rules, regulations, orders and directions of any legislative, executive, administrative or judicial body known to it to be applicable to the Loan Agreement and this Indenture.

Section 8.04. *Enforcement of Obligations of the Company; Amendments.* Upon receipt of written notification from the Trustee, the Pollution Control Corporation shall cooperate with the Trustee in enforcing the obligation of the Company to pay or cause to be paid all the payments and other costs and charges payable by the Company under the Loan Agreement. The Pollution Control Corporation shall not enter into any agreement with the Company amending the Loan Agreement without the prior written consent of the Trustee and compliance with

Sections 14.06 and 14.07 of this Indenture (a revision to Exhibit A to the Loan Agreement not being deemed an amendment for purposes of this Section).

Section 8.05. *Further Instruments.* The Pollution Control Corporation shall, upon the reasonable request of the Trustee, from time to time execute and deliver such further instruments and take such further action as may be reasonable and as may be required to carry out the purposes of this Indenture; provided, however, that no such instruments or actions shall pledge the credit or taxing power of the State of Arizona, Coconino County, the Pollution Control Corporation or any other political subdivision of said State.

Section 8.06. *No Disposition of Trust Estate.* Except as permitted by this Indenture, the Pollution Control Corporation shall not sell, lease, pledge, assign or otherwise dispose of or encumber its interest in the Trust Estate and will promptly pay or cause to be discharged or make adequate provision to discharge any lien or charge on any part thereof not permitted hereby.

Section 8.07. *Financing Statements.* The Pollution Control Corporation and the Trustee shall cooperate with the Company in causing appropriate financing statements naming the Trustee as pledgee of the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement and of the other moneys pledged under the Indenture for the payment of the principal of and premium, if any, and interest on the Bonds, and as pledgee and assignee of the balance of the Trust Estate, and the Pollution Control Corporation shall cooperate with the Trustee and the Company in causing appropriate continuation statements to be duly filed and recorded in the appropriate state and county offices as required by the provisions of the Uniform Commercial Code or other similar law as adopted in the State of Arizona and any other applicable jurisdiction, as from time to time amended, in order to perfect and maintain the security interests created by this Indenture.

Section 8.08. *Tax Covenants; Rebate Fund.* (a) The Pollution Control Corporation covenants for the benefit of all beneficial owners from time to time of the Bonds that it will not directly or indirectly use or (to the extent within its control), permit the use of, the proceeds of any of the Bonds or any other funds of the Pollution Control Corporation, or take or omit to take any other action, if and to the extent that such use, or the taking or omission to take such action, would cause any of the Bonds to be "arbitrage bonds" within the meaning of Section 148 of the 1986 Code or otherwise subject to federal income taxation by reason of Section 103 of the 1986 Code or Title XIII of the Tax Reform Act of 1986 and Section 103 of the 1954 Code, as applicable, and any applicable regulations promulgated thereunder. To that end the Pollution Control Corporation covenants to comply with all covenants set forth in the Tax Agreement, which is hereby incorporated herein by reference as though fully set forth herein.

(b) The Trustee shall establish and maintain a fund separate from any other fund established and maintained hereunder designated "Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project) Rebate Fund" (herein called the "Rebate Fund") in accordance with the provisions of the Tax Agreement. Within the Rebate Fund, the Trustee shall maintain such accounts as shall be directed by the Company in order for the Pollution Control Corporation and the Company to comply with the provisions of the Tax Agreement. Subject to the transfer provisions provided in paragraph (c) below, all money at any time deposited in the Rebate Fund

shall be held by the Trustee in trust, to the extent required to satisfy the Rebate Requirement (as defined in the Tax Agreement), for payment to the United States of America, and neither the Company, the Pollution Control Corporation or the Owners shall have any rights in or claim to such moneys. All amounts deposited into or on deposit in the Rebate Fund shall be governed by this Section 8.08, by Section 6.04 of the Loan Agreement and by the Tax Agreement. The Trustee shall conclusively be deemed to have complied with such provisions if it follows the directions of the Company, including supplying all necessary information in the manner set forth in the Tax Agreement, and shall not be required to take any actions thereunder in the absence of written directions from the Company.

(c) Upon receipt of the Company's written instructions, the Trustee shall remit part or all of the balances in the Rebate Fund to the United States of America, as so directed. In addition, if the Company so directs, the Trustee shall deposit moneys into or transfer moneys out of the Rebate Fund from or into such accounts or funds as directed by the Company's written directions. Any funds remaining in the Rebate Fund after all of the Bonds shall have been paid and any Rebate Requirement shall have been satisfied, or provision therefor reasonably satisfactory to the Trustee shall have been made, shall be withdrawn and remitted to the Company.

(d) Notwithstanding any provision of this Indenture, the obligation to remit the Rebate Requirement to the United States of America and to comply with all other requirements of this Section 8.08, Section 6.04 of the Loan Agreement and the Tax Agreement shall survive the payment of the Bonds and the satisfaction and discharge of this Indenture.

Section 8.09. *Notices from Trustee.* The Trustee shall give notice to both the Pollution Control Corporation and the Company whenever it is required hereby to give notice to either and, additionally, shall furnish to the Pollution Control Corporation and the Company copies of any notice by Mail or Electronic Means given by it pursuant to any provision hereof.

ARTICLE IX

DEFEASANCE

Section 9.01. *Defeasance.* (a) When the principal or redemption price, as the case may be, of, and interest on, all Bonds issued hereunder have been paid, or provision has been made for payment of the same, together with all amounts due to the Trustee and all other sums payable hereunder by the Pollution Control Corporation, and all obligations owed to the Credit Facility Issuer have been paid and the Credit Facility has been returned to the Credit Facility Issuer for cancellation, the right, title and interest of the Trustee in the Loan Agreement and the moneys payable thereunder shall thereupon cease and the Trustee, on demand of the Pollution Control Corporation, shall release this Indenture and shall execute such documents to evidence such release as may be reasonably required by the Pollution Control Corporation and shall turn over to the Company all balances then held by it hereunder; provided, however, that notwithstanding any other provision in this Indenture, any money in the Credit Facility Account shall be paid solely to the Credit Facility Issuer and not to the Company. If payment or provision therefor is made with respect to less than all of the Bonds, the particular Bonds (or portions thereof) for which provision for payment shall have been considered made shall be selected by lot by the Trustee,

and thereupon the Trustee shall take similar action for the release of this Indenture with respect to such Bonds.

(b) Provision for the payment of Bonds shall be deemed to have been made when the Trustee holds in the Bond Fund, in trust and irrevocably set aside exclusively for such payment, (i) moneys sufficient to make such payment and any payment of the purchase price of Bonds pursuant to Section 5.01 and/or (ii) Government Obligations maturing as to principal and interest in such amounts and at such times as will provide sufficient moneys (without consideration of any investment earnings thereof) to make such payment and any payment of the purchase price of Bonds pursuant to Section 5.01, and which are not subject to prepayment, redemption or call prior to their stated maturity; provided that if a Credit Facility is then held by the Trustee, (1) such payment and any payment of the purchase price of Bonds pursuant to Section 5.01 shall be made only from proceeds of the Credit Facility deposited directly into the Credit Facility Account or the Credit Facility Proceeds Account, as applicable, or (2) the Company shall have caused to be delivered to the Trustee both a certification as to whether the Bonds are then rated and an opinion of Bankruptcy Counsel which opinion, if the Bonds are then rated, shall be satisfactory to the Rating Agency, that any such payment and the payment of the purchase price of any Bonds pursuant to Section 5.01 will not be considered an avoidable "preferential transfer" by the Company or the Pollution Control Corporation under Section 547 of the United States Bankruptcy Code or any other applicable state or federal bankruptcy law, in the event of the occurrence of an Event of Bankruptcy.

No Bonds in respect of which a deposit under clause (i) or (ii) above has been made shall be deemed paid within the meaning of this Article unless (A) the Bonds mature on the last day of the current Rate Period and no Bonds are required to be purchased upon demand of the owners pursuant to Section 5.01(a) or subject to mandatory purchase pursuant to Section 5.01(b) between the date of such deposit and the maturity date of the Bonds, or (B) the Bonds may be redeemed on or before the last day of the then current Rate Period and provision has been irrevocably made for such redemption on or before such date and no Bonds are required to be purchased upon demand of the owners pursuant to Section 5.01(a) or subject to mandatory purchase pursuant to Section 5.01(b) between the date of such deposit and the redemption date of the Bonds, and (C) in the case of a deposit of Government Obligations or a deposit consisting of a combination of cash and Government Obligations, the Trustee has received a certificate from a firm of independent certified public accountants to the effect that the amounts deposited are sufficient, without the need to reinvest any principal or interest, to make all payments that might become due on the Bonds (a copy of such certificate to be forwarded by the Company to the Rating Agency) and (D) the Trustee shall thereafter have received a written confirmation from the Rating Agency that such action would not result in (x) a permanent withdrawal of its rating on the Bonds or (y) a reduction in the then current rating on the Bonds; provided that notwithstanding any other provision of this Indenture, any Bonds purchased pursuant to Section 5.01 after such a deposit shall be surrendered to the Trustee for cancellation and shall not be remarketed. Notwithstanding the foregoing, no delivery to the Trustee under this subsection (b) shall be deemed a payment of any Bonds which are to be redeemed prior to their stated maturity until such Bonds shall have been irrevocably called or designated for redemption on a date thereafter on which such Bonds may be redeemed in accordance with the provisions of this Indenture and proper notice of such redemption shall have been given in accordance with Article III or the Pollution Control Corporation shall have given the Trustee, in form satisfactory to the

Trustee, irrevocable instructions to give, in the manner and at the times prescribed by Article III, notice of redemption. Neither the obligations nor moneys deposited with the Trustee pursuant to this Section shall be withdrawn or used for any purpose other than, and shall be segregated and held in trust for, the payment of the principal, purchase price or redemption price of and interest on the Bonds with respect to which such deposit has been made. In the event that such moneys or obligations are to be applied to the payment of principal, purchase price or redemption price of any Bonds more than sixty (60) days following the deposit thereof with the Trustee, the Trustee shall send a notice by Mail or Electronic Means to all owners of Bonds for the payment of which such moneys or obligations are being held, to their registered addresses, stating that moneys or obligations have been deposited with the Trustee and identifying the Bonds for the payment of which such moneys or obligations are being held and shall also send a copy of that notice by Mail or Electronic Means to the Rating Agency; provided, however, that the Trustee shall have no liability or obligation to the Rating Agency if it shall fail to give such organization such notice.

(c) Anything in Article IX to the contrary notwithstanding, if moneys or Government Obligations have been deposited or set aside with the Trustee pursuant to this Article for the payment of the principal or redemption price of the Bonds and the interest thereon and the principal or redemption price of such Bonds and the interest thereon shall not have in fact been actually paid in full, no amendment to the provisions of this Article shall be made without the consent of the Owner of each of the Bonds affected thereby.

Notwithstanding the foregoing, those provisions relating to the purchase of Bonds, the maturity of Bonds, the Depository and the interest payments and dates thereof, drawings upon the Credit Facility, if any, and the Trustee's remedies with respect thereto, and provisions relating to exchange, transfer and registration of Bonds, replacement of mutilated, destroyed, lost or stolen Bonds, the safekeeping and cancellation of Bonds, non presentment of Bonds, the Rebate Fund and arbitrage matters under Section 148(f) of the Code, the holding of moneys in trust, and repayments to the Credit Facility Issuer or the Company from the Bond Fund and the duties of the Trustee in connection with all of the foregoing and the fees, expenses, right and indemnities of the Trustee, shall remain in effect and shall be binding upon the Trustee, the Pollution Control Corporation, the Company and the Owners notwithstanding the release and discharge of the lien of this Indenture.

ARTICLE X

DEFAULTS AND REMEDIES

Section 10.01. *Events of Default.* Each of the following events shall constitute and is referred to in this Indenture as an "Event of Default":

(a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall become due and payable at maturity, upon redemption or otherwise;

(b) a failure to pay an installment of interest on any of the Bonds after such interest shall have become due and payable for a period of five (5) days (thirty (30) days

if the Interest Rate Mode for such Bonds is the Ten Year Call Term Rate, Five Year Call Term Rate or No Call Term Rate);

(c) a failure to pay the purchase price of any Bond required to be purchased pursuant to Section 5.01 hereof for a period of five (5) days after such payment becomes due and payable; or

(d) a failure by the Pollution Control Corporation to observe and perform any covenant, condition, agreement or provision (other than as specified in clauses (a), (b) and (c) of this Section 10.01) contained in the Bonds or in this Indenture on the part of the Pollution Control Corporation to be observed or performed, which failure shall continue for a period of sixty (60) days after written notice, specifying such failure and requesting that it be remedied, shall have been given to the Pollution Control Corporation and the Company by the Trustee, which may give such notice in its discretion and which shall give such notice at the written request of Owners of not less than a majority of the principal amount of the Bonds then Outstanding, unless the Trustee, or the Trustee and Owners of a principal amount of Bonds not less than the principal amount of Bonds the Owners of which requested that such notice be given, as the case may be, shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Trustee, or the Trustee and the Owners of such principal amount of Bonds, as the case may be, shall be deemed to have agreed to an extension of such period if corrective action is initiated by the Pollution Control Corporation, or the Company on behalf of the Pollution Control Corporation, within such period and is being diligently pursued.

Upon the occurrence and continuance of any Event of Default described in clause (a), (b) or (c) of the preceding paragraph, the Trustee may, and at the written request of Owners of not less than a majority of the principal amount of Bonds then Outstanding, the Trustee shall, by written notice to the Pollution Control Corporation, the Credit Facility Issuer, if any, and the Company, declare the Bonds to be immediately due and payable, whereupon they shall, without further action, become and be immediately due and payable, anything in this Indenture or in the Bonds to the contrary notwithstanding, and the Trustee shall give notice thereof by Mail or Electronic Means to all Owners of Outstanding Bonds. On the date the Bonds have been so declared to be due and payable when a Credit Facility shall be in effect, the Trustee shall make a drawing or demand for payment under the Credit Facility in accordance with Section 4.01(d).

The provisions of the preceding paragraph, however, are subject to the condition that if, after the principal of the Bonds shall have been so declared to be due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Pollution Control Corporation shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration (with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the rate per annum borne by the Bonds) and such amounts as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee and any predecessor Trustee, and all Events of Default hereunder other than nonpayment of the principal of Bonds which shall have become due by said declaration shall have been remedied, then, in every such case, such Event of Default shall be deemed waived and such

declaration and its consequences rescinded and annulled, and the Trustee shall promptly give written notice of such waiver, rescission and annulment to the Pollution Control Corporation and the Company, and, if notice of the acceleration of the Bonds shall have been given to the Owners of the Bonds, shall give notice thereof by Mail or Electronic Means to all Owners of Outstanding Bonds; but no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon. The Trustee shall not annul any declaration resulting from any Event of Default which has resulted in a drawing under the Credit Facility unless the Trustee has received written confirmation from the Credit Facility Issuer that the notice that resulted in such Event of Default has been rescinded and Credit Facility has been fully reinstated.

No Event of Default described in Section 10.01(a), (b) or (c) shall be deemed to have occurred solely by reason of such failure to make such payment if and to the extent that payments have nonetheless been made by a Credit Facility Issuer to the Trustee pursuant to the Credit Facility for deposit in the Bond Fund at such time and in such manner as to prevent an Event of Default described under such Section 10.01(a), (b) or (c).

Section 10.02. *Remedies*. Upon the occurrence and continuance of any Event of Default, then and in every such case the Trustee in its discretion may, and upon the written request of Owners of not less than a majority in principal amount of the Bonds then Outstanding and receipt of indemnity to its satisfaction shall, in its own name and as the Trustee of an express trust:

(a) by mandamus, or other suit, action or proceeding at law or in equity, enforce all rights of the Owners of the Bonds, and require the Pollution Control Corporation or the Company to carry out any agreements with or for the benefit of such Owners and to perform its or their duties under the Act, the Loan Agreement and this Indenture;

(b) bring suit upon the Bonds; or

(c) by action or suit in equity enjoin any acts or things which may be unlawful or in violation of the rights of the Owners of the Bonds.

Section 10.03. *Restoration to Former Position*. In the event that any proceeding taken by the Trustee to enforce any right under this Indenture shall have been discontinued or abandoned for any reason, or shall have been determined adversely to the Trustee, then the Pollution Control Corporation, the Trustee and the Owners shall be restored, subject to any determination in such proceeding, to their former positions and rights hereunder, respectively, and all rights, remedies and powers of the Trustee shall continue as though no such proceeding had been taken.

Section 10.04. *Owners' Right to Direct Proceedings*. Anything in this Indenture to the contrary notwithstanding, the Owners of a majority in principal amount of the Bonds then Outstanding hereunder shall have the right, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting all remedial proceedings available to the Trustee under this Indenture or exercising any trust or power conferred on the Trustee by this Indenture; provided, however, that such direction shall not be otherwise than in

accordance with law and the provisions of this Indenture and that the Trustee shall have the right (but not the obligation) to decline to follow any such direction if the Trustee, being advised by counsel, shall determine that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceedings so directed would involve the Trustee in personal liability or if the Trustee in good faith shall so determine that the actions or forbearances specified in or pursuant to such direction would be unduly prejudicial to the interests of Owners not joining in the giving of said direction, it being understood that the Trustee shall have no duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such Owners.

Section 10.05. *Limitation on Owners' Right to Institute Proceedings.* No Owner of Bonds shall have any right to institute any suit, action or proceeding in equity or at law for the execution of any trust or power hereunder, or any other remedy hereunder or on said Bonds, unless such Owner previously shall have given to the Trustee written notice of an Event of Default as hereinabove provided and unless the Owners of not less than a majority in principal amount of the Bonds then Outstanding shall have made written request of the Trustee so to do, after the right to institute said suit, action or proceeding shall have accrued, and shall have afforded the Trustee a reasonable opportunity to proceed to institute the same in either its or their name, and unless there also shall have been offered to the Trustee security and indemnity satisfactory to it against the costs, expenses and liabilities to be incurred therein or thereby, and the Trustee shall not have complied with such request within a reasonable time; and such notification, request and offer of indemnity are hereby declared in every such case, at the option of the Trustee, to be conditions precedent to the institution of said suit, action or proceeding; it being understood and intended that no one or more of the Owners of the Bonds shall have any right in any manner whatever by his or their action to affect, disturb or prejudice the security of this Indenture, or to enforce any right hereunder or under the Bonds, except in the manner herein provided, and that all suits, actions and proceedings at law or in equity shall be instituted, had and maintained in the manner herein provided and for the equal benefit of all Owners of the Bonds.

Section 10.06. *No Impairment of Right to Enforce Payment.* Notwithstanding any other provision in this Indenture, the right of any Owner of a Bond to receive payment of the principal of and premium, if any, and interest on such Bond, on or after the respective due dates expressed therein, or to institute suit for the enforcement of any such payment on or after such respective dates, shall not be impaired or affected without the consent of such Owner.

Section 10.07. *Proceedings by Trustee without Possession of Bonds.* All rights of action under this Indenture or under any of the Bonds secured hereby which are enforceable by the Trustee may be enforced by it without the possession of any of the Bonds, or the production thereof on the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee shall be brought in its name for the equal and ratable benefit of the Owners of the Bonds, subject to the provisions of this Indenture.

Section 10.08. *No Remedy Exclusive.* No remedy herein conferred upon or reserved to the Trustee or to the Owners of the Bonds is intended to be exclusive of any other remedy or remedies, and each and every such remedy shall be cumulative, and shall be in addition to every

other remedy given hereunder or under the Loan Agreement, now or hereafter existing at law or in equity or by statute.

Section 10.09. *No Waiver of Remedies*. No delay or omission of the Trustee or of any Owner of a Bond to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or an acquiescence therein; and every power and remedy given by this Article X to the Trustee and to the Owners of the Bonds, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 10.10. *Application of Moneys*. Any moneys received by the Trustee under this Article X or otherwise held by the Trustee under this Indenture shall be applied in the following order; provided that any moneys received by the Trustee from a drawing on the Credit Facility shall be applied to the extent permitted by the terms thereof only as provided in paragraph (b) below with respect to the principal of, and interest accrued on, Bonds other than Bonds held of record by or, to the actual knowledge of the Trustee, for the account of the Company after purchase thereof pursuant to Section 5.04(a)(iii) and other than Bonds held pursuant to Section 5.05 or otherwise registered in the name of the Company; and provided, further, that moneys held in the Purchase Fund shall only be applied as set forth in Section 5.03:

(a) to the payment of the fees and expenses of the Trustee incurred or anticipated to be incurred, including reasonable counsel fees and expenses, any disbursements of the Trustee with interest thereon and its reasonable compensation and all other amounts owing to the Trustee under Section 11.04 hereof or under Section 5.04 of the Loan Agreement;

(b) to the payment of principal or redemption price (as the case may be) and interest then owing on the Bonds, including any interest on overdue interest (to the extent permitted by law) at the rate borne by such Bond on the day before the default or Event of Default occurred, provided that if the Interest Rate Mode was then the Commercial Paper Rate, the default rate for all of the Bonds shall be equal to the highest interest rate then in effect for any Bond, and in case such moneys shall be insufficient to pay the same in full, then to the payment of principal or redemption price and interest ratably, without preference or priority of one over another or of any installment of interest over any other installment of interest; and

(c) to the payment of any unpaid expenses of the Pollution Control Corporation, including reasonable counsel fees and expenses, incurred in connection with the Event of Default.

The surplus, if any, shall be paid first to the Credit Facility Issuer to the extent of any amounts that the Company owes the Credit Facility Issuer pursuant to the Reimbursement Agreement (as certified in writing by the Credit Facility Issuer to the Trustee) and second (other than any moneys received by the Trustee from a drawing on a Credit Facility, if any) to the Company or the Person lawfully entitled to receive the same as a court of competent jurisdiction may direct.

Section 10.11. *Severability of Remedies*. It is the purpose and intention of this Article X to provide rights and remedies to the Trustee and the Owners which may be lawfully granted

under the provisions of the Act, but should any right or remedy herein granted be held to be unlawful, the Trustee and the Owners shall be entitled, as above set forth, to every other right and remedy provided in this Indenture and by law.

ARTICLE XI

TRUSTEE

Section 11.01. *Acceptance of Trusts.* The Trustee hereby accepts and agrees to execute the trusts hereby created, but only upon the additional terms set forth in this Article XI, to all of which the Pollution Control Corporation agrees and the respective Owners agree by their acceptance of delivery of any of the Bonds.

Section 11.02. *No Responsibility for Recitals.* The recitals, statements and representations contained in this Indenture or in the Bonds, save only the Trustee's authentication upon the Bonds, are not made by the Trustee, and the Trustee does not assume, and shall not have, any responsibility or obligation for the correctness of any thereof. The Trustee makes no representation as to the validity or sufficiency of this Indenture or the Bonds.

Section 11.03. *Limitations on Liability.* The Trustee may execute any of the trusts or powers hereof and perform the duties required of it hereunder by or through attorneys, agents, receivers, or employees, and shall be entitled to advice of counsel concerning all matters of trust and its duty hereunder, and the Trustee shall not be answerable for the default or misconduct of any such attorney, agent, receiver, or employee selected by it with reasonable care. The Trustee shall not be answerable for the exercise of any discretion or power under this Indenture or for anything whatsoever in connection with the trust created hereby, except only for its own negligence or bad faith.

Anything in this Indenture to the contrary notwithstanding, the Trustee shall in no event be required to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if there shall be reasonable grounds for believing that the repayment of such funds or adequate indemnity against such liability is not reasonably assured to it.

Section 11.04. *Compensation, Expenses and Advances.* The Trustee under this Indenture shall be entitled to such compensation as agreed in writing for its services rendered hereunder (not limited by any provision of law regarding the compensation of the trustee of an express trust) and to reimbursement for its actual out of pocket expenses (including counsel fees and expenses) reasonably incurred in connection therewith except as a result of its negligence or willful misconduct, including, without limitation, compensation for any services rendered, and reimbursement for any expenses incurred, at and subsequent to the time the Bonds are deemed to have been paid in accordance with Article IX hereof. If the Pollution Control Corporation shall fail to perform any of the covenants or agreements contained in this Indenture, other than the covenants or agreements in respect of the payment of the principal of and premium, if any, and interest on the Bonds, the Trustee may, in its uncontrolled discretion and without notice to the Owners of the Bonds, at any time and from time to time, make advances to effect performance of the same on behalf of the Pollution Control Corporation, but the Trustee shall be under no

obligation so to do; and any and all such advances may bear interest at a rate per annum not exceeding the base rate then in effect for 90 day commercial loans by the Trustee or a commercial banking affiliate of the Trustee designated as such by the Trustee in the city in which is located the Principal Office of the Trustee (or such affiliate, as the case may be) to borrowers of the highest credit standing; but no such advance shall operate to relieve the Pollution Control Corporation from any default hereunder. In Section 5.03 of the Loan Agreement, the Company has agreed that it will pay to the Trustee (including any predecessor Trustee), such compensation and reimbursement of expenses and advances, but the Company may, without creating a default hereunder, contest in good faith the reasonableness of any such services, expenses and advances. If the Company shall have failed to make any payment to the Trustee or any predecessor Trustee under Section 5.03 of the Loan Agreement and such failure shall have resulted in an Event of Default under the Loan Agreement, the Trustee, and any predecessor Trustee, shall have, in addition to any other rights hereunder, a claim, prior to the claim of the Owners, for the payment of its compensation and the reimbursement of its expenses and any advances made by it, as provided in this Section 11.04, upon the moneys and obligations in the Bond Fund; provided, however, that neither the Trustee nor any predecessor Trustee shall have any such claim upon moneys or obligations deposited with or paid to the Trustee for the redemption or payment of Bonds which are deemed to have been paid in accordance with Article IX hereof; and provided further that funds in the Purchase Fund and funds in the Credit Facility Account shall not be used to compensate the Trustee.

In Section 5.04 of the Loan Agreement, the Company has agreed to indemnify the Trustee and any predecessor Trustee to the extent provided therein.

Section 11.05. *Notice of Events of Default.* The Trustee shall not be required to take notice, or be deemed to have notice, of any default or Event of Default under this Indenture other than an Event of Default under clause (a), (b) or (c) of the first paragraph of Section 10.01 hereof, unless an officer assigned by the Trustee to administer its corporate trust business has been specifically notified in writing of such default or Event of Default by Owners of at least a majority of the principal amount of the Bonds then Outstanding. The Trustee may, however, at any time, in its discretion, require of the Pollution Control Corporation and the Company full information and advice as to the performance of any of the covenants, conditions and agreements contained herein.

Section 11.06. *Action by Trustee.* The Trustee shall be under no obligation to take any action in respect of any default or Event of Default hereunder or toward the execution or enforcement of any of the trusts hereby created, or to institute, appear in or defend any suit or other proceeding in connection therewith, unless requested in writing so to do by Owners of at least a majority in principal amount of the Bonds then Outstanding, and, if in its opinion such action may tend to involve it in expense or liability, unless furnished, from time to time as often as it may require, with security and indemnity satisfactory to it; provided, however, that no security or indemnity shall be requested or required for the Trustee to draw upon or demand payment under the Credit Facility, if any, then held by the Trustee in accordance with its terms when required under the provisions of this Indenture. The foregoing provisions are intended only for the protection of the Trustee, and shall not affect any discretion or power given by any provisions of this Indenture to the Trustee to take action in respect of any default or Event of

Default without such notice or request from the Owners of the Bonds, or without such security or indemnity.

Section 11.07. *Good Faith Reliance.* The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, facsimile transmission, request, consent, waiver, certificate, statement, affidavit, voucher, bond, requisition or other paper or document which it shall in good faith believe to be genuine and to have been passed or signed by the proper board, body or person or to have been prepared and furnished pursuant to any of the provisions of this Indenture or the Loan Agreement, or upon the written opinion of any attorney, engineer, accountant or other expert believed by the Trustee to be qualified in relation to the subject matter, and the Trustee shall be under no duty to make any investigation or inquiry as to any statements contained or matters referred to in any such instrument, but may accept and rely upon the same as conclusive evidence of the truth and accuracy of such statements. The Trustee shall not be bound to recognize any person as an Owner of a Bond or to take any action at his request unless the ownership of such Bond is proved as contemplated in Section 13.01 hereof.

Section 11.08. *Dealings in Bonds and with the Pollution Control Corporation and the Company.* The Trustee, in its individual or any other capacity, may in good faith buy, sell, own, hold and deal in any of the Bonds issued hereunder, and may join in any action which any Owner of a Bond may be entitled to take with like effect as if it did not act in any capacity hereunder. The Trustee, in its individual or any other capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Pollution Control Corporation or the Company, and may act as a depository, trustee, or agent for any committee or body of Owners of Bonds secured hereby or other obligations of the Pollution Control Corporation as freely as if it did not act in any capacity hereunder.

Section 11.09. *Allowance of Interest.* The Trustee may, but shall not be obligated to, allow and credit interest upon any moneys which it may at any time receive under any of the provisions of this Indenture, at such rate, if any, as it customarily allows upon similar funds of similar size and under similar conditions. All interest allowed on any such moneys shall be credited as provided in Article IV with respect to interest on investments.

Section 11.10. *Construction of Indenture.* The Trustee may construe any of the provisions of this Indenture insofar as the same may appear to be ambiguous or inconsistent with any other provision hereof, and any construction of any such provisions hereof by the Trustee in good faith shall be binding upon the Owners of the Bonds.

Section 11.11. *Resignation of Trustee.* The Trustee may resign and be discharged of the trusts created by this Indenture by executing an instrument in writing resigning such trust and specifying the date when such resignation shall take effect, and filing the same with the President of the Pollution Control Corporation and with the Company, not less than forty-five (45) days before the date specified in such instrument when such resignation shall take effect, and by giving notice of such resignation by Mail or Electronic Means to all Owners of Bonds. Such resignation shall take effect on the later to occur of (i) the day specified in such instrument and notice, unless previously a successor Trustee shall have been appointed as hereinafter provided,

in which event such resignation shall take effect immediately upon the appointment of such successor Trustee and (ii) the appointment of a successor Trustee.

So long as no event which is, or after notice or lapse of time, or both, would become, an Event of Default shall have occurred and be continuing, if the Pollution Control Corporation shall have delivered to the Trustee (i) an instrument appointing a successor Trustee, effective as of a date specified therein and (ii) an instrument of acceptance of such appointment, effective as of such date, by such successor Trustee in accordance with Section 11.16, the Trustee shall be deemed to have resigned as contemplated in this Section, the successor Trustee shall be deemed to have been appointed pursuant to subsection (b) of Section 11.13 and such appointment shall be deemed to have been accepted as contemplated in Section 11.16, all as of such date, and all other provisions of this Article XI shall be applicable to such resignation, appointment and acceptance except to the extent inconsistent with this paragraph. The Pollution Control Corporation shall deliver any such instrument of appointment at the direction of the Company.

Section 11.12. *Removal of Trustee.* The Trustee may be removed at any time by filing with the Trustee so removed, and with the Pollution Control Corporation and the Company, an instrument or instruments in writing, appointing a successor, or an instrument or instruments in writing, consenting to the appointment by the Pollution Control Corporation (at the direction of the Company) of a successor and accompanied by an instrument of appointment by the Pollution Control Corporation (at the direction of the Company) of such successor, and in any event executed by Owners of not less than a majority in principal amount of the Bonds then Outstanding, such filing to be made by any Owner of a Bond or his duly authorized attorney.

Section 11.13. *Appointment of Successor Trustee.* (a) In case at any time the Trustee shall be removed, or be dissolved, or if its property or affairs shall be taken under the control of any state or federal court or administrative body because of insolvency or bankruptcy, or for any other reason, then a vacancy shall forthwith and ipso facto exist and a successor may be appointed, and in case at any time the Trustee shall resign or be deemed to have resigned, then a successor may be appointed, by filing with the Pollution Control Corporation and the Company an instrument in writing appointing such successor Trustee executed by Owners of not less than a majority in principal amount of Bonds then Outstanding. Copies of such instrument shall be promptly delivered by the Pollution Control Corporation to the predecessor Trustee, to the Trustee so appointed and the Company.

(b) Until a successor Trustee shall be appointed by the Owners of the Bonds as herein authorized, the Pollution Control Corporation shall appoint a successor Trustee as directed by the Company. After any appointment by the Pollution Control Corporation, it shall cause notice of such appointment to be given by Mail or Electronic Means to all Owners of Bonds. Any new Trustee so appointed by the Pollution Control Corporation shall immediately and without further act be superseded by a Trustee appointed by the Owners of the Bonds in the manner above provided.

(c) No resignation or removal of the Trustee and no appointment of a successor Trustee pursuant to this Article shall become effective until the acceptance of appointment by the successor Trustee.

Section 11.14. *Qualifications of Successor Trustee.* Every successor Trustee (a) shall be a bank with trust powers or a trust company duly organized under the laws of the United States or any state or territory thereof authorized by law to perform all the duties imposed upon it by this Indenture and (b) shall have (or the parent holding company of which shall have) a combined capital stock, surplus and undivided profits of at least $100,000,000 if there can be located, with reasonable effort, such an institution willing and able to accept the trust on reasonable and customary terms.

Section 11.15. *Judicial Appointment of Successor Trustee.* In case at any time the Trustee shall resign and no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Article XI prior to the date specified in the notice of resignation as the date when such resignation is to take effect, the retiring Trustee may forthwith apply to a court of competent jurisdiction for the appointment of a successor Trustee. If no appointment of a successor Trustee shall be made pursuant to the foregoing provisions of this Article XI within six (6) months after a vacancy shall have occurred in the office of Trustee, any Owner of a Bond may apply to any court of competent jurisdiction to appoint a successor Trustee. Such court may thereupon, after such notice, if any, as it may deem proper and prescribe, appoint a successor Trustee.

Section 11.16. *Acceptance of Trusts by Successor Trustee.* Any successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Pollution Control Corporation an instrument accepting such appointment hereunder, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become duly vested with all the estates, property, rights, powers, trusts, duties and obligations of its predecessor in the trust hereunder, with like effect as if originally named Trustee herein. Upon request of such Trustee, such predecessor Trustee and the Pollution Control Corporation shall execute and deliver an instrument transferring to such successor Trustee all the estates, property, rights, powers and trusts hereunder of such predecessor Trustee and, subject to the provisions of Section 11.04 hereof, such predecessor Trustee shall pay over to the successor Trustee all moneys and other assets at the time held by it hereunder.

Section 11.17. *Successor by Merger or Consolidation.* Any corporation or association into which any Trustee hereunder may be merged or converted or with which it may be consolidated, or any corporation or association resulting from any merger or consolidation to which any Trustee hereunder shall be a party or any corporation or association succeeding to the corporate trust business of the Trustee, shall be the successor Trustee under this Indenture, without the execution or filing of any paper or any further act on the part of the parties hereto, anything in this Indenture to the contrary notwithstanding.

If, at the time any such successor to the Trustee shall succeed to the trusts created by this Indenture, any of the Bonds shall have been authenticated but not delivered, such successor Trustee may adopt the certificate of authentication of any predecessor Trustee and deliver such Bonds so authenticated; and if at that time, any of the Bonds shall not have been authenticated, such successor Trustee may authenticate such Bonds either in the name of any such predecessor hereunder or in the name of such successor; and, in all such cases, such certificate of authentication shall have the full force which it is anywhere in the Bonds or in this Indenture provided that the certificate of authentication of the Trustee shall have; provided, however, that

the right to adopt the certificate of authentication of any predecessor Trustee or to authenticate Bonds in the name of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

Section 11.18. *Standard of Care.* Notwithstanding any other provisions of this Article XI, the Trustee shall, during the existence of an Event of Default of which the Trustee has actual notice, exercise such of the rights and powers vested in it by this Indenture and use the same degree of skill and care in their exercise as a prudent man would use and exercise under the circumstances in the conduct of his own affairs.

Section 11.19. *Notice to Owners of Bonds of Event of Default.* If an Event of Default occurs of which the Trustee by Section 11.05 hereof is required to take notice and deemed to have notice, or any other Event of Default occurs of which the Trustee has been specifically notified in accordance with Section 11.05 hereof, and any such Event of Default shall continue for at least two days after the Trustee acquires actual notice thereof, unless the Trustee shall have theretofore given a notice of acceleration pursuant to Section 10.01 hereof, the Trustee shall give notice by Mail or Electronic Means to all Owners of Outstanding Bonds.

Section 11.20. *Intervention in Litigation of the Pollution Control Corporation.* In any judicial proceeding to which the Pollution Control Corporation is a party and which in the opinion of the Trustee and its counsel has a substantial bearing on the interests of the Owners of Bonds, the Trustee may intervene on behalf of the Owners of the Bonds and shall, upon receipt of indemnity satisfactory to it, do so if requested in writing by Owners of at least a majority in principal amount of the Bonds then Outstanding if permitted by the court having jurisdiction in the premises.

Section 11.21. *Credit Facilities.* In making draws under the Credit Facility and disbursing the proceeds thereof, the Trustee is acting on behalf of the Bondholders and not as an agent of the Company or the Pollution Control Corporation. Notwithstanding any other provision of this Indenture, when a Credit Facility is in effect, no resignation or removal of the Trustee shall be effective until such Credit Facility shall have been transferred to a successor Trustee in accordance with the terms of such Credit Facility.

ARTICLE XII

THE REMARKETING AGENT

Section 12.01. *The Remarketing Agent.* (a) Wells Fargo Bank, National Association has been appointed by the Company to act as initial Remarketing Agent under this Indenture. The Company may appoint additional Remarketing Agents. If, at any time, there is more than one Remarketing Agent (which term, as used hereinafter in this Section 12.01, means any one entity serving in the capacity of Remarketing Agent) hereunder, each such Remarketing Agent shall perform such of the duties of the Remarketing Agent hereunder as are set forth in the Remarketing Agreement and each such Remarketing Agent shall deliver to the Trustee a written instrument specifying, in the event of conflicting directions given by those Remarketing Agents to the Trustee, which set of directions shall be controlling for all purposes hereunder. Each Remarketing Agent, by written instrument delivered to the Pollution Control Corporation, the

Trustee and the Company (which written instrument may be the Remarketing Agreement), shall accept the duties and obligations imposed on it under this Indenture, subject to the terms and provisions of the Remarketing Agreement, and shall become a party to the Remarketing Agreement.

(b) In addition to the other obligations imposed on the Remarketing Agent hereunder, the Remarketing Agent shall keep such books and records with respect to its duties as Remarketing Agent as shall be consistent with prudent industry practice and shall make such books and records available for inspection by the Pollution Control Corporation, the Trustee, the Credit Facility Issuer and the Company at all reasonable times.

(c) At any time a Remarketing Agent may resign in accordance with the Remarketing Agreement. Any Remarketing Agent may be removed at any time in accordance with the Remarketing Agreement. Upon resignation or removal of a Remarketing Agent, the Company, and if the Remarketing Agent was not the same as the Credit Facility Issuer or under common control with the Credit Facility Issuer, with the consent of the Credit Facility Issuer, such consent not to be unreasonably withheld, shall either appoint a successor Remarketing Agent or authorize the remaining Remarketing Agent or Agents to act alone in such capacity, in which case all references in this Indenture to the Remarketing Agent shall mean the remaining Remarketing Agent or Agents. If the last remaining Remarketing Agent resigns or is removed, the Company shall appoint a successor Remarketing Agent. Any successor Remarketing Agent shall have combined capital, surplus and undivided profits of at least $50,000,000.

(d) The Remarketing Agent may in good faith buy, sell, own, hold and deal in any of the Bonds and may join in any action which any Owners may be entitled to take with like effect as if the Remarketing Agent were not appointed to act in such capacity under this Indenture.

(e) The Remarketing Agent, in its individual or any other capacity, either as principal or agent, may also engage in or be interested in any financial or other transaction with the Pollution Control Corporation or the Company, and may act as a depository, trustee or agent for any committee or body of Owners of Bonds secured hereby or other obligations of the Pollution Control Corporation as freely as if it did not act in any capacity hereunder.

Section 12.02. *Notices*. The Trustee shall, within twenty-five (25) days of the resignation or removal of the Remarketing Agent or the appointment of a successor Remarketing Agent of which it has received written notice, give notice thereof by Mail or Electronic Means to the Owners of the Bonds.

Section 12.03. *Several Capacities*. Anything herein to the contrary notwithstanding, the same entity may serve hereunder as the Trustee and the Remarketing Agent and in any combination of such capacities to the extent permitted by law.

ARTICLE XIII

EXECUTION OF INSTRUMENTS BY OWNERS OF BONDS AND PROOF OF OWNERSHIP OF BONDS

Section 13.01. *Execution of Instruments; Proof of Ownership.* Any request, direction, consent or other instrument in writing, whether or not required or permitted by this Indenture to be signed or executed by Owners of the Bonds, may be in any number of concurrent instruments of similar tenor and may be signed or executed by Owners of the Bonds or by an agent appointed by an instrument in writing. Proof of the execution of any such instrument and of the ownership of Bonds shall be sufficient for any purpose of this Indenture and shall be conclusive in favor of the Trustee with regard to any action taken by it under such instrument if made in the following manner:

(a) The fact and date of the execution by any person of any such instrument may be proved by the certificate of any officer in any jurisdiction who, by the laws thereof, has power to take acknowledgments within such jurisdiction, to the effect that the person signing such instrument acknowledged before him the execution thereof, or by an affidavit of a witness to such execution.

(b) The ownership or former ownership of Bonds shall be proved by the registration books kept under the provisions of Section 2.09 hereof.

Nothing contained in this Article XIII shall be construed as limiting the Trustee to such proof, it being intended that the Trustee may accept any other evidence of matters herein stated which it may deem sufficient. Any request or consent of any Owner of a Bond shall bind every future Owner of the same Bond or any Bond or Bonds issued in lieu thereof in respect of anything done by the Trustee or the Pollution Control Corporation in pursuance of such request or consent.

ARTICLE XIV

MODIFICATION OF THIS INDENTURE AND THE LOAN AGREEMENT

Section 14.01. *Limitations.* Neither this Indenture nor the Loan Agreement shall be modified or amended in any respect subsequent to the original issuance of the Bonds except as provided in and in accordance with and subject to the provisions of this Article XIV and Section 8.04 hereof.

The Trustee may, but shall not be obligated to, enter into any Supplemental Indenture which affects the Trustee's own rights, duties or immunities under this Indenture or otherwise.

Section 14.02. *Supplemental Indentures without Owner Consent.* The Pollution Control Corporation and the Trustee may, from time to time and at any time, without the consent of or notice to the Owners of the Bonds, enter into Supplemental Indentures as follows:

(a) to cure any formal defect, omission, inconsistency or ambiguity in this Indenture, provided, however, that such cure shall not materially and adversely affect the interests of the Owners of the Bonds;

(b) to grant to or confer or impose upon the Trustee for the benefit of the Owners of the Bonds or any Credit Facility Issuer any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed;

(c) to add to the covenants and agreements of, and limitations and restrictions upon, the Pollution Control Corporation in this Indenture other covenants, agreements, limitations and restrictions to be observed by the Pollution Control Corporation;

(d) to confirm, as further assurance, any pledge under, and the subjection to any claim, lien or pledge created or to be created by, this Indenture, of the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement or of any other moneys, securities or funds;

(e) to authorize a different denomination or denominations of the Bonds and to make correlative amendments and modifications to this Indenture regarding exchange ability of Bonds of different denominations, redemptions of portions of Bonds of particular denominations and similar amendments and modifications of a technical nature;

(f) to modify, alter, supplement or amend this Indenture in such manner as shall permit the qualification hereof under the Trust Indenture Act of 1939, as from time to time amended;

(g) to modify, alter, supplement or amend this Indenture in such manner as shall be necessary, desirable or appropriate in order to provide for or eliminate the registration and registration of transfer of the Bonds through a book entry or similar method, whether or not the Bonds are evidenced by certificates;

(h) to make any amendments appropriate or necessary to provide for any Alternate Credit Facility;

(i) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds;

(j) to make any changes in connection with a Conversion, including a Conversion to the Commercial Paper Rate;

(k) in connection with any mandatory purchase of all of the Bonds or purchase of all the Bonds pursuant to Section 3.06, to modify this Indenture in any respect (even if such modification is adverse to the interests of the Bondholders) provided that such amendment shall not be effective until after such mandatory purchase or purchase in lieu of redemption and the payment of the purchase price in connection therewith and provided that arrangements are made to cause notice of such changes to be

given to all owners of Bonds who purchase such Bonds on or after such mandatory purchase or purchase in lieu of redemption;

(l) to modify, alter, amend or supplement this Indenture in any other respect which is not materially adverse to the Owners and which does not involve a change described in clause (i), (ii), (iii) or (iv) of Section 14.03(a) hereof; and

(m) to provide any additional procedures, covenants or agreements necessary or desirable to maintain the tax-exempt status of interest on the Bonds.

Before the Pollution Control Corporation and the Trustee shall enter into any Supplemental Indenture pursuant to this Section 14.02, there shall have been delivered to the Trustee an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by this Indenture and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Pollution Control Corporation in accordance with its terms and will not, in and of itself, adversely affect the exclusion from gross income for federal tax purposes of the interest on the Bonds.

Section 14.03. *Supplemental Indentures with Consent of Owners*. (a) Except for any Supplemental Indenture entered into pursuant to Section 14.02 hereof, subject to the terms and provisions contained in this Section 14.03 and Section 14.05 hereof and not otherwise, Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding which would be adversely affected thereby shall have the right from time to time to consent to and approve the execution and delivery by the Pollution Control Corporation and the Trustee of any Supplemental Indenture deemed necessary or desirable by the Pollution Control Corporation for the purposes of modifying, altering, amending, supplementing or rescinding, in any particular, any of the terms or provisions contained in this Indenture; provided, however, that, unless approved in writing by the Owners of all the Bonds then Outstanding which would be adversely affected thereby, nothing herein contained shall permit, or be construed as permitting, (i) a change in the times, amounts or currency of payment of the principal of or premium, if any, or interest on or purchase price of (without the consent of the Owner of the affected Bond) any Outstanding Bond, a reduction in the principal amount or redemption price of any Outstanding Bond or a change in the rate of interest thereon, or the purchase provisions of any Outstanding Bond (without the consent of the Owner of the affected Bond) or any impairment of the right of any Owner to institute suit for the payment of any Bond owned by it; provided, however, that revision of the redemption periods and redemption prices in accordance with the last paragraph of Section 3.01(a) when the Interest Rate Mode for Bonds is the Ten Year Call Term Rate, Five Year Call Term Rate or No Call Term Rate shall not be considered an amendment of or a supplement to this Indenture, or (ii) the creation of a claim or lien upon, or a pledge of, the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement ranking prior to or on a parity with the claim, lien or pledge created by this Indenture (except as referred to in Section 11.04 hereof), or (iii) a preference or priority of any Bond or Bonds over any other Bond or Bonds, or (iv) a reduction in the aggregate principal amount of Bonds the consent of the Owners of which is required for any such Supplemental Indenture or which is required, under Section 14.07 hereof, for any modification, alteration, amendment or supplement to the Loan Agreement.

(b) If at any time the Pollution Control Corporation shall request the Trustee to enter into any Supplemental Indenture for any of the purposes of this Section 14.03, the Trustee shall cause notice of the proposed Supplemental Indenture to be given by Mail or Electronic Means to all Owners of Outstanding Bonds. Such notice shall briefly set forth the nature of the proposed Supplemental Indenture and shall state that a copy thereof is on file at the Principal Office of the Trustee for inspection by all Owners of Bonds.

(c) Within two (2) years after the date of the first distribution of such notice, the Pollution Control Corporation and the Trustee may enter into such Supplemental Indenture in substantially the form described in such notice only if there shall have first been delivered to the Trustee (i) the required consents, in writing, of Owners of Bonds and (ii) an opinion of Bond Counsel stating that such Supplemental Indenture is authorized or permitted by this Indenture and the Act, complies with their respective terms and, upon the execution and delivery thereof, will be valid and binding upon the Pollution Control Corporation in accordance with its terms and will not, in and of itself, adversely affect the exclusion from gross income for federal tax purposes of the interest on the Bonds.

(d) If Owners of not less than the percentage of Bonds required by this Section 14.03 shall have consented to and approved the execution and delivery thereof as herein provided, no Owner shall have any right to object to the execution and delivery of such Supplemental Indenture, or to object to any of the terms and provisions contained therein or the operation thereof, or in any manner to question the propriety of the execution and delivery thereof, or to enjoin or restrain the Pollution Control Corporation or the Trustee from executing and delivering the same or from taking any action pursuant to the provisions thereof.

Section 14.04. *Effect of Supplemental Indenture.* Upon the execution and delivery of any Supplemental Indenture pursuant to the provisions of this Article XIV, this Indenture shall be, and be deemed to be, modified, altered, amended or supplemented in accordance therewith, and the respective rights, duties and obligations under this Indenture of the Pollution Control Corporation, the Trustee and Owners of all Bonds then Outstanding shall thereafter be determined, exercised and enforced under this Indenture subject in all respects to such modifications, alterations, amendments and supplements.

Section 14.05. *Consent of the Company or Credit Facility Issuer.* (a) Anything herein to the contrary notwithstanding, any Supplemental Indenture under this Article XIV which affects any rights, powers, agreements or obligations of the Company under the Loan Agreement, or requires a revision of the Loan Agreement, shall not become effective unless and until the Company shall have consented to such Supplemental Indenture.

(b) Anything herein to the contrary notwithstanding, any Supplemental Indenture under this Article XIV which affects any rights, powers, agreements or obligations of the Credit Facility Issuer under the Loan Agreement or this Indenture, or requires a revision of the Loan Agreement or this Indenture, shall not become effective unless and until the Credit Facility Issuer shall have consented to such Supplemental Indenture.

Section 14.06. *Amendment of Loan Agreement without Consent of Owners.* Without the consent of or notice to the Owners of the Bonds, the Pollution Control Corporation may enter

into any Supplemental Loan Agreement, and the Trustee may consent thereto, as may be required (a) by the provisions of the Loan Agreement and this Indenture, (b) for the purpose of curing any formal defect, omission, inconsistency or ambiguity therein, (c) to provide any additional procedures, covenants or agreements necessary or desirable to maintain the tax-exempt status of interest on the Bonds, or (d) in connection with any other change therein which is not materially adverse to the Owners of the Bonds; provided, however, that notwithstanding the foregoing, in connection with any mandatory purchase pursuant to Section 5.01(b) of all of the Bonds or any purchase in lieu of redemption pursuant to Section 3.06 of all of the Bonds, no consent of the Owners of the Bonds shall be required for any amendment to the Loan Agreement in any respect (even if such amendment is adverse to the interests of the Owners) provided that such amendment shall not be effective until after such mandatory purchase or purchase in lieu of redemption and the payment of the purchase price in connection therewith; provided, however, that notwithstanding the foregoing, the Pollution Control Corporation and the Company may amend the Loan Agreement to make any changes without the consent of the Owners of the Bonds which may be required by a Rating Agency in order to obtain or maintain a rating for the Bonds. A revision of Exhibit A to the Loan Agreement shall not be deemed a Supplemental Loan Agreement for purposes of this Indenture.

Before the Pollution Control Corporation shall enter into, and the Trustee shall consent to, any Supplemental Loan Agreement pursuant to this Section 14.06, there shall have been delivered to the Trustee an opinion of Bond Counsel stating that such Supplemental Loan Agreement is authorized or permitted by this Indenture and the Act, complies with their respective terms, will, upon the execution and delivery thereof, be valid and binding upon the Pollution Control Corporation and the Company in accordance with its terms and will not, in and of itself, adversely affect the exclusion from gross income for federal tax purposes of interest on the Bonds.

Section 14.07. *Amendment of Loan Agreement with Consent of Owners*. Except in the case of Supplemental Loan Agreements referred to in Section 14.06 hereof, the Pollution Control Corporation shall not enter into, and the Trustee shall not consent to, any Supplemental Loan Agreement without the written approval or consent of the Owners of not less than a majority in aggregate principal amount of the Bonds then Outstanding which would be adversely affected thereby, given and procured as provided in Section 14.03 hereof; provided, however, that, unless approved in writing by the Owners of all Bonds then Outstanding which would be adversely affected thereby, nothing herein contained shall permit, or be construed as permitting, a change in the obligations of the Company under Section 5.01 of the Loan Agreement. If at any time the Pollution Control Corporation or the Company shall request the consent of the Trustee to any such proposed Supplemental Loan Agreement, the Trustee shall cause notice of such proposed Supplemental Loan Agreement to be given in the same manner as provided by Section 14.03 hereof with respect to Supplemental Indentures. Such notice shall briefly set forth the nature of such proposed Supplemental Loan Agreement and shall state that copies of the instrument embodying the same are on file at the Principal Office of the Trustee for inspection by all Owners of the Bonds. The Pollution Control Corporation may enter into, and the Trustee may consent to, any such proposed Supplemental Loan Agreement subject to the same conditions, and with the same effect, as provided by Section 14.03 hereof with respect to Supplemental Indentures.

Section 14.08. *Company as Owner.* Anything herein to the contrary notwithstanding, for so long as the Company holds all Outstanding Bonds, any action that may be taken by the Owners of the Bonds may be taken by the Company.

ARTICLE XV

MISCELLANEOUS

Section 15.01. *Successors of the Pollution Control Corporation.* In the event of the dissolution of the Pollution Control Corporation, all the covenants, stipulations, promises and agreements in this Indenture contained, by or on behalf of, or for the benefit of, the Pollution Control Corporation, shall bind or inure to the benefit of the successors of the Pollution Control Corporation from time to time and any entity, officer, board, commission, agency or instrumentality to whom or to which any power or duty of the Pollution Control Corporation shall be transferred.

Section 15.02. *Parties in Interest.* Except as herein otherwise specifically provided, nothing in this Indenture expressed or implied is intended or shall be construed to confer upon any person, firm or corporation other than the Pollution Control Corporation, the Company, the Credit Facility Issuer and the Trustee and their successors and assigns and the Owners of the Bonds any right, remedy or claim under or by reason of this Indenture, this Indenture being intended to be for the sole and exclusive benefit of the Pollution Control Corporation, the Company, the Credit Facility Issuer and the Trustee and their successors and assigns and the Owners of the Bonds.

Section 15.03. *Severability.* In case any one or more of the provisions of this Indenture or of the Loan Agreement or of the Bonds shall, for any reason, be held to be illegal or invalid, such illegality or invalidity shall not affect any other provisions of this Indenture or of the Loan Agreement or of such Bonds, and this Indenture and the Loan Agreement and such Bonds shall be construed and enforced as if such illegal or invalid provisions had not been contained herein or therein.

Section 15.04. *No Personal Liability of Pollution Control Corporation Officials.* No covenant or agreement contained in the Bonds or in this Indenture shall be deemed to be the covenant or agreement of any director, official, officer, agent, or employee of the Pollution Control Corporation in his individual capacity, and neither the members of the Board of Directors of the Pollution Control Corporation nor any official executing the Bonds shall be liable personally on the Bonds or be subject to any personal liability or accountability by reason of the issuance thereof.

Section 15.05. *Bonds Owned by the Pollution Control Corporation or the Company.* In determining whether Owners of the requisite aggregate principal amount of the Bonds have concurred in any direction, consent or waiver under this Indenture, Bonds which are owned by the Pollution Control Corporation or the Company or by any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company (unless the Pollution Control Corporation, the Company or such person owns all Bonds which are then Outstanding, determined without regard to this Section 15.05) shall be disregarded and

deemed not to be Outstanding for the purpose of any such determination, except that, for the purpose of determining whether the Trustee shall be protected in relying on any such direction, consent or waiver, only Bonds which the Trustee knows are so owned shall be so disregarded; provided that Bonds delivered to the Trustee pursuant to Section 5.04(a)(ii) shall not be so disregarded. Upon the request of the Trustee, the Company and the Pollution Control Corporation shall furnish to the Trustee a certificate identifying all Bonds, if any, actually known to either of them to be owned or held by or for the account of any of the above described persons, and the Trustee shall be entitled to rely on such certificate as conclusive evidence of the facts set forth therein and that all other Bonds are Outstanding for the purposes of such determination. Bonds so owned which have been pledged in good faith may be regarded as Outstanding if the pledgee establishes to the satisfaction of the Trustee the pledgee's right so to act with respect to such Bonds and that the pledgee is not the Pollution Control Corporation or the Company or any person directly or indirectly controlling or controlled by or under direct or indirect common control with the Company. In case of a dispute as to such right, any decision by the Trustee taken upon the advice of counsel shall be full protection to the Trustee.

Section 15.06. *Counterparts*. This Indenture may be executed in any number of counterparts, each of which, when so executed and delivered, shall be an original; but such counterparts shall together constitute but one and the same Indenture.

Section 15.07. *Governing Law*. The laws of the State of Arizona shall govern the construction and enforcement of this Indenture and of all Bonds, except that the laws of the State of New York shall govern the construction and enforcement of the rights and duties of the Trustee hereunder and the construction of Section 15.09 hereof and the computation of any period of grace provided herein.

Section 15.08. *Notices*. Except as otherwise provided in this Indenture, all notices, certificates, requests, requisitions or other communications by or to the Pollution Control Corporation, the Company, the Trustee, the Remarketing Agent, the Credit Facility Issuer or the Rating Agencies pursuant to this Indenture shall be in writing and shall be sufficiently given and shall be deemed given when mailed by registered mail, postage prepaid, addressed as follows: If to the Pollution Control Corporation, c/o Mangum, Wall, Stoops & Warden P.L.L.C., 100 North Elden Street, P.O. Box 10, Flagstaff, Arizona 86002-0010, Attention: President; if to the Company, One South Church Avenue, Suite 100, Tucson, Arizona 85701, Attention: Treasurer; if to the Trustee, at 100 Wall Street, Suite 1600, New York, New York 10005, Attention: Vice President; if to the Credit Facility Issuer, JPMorgan Chase Bank, N.A., 10 South Dearborn Street, Mail Code IL1-0090, Chicago, Il 60603, Attention: Standby Letter of Credit Unit; if to Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007 Attn: Public Finance-MSPG Surveillance Team; if to S&P, 55 Water Street, 41st Floor, New York, New York 10041-0003, Attention: Structured Finance LOC Surveillance Group, with a copy by email to nyloc@standardandpoors.com, and if to the Remarketing Agent, at the address designated in the acceptance of appointment or engagement, which may be included in the Remarketing Agreement entered into by such Remarketing Agent with the Company. Any of the foregoing may, by notice given hereunder to each of the others, designate any further or different addresses to which subsequent notices, certificates, requests or other communications shall be sent hereunder. Anything herein to the contrary notwithstanding, any notice required to be delivered hereunder may also be delivered by Electronic Notice.

Section 15.09. *Holidays*. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Indenture, shall be a Saturday, Sunday or a public holiday in the city in which is located the Principal Office of the Trustee, such payment may be made or act performed or right exercised on the next succeeding business day, with the same force and effect as if done on the nominal date provided in this Indenture, and no interest shall accrue for the period after such nominal date. If the last day of any period of grace, as provided in this Indenture, shall be a Saturday, Sunday or a public holiday in the city in which is located the Principal Office of the Trustee, the last day of such period of grace shall be deemed to be the next succeeding business day.

Section 15.10. *Statutory Notice Regarding Cancellation of Contracts*. As required by the provisions of Section 38-511, Arizona Revised Statutes, as amended, notice is hereby given that political subdivisions of the State of Arizona or any of their departments or agencies may, within three (3) years of its execution, cancel any contract, without penalty or further obligation, made by the political subdivisions or any of their departments or agencies on or after September 30, 1988, if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the political subdivisions or any of their departments or agencies is, at any time while the contract or any extension of the contact is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter of the contract.

The Trustee covenants and agrees not to employ as an employee, agent or, with respect to the subject matter of this Indenture, a consultant, any person actually known by the Trustee to be significantly involved in initiating, negotiating, securing, drafting or creating such Indenture on behalf of the Pollution Control Corporation within three (3) years from the execution hereof, unless a waiver is provided by the Pollution Control Corporation.

Section 15.11. *Rating Agency Notices*. The Trustee shall give notice to each Rating Agency, at the address or addresses set forth in Section 15.08 hereof, of any of the following events of which it has actual knowledge or has received written notice:

(a) a change in the Trustee;

(b) a change in the Remarketing Agent;

(c) the expiration, cancellation, renewal or substitution of the term of the Credit Facility;

(d) the delivery of an Alternate Credit Facility;

(e) any material amendment or supplement to the Indenture, the Loan Agreement, the Reimbursement Agreement or the Credit Facility;

(f) any declaration of acceleration of the Bonds pursuant to Section 10.01;

(g) payment or provision therefor of all the Bonds;

(h) any Conversion of the Interest Rate Mode applicable to the Bonds or any change of any Term Rate Period; and

(i) any other information that either Rating Agency may reasonably request in order to maintain the rating on the Bonds.

The Trustee shall have no liability to the Rating Agency or to any other Person if it shall fail to give such notice.

IN WITNESS WHEREOF, the Coconino County, Arizona Pollution Control Corporation has caused this Indenture to be executed by its President and U.S. Bank Trust National Association has caused this Indenture to be executed on its behalf by its Vice President, all as of the day and year first above written.

COCONINO COUNTY, ARIZONA
POLLUTION CONTROL CORPORATION

By: _____
Name: Ken Sweet
Title: President

U.S. BANK TRUST NATIONAL ASSOCIATION

By: _____
Name:
Title:

IN WITNESS WHEREOF, the Coconino County, Arizona Pollution Control Corporation has caused this Indenture to be executed by its President and U.S. Bank Trust National Association has caused this Indenture to be executed on its behalf by its Vice President, all as of the day and year first above written.

COCONINO COUNTY, ARIZONA
POLLUTION CONTROL CORPORATION

By: _____
Name: Ken Sweet
Title: President

U.S. BANK TRUST NATIONAL ASSOCIATION

By: _____
Name: Patrick A. Crowley
Title: Vice President

EXHIBIT A

(FORM OF BOND)

No. R- $36,700,000

Coconino County, Arizona Pollution Control Corporation
Pollution Control Revenue Bond
2010 Series A
(Tucson Electric Power Company Navajo Project)

THIS BOND DOES NOT, AND SHALL NEVER, CONSTITUTE AN INDEBTEDNESS OF THE COUNTY OF COCONINO, THE STATE OF ARIZONA OR THE POLLUTION CONTROL CORPORATION WITHIN THE MEANING OF ANY STATE CONSTITUTIONAL PROVISION OR STATUTORY LIMITATION, AND THIS BOND SHALL NEVER CONSTITUTE OR GIVE RISE TO A PECUNIARY LIABILITY OF SAID COUNTY, SAID STATE OR THE POLLUTION CONTROL CORPORATION OR A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF SAID COUNTY OR SAID STATE OR A CHARGE AGAINST THE GENERAL CREDIT OF THE POLLUTION CONTROL CORPORATION. THE POLLUTION CONTROL CORPORATION HAS NO TAXING POWER.

Maturity Date	**Interest Rate**	**Dated**	**CUSIP**
October 1, 2032		_____, 2010	

Registered Owner: Cede & Co.

Principal Amount: Thirty-Six Million Seven Hundred Thousand Dollars

COCONINO COUNTY, ARIZONA POLLUTION CONTROL CORPORATION, an Arizona nonprofit corporation designated as a political subdivision under the laws of the State of Arizona, incorporated for and with the approval of the County of Coconino, Arizona, existing under the Constitution and laws of the State of Arizona (the "Pollution Control Corporation"), for value received, hereby promises to pay (but only out of Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement as such term is defined in the hereinafter defined Indenture) to the registered owner identified above (the "holder") or registered assigns, on the maturity date set forth above, the principal amount set forth above and to pay (but only out of the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement) interest on the balance of said principal amount from time to time remaining unpaid from and including the date hereof until payment of said principal amount has been made or duly provided for, at the rates and on the dates determined as provided in the Indenture of Trust, dated as of December 1, 2010 (the "Indenture"), between the Pollution Control Corporation and U.S. Bank Trust National Association, as trustee (together with any successor trustee, the "Trustee"), except as the provisions set forth in the Indenture with respect to redemption, tender or acceleration prior to maturity may become applicable hereto.

All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the Indenture.

Interest payments on this Bond shall be made by the Trustee to the holder hereof as of the close of business on the Record Date with respect to each Interest Payment Date and shall be paid (i) by check drawn upon the Trustee and mailed to the Owners of such Bonds as of the close of business on the Record Date with respect to each interest payment date at the registered addresses of such Owners as they shall appear as of the close of business on such Record Date on the registration books maintained pursuant to the terms of the Indenture, notwithstanding the cancellation of this Bond upon any exchange or registration of transfer subsequent to such Record Date, except that if and to the extent that there should be a default on the payment of interest on this Bond, such defaulted interest shall be paid to the Owners in whose name this Bond (or any Bond or Bonds issued upon any exchange or registration of transfer thereof) is registered as of the close of business on a date selected by the Trustee in its discretion, but not more than fifteen (15) days or less than ten (10) days prior to the date of payment of such defaulted interest.

Notwithstanding the foregoing, upon request to the Trustee by an Owner of not less than $1,000,000 in aggregate principal amount of Bonds, interest on such Bonds and, after presentation and surrender of such Bonds, the principal thereof shall be paid to such Owner by wire transfer to the account maintained within the continental United States specified by such Owner or, if such Owner maintains an account with the entity acting as Trustee, by deposit into such account; provided that if the Interest Rate Mode is the Commercial Paper Rate, the Daily Rate or the Weekly Rate, interest payable on this Bond shall, at the written request of the registered owner, received by the Trustee at least one Business Day prior to the applicable Record Date (or on or one Business Day prior to an Interest Payment Date if the Interest Rate Mode is the Commercial Paper Rate), be payable to the registered owner in immediately available funds by wire transfer to a bank account of such registered owner within the United States or by deposit into a bank account maintained with the Trustee, in either case, to the bank account number of such owner specified in such written request and entered by the Trustee on the Bond Register; provided further, however, that if the Interest Rate Mode is the Commercial Paper Rate, interest on any Bond payable on the Interest Payment Date following the end of the Commercial Paper Rate Period shall be paid only upon presentation and surrender of such Bond at the Principal Office of the Trustee. Payment as aforesaid shall be made in such coin or currency of the United States of America as, at the respective times of payment, shall be legal tender for the payment of public and private debts. Principal of and premium, if any, on this Bond shall be payable to the Owners of this Bond upon presentation and surrender of this Bond at the Principal Office of the Trustee.

This Bond is one of a duly authorized issue of bonds of the Pollution Control Corporation designated as the "Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project)" (the "Bonds"), limited in aggregate principal amount as provided in, and issued under and secured by, the Indenture. Reference is hereby made to the Indenture for a description of the rights thereunder of the holders of the Bonds, of the nature and extent of the security, of the rights, duties and obligations of the Trustee and of the rights and obligations of the Pollution Control Corporation thereunder, to all of the provisions of which Indenture the holder of this Bond, by

acceptance hereof, assents and agrees. The proceeds of the Bonds are being loaned to Tucson Electric Power Company (the "Company") pursuant to a Loan Agreement, dated as of December 1, 2010 (the "Loan Agreement"), between the Pollution Control Corporation and the Company.

The Bonds are authorized to be issued pursuant to the provisions of Title 35, Chapter 6, Arizona Revised Statutes, as amended and supplemented to the date hereof (the "Act"). The Bonds are equally and ratably secured, to the extent provided in the Indenture, by the pledge thereunder of the "Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement," which term is used herein as defined in the Indenture and which as therein defined means all moneys paid or payable to the Trustee for the account of the Pollution Control Corporation by the Company in respect of the Loan Payments, including all moneys drawn by the Trustee under a Credit Facility, including a Letter of Credit, and all receipts of the Trustee which, under the provisions of the Indenture, reduce the amounts of such payments. The Pollution Control Corporation has also pledged and assigned to the Trustee as security for the Bonds all other rights and interests of the Pollution Control Corporation under the Loan Agreement (other than its rights to indemnification and its administrative expenses and certain other rights). The Company has elected to cause and is causing to be delivered to the Trustee an irrevocable direct-pay letter of credit issued by JPMorgan Chase Bank, N.A. on the date of issuance of the Bonds. The Bonds are issued under and equally and ratably secured by and entitled to the benefits of the Indenture, including the security of the pledge and assignment of the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement, and there shall be no other recourse against the Pollution Control Corporation or any property now or hereafter owned by the Pollution Control Corporation.

In the manner provided in, and subject to the provisions of, the Indenture, the term of this Bond will be divided into consecutive Rate Periods during each of which this Bond shall bear interest at either the Commercial Paper Rate, the Daily Rate, the Weekly Rate, the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate. The Initial Rate Period for this Bond shall be a Weekly Rate Period and during such Initial Rate Period this Bond shall bear interest at a Weekly Rate. The subsequent Rate Period(s) and interest rate(s) for this Bond shall be determined in accordance with the provisions of the Indenture.

The Bonds will be subject to optional, extraordinary optional and mandatory redemption prior to maturity, and to optional and mandatory tender for purchase and remarketing in certain circumstances, all as described in the Indenture.

If an Event of Default shall occur, the principal of all Bonds may be declared due and payable upon the conditions, in the manner and with the effect provided in the Indenture.

The Bonds are issuable as fully registered bonds without coupons in the denominations prescribed by the Indenture.

This Bond is transferable or exchangeable for other authorized denominations by the holder hereof, in person or by its attorney duly authorized in writing, at the Principal Office of the Trustee, but only in the manner, subject to the limitations and upon payment of the charges provided in the Indenture, and upon surrender and cancellation of this Bond. Upon any such transfer, a new fully registered Bond or Bonds, of an authorized denomination or authorized

denominations and for the same aggregate principal amount, will be issued to the transferee in exchange herefor.

The Pollution Control Corporation, the Trustee and the Company may deem and treat the holder hereof as the absolute owner hereof for all purposes, and the Pollution Control Corporation, the Trustee and the Company shall not be affected by any notice to the contrary.

The rights and obligations of the Pollution Control Corporation, of the Company and of the holders of the Bonds may be modified or amended at any time in the manner, to the extent, and upon the terms provided in the Indenture, which provide, in certain circumstances, for modifications and amendments without the consent of, or prior notice to, the holders of the Bonds.

As provided in the Indenture and subject to certain limitations therein set forth, this Bond or any portion of the principal amount thereof will be deemed to have been paid within the meaning and with the effect expressed in the Indenture, and the entire indebtedness of the Pollution Control Corporation in respect thereof shall be satisfied and discharged, if there has been irrevocably deposited with the Trustee moneys and/or Government Obligations as provided in the Indenture.

The Indenture and this Bond shall be governed by and construed in accordance with the laws of the State of Arizona; provided, however, that the laws of the State of New York shall govern the construction and enforcement of the rights and duties of the Trustee under the Indenture, the construction of provisions in the Indenture related to payments or actions required on holidays and the computation of any period of grace provided for under the Indenture.

It is hereby certified that all of the conditions, things and acts required to exist, to have happened and to have been performed precedent to and in the issuance of this Bond do exist, have happened and have been performed in due time, form and manner as required by the Act and by the Constitution and statutes of the State of Arizona and that the amount of this Bond, together with all other indebtedness of the Pollution Control Corporation, does not exceed any limit prescribed by the Constitution or statutes of the State of Arizona.

This Bond shall not be entitled to any benefit under the Indenture, or become valid or obligatory for any purpose, until the certificate of authentication hereon endorsed shall have been signed by the Trustee.

IN WITNESS WHEREOF, the Pollution Control Corporation has caused this Bond to be executed in its name and on its behalf by the facsimile signature of its President and attested by the facsimile signature of its Assistant Secretary, all as of the 14th day of December, 2010.

COCONINO COUNTY, ARIZONA
POLLUTION CONTROL CORPORATION

By: _____
President

ATTEST:

_____
Assistant Secretary

EXHIBIT B

COMPLETE AND SIGN THIS FORM FOR ORDINARY
REGISTRATION OF TRANSFER

FOR VALUE RECEIVED, the undersigned hereby sell(s), assign(s) and transfer(s) unto

Please Insert Social Security Or Other Identifying Number of Assignee

---

Please print or typewrite name and address including postal zip code of assignee

---

this bond and all rights thereunder, hereby irrevocably constituting and appointing _____ attorney to register such transfer on the registration books in the principal office of the Trustee, with full power of substitution in the premises.

Dated:_____ _____

NOTE: The signature on this assignment must correspond with the name as written on the face of this Bond in every particular, without alteration, enlargement or any change whatsoever.

[Unless this Bond is presented by an authorized representative of The Depository Trust Company, a New York corporation ("DTC") or its agent for registration of transfer, exchange, or payment, and any certificate issued is registered in the name of Cede & Co. or in such other name as is requested by an authorized representative of DTC (and any payment is made to Cede & Co. or to such other entity as is requested by an authorized representative of DTC, ANY TRANSFER, PLEDGE, OR OTHER USE HEREOF FOR VALUE OR OTHERWISE BY OR TO ANY PERSON IS WRONGFUL, inasmuch as the registered owner hereof, Cede & Co., has an interest herein.]

EXHIBIT C

(FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION)

CERTIFICATE OF AUTHENTICATION

This is to certify that this Bond is one of the Bonds described in the within-mentioned Indenture.

U.S. BANK TRUST NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

Date of Authentication: _____

New Issue—Book Entry Only

COCONINO COUNTY, ARIZONA
POLLUTION CONTROL CORPORATION

$36,700,000
Pollution Control Revenue Bonds,
2010 Series A
(Tucson Electric Power Company Navajo Project)
Due October 1, 2032
Subject to AMT

Dated: Date of Delivery

The Bonds are limited obligations of the Coconino County, Arizona Pollution Control Corporation and, except to the extent payable from certain other moneys pledged therefor, will be payable solely from and secured by a pledge of payments to be made under a Loan Agreement between the Pollution Control Corporation and

Tucson Electric Power Company

The Bonds will be further secured by an irrevocable direct-pay letter of credit issued by

JPMorgan Chase Bank, N.A.

and delivered to U.S. Bank Trust National Association, as Trustee.

The Bonds will accrue interest at the Weekly Rate from the date of original issuance until converted to another Interest Rate Mode as described herein and as more fully described in the Indenture. Bonds converted to a different Interest Rate Mode will be subject to mandatory purchase upon Conversion. Each interest rate for the Bonds will be determined by the Remarketing Agent as set forth in the Indenture.

The method of determining the interest rate on the Bonds may be converted from time to time in accordance with the Indenture to a Daily Rate, a Commercial Paper Rate, another Weekly Rate, a Five Year Call Term Rate, a Ten Year Call Term Rate or a No Call Term Rate. The Bonds will be subject to optional, extraordinary optional and mandatory redemption prior to maturity, and to optional and mandatory tender for purchase and remarketing in certain circumstances, in accordance with the Indenture.

This Official Statement provides information with respect to the Bonds while bearing interest at a Weekly Rate or a Daily Rate only and should not be relied upon for information concerning Bonds bearing interest at a rate other than a Weekly Rate or a Daily Rate. So long as the Interest Rate Mode of the Bonds remains in the Daily Rate or Weekly Rate, and so long as the payment of principal, interest and the purchase price of tendered Bonds are supported by the Letter of Credit identified above, as the same may be extended or replaced from time to time, this Official Statement is not expected to be updated in connection with any remarketing of the Bonds.

Information regarding the business, properties, results of operations and financial condition of Tucson Electric Power Company and of JPMorgan Chase Bank, N.A. is contained and incorporated by reference in this Official Statement. PURCHASE OF THE BONDS INVOLVES INVESTMENT RISK. See RISK FACTORS in Appendix A to this Official Statement for a discussion of certain risks that should be considered (in addition to other matters set forth therein) in evaluating the investment quality of the Bonds.

The Bonds will be issuable as fully registered Bonds, will initially be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York, which will act as securities depository for the Bonds, and will be available to purchasers of beneficial interests in the Bonds under the book-entry-only system maintained by DTC, only through brokers and dealers who are, or act through, DTC participants as described herein. While the Bonds bear interest at a Daily Rate or a Weekly Rate, purchases by Beneficial Owners will be made in book-entry form in denominations of $100,000 and any larger denomination constituting an integral multiple of $5,000. Beneficial Owners will not receive physical delivery of Bonds. Unless otherwise specified, references herein to the Bondholders or the owners or registered owners of the Bonds will mean Cede & Co. and not the Beneficial Owners of the Bonds. Principal or redemption price of and interest on, and purchase price of, the Bonds will be payable to DTC. So long as DTC or its nominee remains the registered owner, disbursement of such payments to DTC participants is the responsibility of DTC and disbursement of such payments to the Beneficial Owners is the responsibility of DTC participants, as described herein.

Price: 100%

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Pollution Control Corporation, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the of the Internal Revenue Code of 1986 (the "1986 Code"), Section 103 of the Internal Revenue Code of 1954, as amended (the "1954 Code") and Title XIII of the Tax Reform Act of 1986, except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities treated for federal income tax purposes as financed or refinanced by the Bonds or by a "related person" within the meaning of Section 103(b)(13) of the 1954 Code or Section 147(a) of the 1986 Code. Bond Counsel observes, however, that interest on the Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Bond Counsel is also of the opinion that the Bonds and the income therefrom are exempt from all taxation in the State of Arizona. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds. See "TAX MATTERS."

The Bonds are subject to prior sale, withdrawal or modification of the offer without notice, and the approval of validity by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Pollution Control Corporation, and certain other conditions. Certain legal matters will be passed upon for the Company by its counsel, Morgan, Lewis & Bockius LLP, and for the Underwriter by its counsel, Kutak Rock LLP. It is expected that the Bonds will be available for delivery through the facilities of The Depository Trust Company on or about December 14, 2010.

Wells Fargo Securities

December 7, 2010

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITER MAY OVERALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS OFFERED HEREBY AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The Underwriter (as defined below) has provided the following sentence for inclusion in this Official Statement: The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

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Appendix A – Certain Information With Respect to the Company
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No person has been authorized to give any information or to make any representations other than those contained in this Official Statement in connection with the offers made hereby and, if given or made, such information or representations must not be relied upon as having been authorized by the Pollution Control Corporation, the Company, the Initial Credit Facility Issuer (as defined below) or Wells Fargo Bank, National Association (the "Underwriter"). Neither the delivery of this Official Statement nor any sale hereunder shall under any circumstances create any implication that there has been no change in the affairs of the Pollution Control Corporation, the Initial Credit Facility Issuer or the Company since the date hereof. This Official Statement does not constitute an offer or solicitation in any jurisdiction in which such offer or solicitation is not authorized, or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

This Official Statement and the information contained herein are not to be construed as representations by the Pollution Control Corporation (other than the applicable information contained under "THE POLLUTION CONTROL CORPORATION"). The Pollution Control Corporation neither has nor assumes any responsibility for the accuracy or completeness of any information in this Official Statement (other than the applicable information contained under "THE POLLUTION CONTROL CORPORATION").

COCONINO COUNTY, ARIZONA
POLLUTION CONTROL CORPORATION

$36,700,000
Pollution Control Revenue Bonds
2010 Series A
(Tucson Electric Power Company Navajo Project)

INTRODUCTORY STATEMENT

This Official Statement, including the cover page and the Appendices attached hereto (this "Official Statement"), is provided to furnish certain information in connection with the issuance by the Coconino County, Arizona Pollution Control Corporation (the "Pollution Control Corporation") of $36,700,000 in aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project) (the "Bonds").

The Bonds will be issued under an Indenture of Trust, to be dated as of December 1, 2010 (the "Indenture"), between the Pollution Control Corporation and U.S. Bank Trust National Association, as trustee (the "Trustee"). All capitalized terms used herein and not otherwise defined shall have the meanings assigned to such terms in the Indenture.

The Bonds are being issued at the request of Tucson Electric Power Company (the "Company") to provide moneys to redeem $36,700,000 in aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 1997 Series A (Tucson Electric Power Company Navajo Project) (the "1997 Bonds"). The 1997 Bonds were issued to finance and refinance the costs to the Company of constructing, improving and equipping certain air pollution control facilities (the "Facilities").

Concurrently with the issuance of the Bonds, the Company and the Pollution Control Corporation will enter into a Loan Agreement relating to the Bonds, to be dated as of December 1, 2010 (the "Loan Agreement"), in which, among other things, the Pollution Control Corporation will agree to lend the proceeds of the Bonds to the Company, and the Company will agree to make payments, in respect of the repayment of such loan, at such times and in such amounts as are required (i) for the payment of the principal of and premium, if any, and interest on the Bonds, and (ii) to purchase or provide for the purchase of Bonds which are tendered for purchase pursuant to the Indenture and not remarketed to new investors.

Neither Coconino County nor the State of Arizona will in any event be liable for the payment of the principal of or premium, if any, or interest on the Bonds, nor shall the Pollution Control Corporation or the State of Arizona be liable to purchase Bonds which are tendered pursuant to the Indenture, and neither the Bonds, nor the premium, if any, or interest thereon, will constitute an indebtedness of Coconino County or the State of Arizona within the meaning of any constitutional or statutory provisions whatsoever. The Bonds and the premium, if any, and interest thereon will be limited obligations of the Pollution Control Corporation payable solely from the receipts and revenues received from the Company under the Loan Agreement and other moneys pledged therefor. Such receipts and revenues and all the Pollution Control Corporation's rights and interest under the Loan Agreement (except as noted under THE INDENTURE — "Pledge and Security") will be pledged and assigned to the Trustee as security, equally and ratably, for the payment of the Bonds.

Concurrently with, and as a condition to, the issuance of the Bonds, the Company will cause to be delivered to the Trustee an irrevocable direct-pay letter of credit (the "Letter of Credit") issued by JPMorgan Chase Bank, N.A. (the "Initial Credit Facility Issuer"). The Trustee will be entitled to draw upon the Letter of Credit, subject to the terms and conditions thereof, up to (a) an amount equal to the principal of the Outstanding (defined below) Bonds accruing interest at the Daily Rate or Weekly Rate to enable the Trustee to pay (i) the principal of such Bonds when due at maturity or upon redemption or acceleration as described herein or (ii) a portion of the purchase price corresponding to the principal amount of such Bonds purchased upon optional or mandatory purchase as described

herein, plus (b) an amount equal to 45 days' interest accrued on such Outstanding Bonds computed at a maximum rate of 10% per annum calculated on the basis of a 365-day (or 366-day, as applicable) year to enable the Trustee to pay (i) accrued and unpaid interest on the Bonds or (ii) the portion of the purchase price corresponding to accrued and unpaid interest on such Bonds. See "THE LETTER OF CREDIT."

The Letter of Credit will expire on December 14, 2014, unless terminated earlier or extended in accordance with its terms. The Letter of Credit constitutes a credit facility under the Indenture and may be canceled, extended or replaced by a letter of credit of another commercial bank or other credit facility as permitted under the Indenture. See "THE INDENTURE – Alternate Credit Facilities." The Letter of Credit, as amended from time to time, and any replacement letter of credit (an "Alternate Credit Facility") is herein called a "Credit Facility." If the Letter of Credit is not extended or is replaced by an Alternate Credit Facility in accordance with the Indenture, the Bonds will be subject to mandatory purchase prior to the expiration, cancellation, termination or substitution of such Letter of Credit, as described under "THE BONDS – Mandatory Purchases of Bonds," except that a mandatory purchase will not occur if, prior to the expiration, cancellation, termination or substitution of such Letter of Credit, the Company shall have furnished to the Trustee a certificate or letter from Moody's, if the Bonds are then rated by Moody's, and from S&P, if the Bonds are then rated by S&P, to the effect that the cancellation, expiration or termination of such Credit Facility or the cancellation, expiration or termination of such Credit Facility and the substitution of an Alternate Credit Facility in lieu thereof, as the case may be, will not, by itself, result in a reduction or withdrawal of its ratings then in effect on the Bonds. The Letter of Credit will be issued pursuant to the Reimbursement Agreement, dated as of December 14, 2010 (the "Reimbursement Agreement"), among the Company, the financial institutions from time to time parties thereto, JPMorgan Chase Bank, N.A., as administrative agent, and the Initial Credit Facility Issuer. The Reimbursement Agreement or any subsequent agreement between the Company and a bank or banks relating to a Credit Facility is herein called the "Credit Agreement."

The Bonds will accrue interest at the Weekly Rate from the date of original issuance unless and until the Interest Rate Mode is converted to the Daily Rate, as described herein, or to another permitted Interest Rate Mode as described in the Indenture. Each interest rate for the Bonds will be determined by the Remarketing Agent as set forth in the Indenture. While accruing interest at the Weekly Rate, the Bonds are subject to optional and mandatory purchase, as described herein. Bonds converted to a different Interest Rate Mode as described in the Indenture will be subject to mandatory purchase upon Conversion. Any offering of the Bonds in an Interest Rate Mode other than the Daily Rate or Weekly Rate will be done pursuant to a separate offering document or a supplement to this Official Statement.

In Daily and Weekly Interest Rate Modes, the Bonds will be subject to purchase on demand of the owners thereof as described herein. As used herein and unless the context requires otherwise, the term "owner" means the registered owner of the Bonds and not the Beneficial Owner.

Brief descriptions of the Pollution Control Corporation, the Facilities, the Bonds, the Loan Agreement, the Letter of Credit, the Reimbursement Agreement, the Continuing Disclosure Agreement and the Indenture are included in this Official Statement, and a description of the Company, including certain financial information and risk factors, a description of the Initial Credit Facility Issuer and the proposed form of the Bond Counsel opinion are contained or incorporated by reference in the Appendices attached hereto. The descriptions herein of the Loan Agreement, the Indenture, the Letter of Credit, the Continuing Disclosure Agreement and the Reimbursement Agreement are qualified in their entirety by reference to such documents, and the description herein of the Bonds is qualified in its entirety by reference to the forms thereof and the information with respect thereto included in the aforesaid documents. All such descriptions are further qualified in their entirety by reference to laws and principles of equity relating to or affecting generally the enforcement of creditors' rights. Copies of such documents may be obtained from the office of the Company and, during the initial offering period, at the principal office of Wells Fargo Bank, National Association in Charlotte, North Carolina.

THE POLLUTION CONTROL CORPORATION

The Pollution Control Corporation is an Arizona nonprofit corporation designated by law as a political subdivision of the State of Arizona, organized under Title 35, Chapter 6 of the Arizona Revised Statutes, as amended (the "Act"), created and existing under and by virtue of the Constitution and laws of the State of Arizona.

The Pollution Control Corporation has no taxing power and does not have the power to pledge the general credit or taxing powers of Coconino County, the State of Arizona or any political subdivision thereof. The Pollution Control Corporation is authorized under the provisions of such Constitution and laws, including particularly the Act, to issue the Bonds, to lend the proceeds thereof to the Company to finance and refinance the costs of construction of the Facilities and to secure each issue of the Bonds by a pledge of the receipts and revenues received from the Company under the Loan Agreement.

The Bonds are limited obligations of the Pollution Control Corporation. No recourse shall be had for the payment of the principal of, premium, if any, or interest on any of the Bonds or the purchase price of the Bonds or for any claim based thereon or upon any obligation, covenant or agreement in the Indenture or the Loan Agreement against any past, present, or future officer, director, counsel, financial advisor, or agent of the Pollution Control Corporation, or of any successor to the Pollution Control Corporation, under any rule of law or equity, statute, or constitution or by the enforcement of any assessment or penalty or otherwise, and all such liability of any such officers, directors, counsel, financial advisor or agent, as such, has been expressly waived as a condition of and in consideration for the execution of the Indenture and the issuance of the Bonds. Under the financing contemplated hereby, the Pollution Control Corporation has no material obligations with respect to the Bonds or the Facilities after the issuance of the Bonds since the Trustee will have primary responsibility to enforce compliance with the Indenture and the Loan Agreement. All payments made pursuant to the Loan Agreement will be made by the Company to the Trustee for disbursement to the owners of the Bonds. Except for monies from the Trust Estate, none of the revenues to pay the Bonds will come from the Pollution Control Corporation, and therefore the Pollution Control Corporation's financial information and status is irrelevant to any investment decision with respect to the Bonds. As a result, no information regarding the Pollution Control Corporation will be provided as any continuing disclosure requirement relating to the Bonds.

Neither the Pollution Control Corporation nor its independent contractors have furnished, reviewed, investigated or verified the information contained in this Official Statement, except for the information under this caption as it relates to the Pollution Control Corporation.

THE FACILITIES

The Facilities are located at the Navajo Generating Station which is located in Coconino County, Arizona (the "Plant"). A 7.5% undivided interest in the Plant is owned by the Company.

USE OF PROCEEDS

The proceeds of the Bonds will be applied to the redemption of the 1997 Bonds. No proceeds will be applied to pay the underwriting commission or any other expenses of sale, which will be paid directly by the Company.

See UNDERWRITING for information regarding the underwriting commission.

THE BONDS

This Official Statement provides information with respect to the Bonds while bearing interest at a Weekly Rate or a Daily Rate only and should not be relied upon for information concerning Bonds bearing interest at a rate other than a Weekly Rate or a Daily Rate or after the Bonds cease to be supported by a Credit Facility.

General

The Bonds will be issued in the aggregate principal amount set forth on the cover page hereof and will mature on the date set forth on the cover page hereof, subject to possible redemption prior to maturity. While the Bonds may, under certain circumstances, be converted to another Interest Rate Mode, this Official Statement describes the Bonds only during the period in which they bear interest in the Daily Rate or the Weekly Rate, and

only so long as the payment of principal of and interest on the Bonds, as well as the purchase of tendered Bonds, is supported by the Letter of Credit, as the same may be extended or replaced from time to time.

The Bonds will be issued originally solely in book-entry form and will be registered in the name Cede & Co. as nominee of The Depository Trust Company ("DTC"), to be held in DTC's book-entry-only system. So long as the Bonds are held in the book-entry-only system, DTC (or a successor securities depository) or its nominee will be the registered owner or holder of the Bonds for all purposes of the Indenture, the Bonds and this Official Statement. See "Book-Entry System" below. Except as described under "Book-Entry System" below, Beneficial Owners of the Bonds will not receive or have the right to receive physical delivery of certificates representing their ownership interests in the Bonds. For so long as any purchaser is the Beneficial Owner of a Bond, such purchaser must maintain an account with a broker or dealer who is, or acts through, a Direct Participant (as defined below) to receive payment of the principal or redemption price of and interest on, and purchase price of, such Bond.

The Bonds will accrue interest at the Weekly Rate from the date of original issuance unless and until the Interest Rate Mode is converted to another permitted Interest Rate Mode as described herein. The permitted Interest Rate Modes are the "Daily Rate," the "Commercial Paper Rate," the "Weekly Rate," the "Five Year Call Term Rate," the "Ten Year Call Term Rate" and the "No Call Term Rate." Changes in an Interest Rate Mode will be effected, and notice of such changes will be given, as described below in "Conversion of Interest Rate Modes."

During each Rate Period for an Interest Rate Mode, the interest rate or rates for the Bonds will be determined by the Remarketing Agent appointed under the Indenture (the "Remarketing Agent") in accordance with the Indenture; provided that the interest rate or rates borne by any Bonds may not exceed 10% per annum. Wells Fargo Bank, National Association has been appointed by the Company to act as the initial Remarketing Agent.

Interest on the Bonds at the interest rate or rates for the Daily Rate or the Weekly Rate will be computed on the basis of a year of 365 or 366 days, as appropriate, and paid for the actual number of days elapsed. Interest on Bonds will be payable on the dates indicated below under "Summary of Certain Provisions of the Bonds". Interest payable on any Interest Payment Date will be payable to the registered owner of the Bonds as of the Record Date for such payment.

So long as the Bonds are held in the book-entry-only system, the principal or redemption price of and interest on, and purchase price of, the Bonds will be paid through the facilities of DTC (or a successor securities depository).

In the Daily Rate and Weekly Rate, the Bonds shall be issued in denominations of $100,000 and any larger denomination constituting an integral multiple of $5,000. If use of the book-entry-only system is discontinued and the Bonds are issued in certificated form, Bonds will be transferred or exchanged for an equal total principal amount of Bonds in the same Interest Rate Mode and in authorized denominations upon surrender of such Bonds at the office of the Trustee, accompanied by a written instrument of transfer or authorization for exchange with guaranty of signature or medallion stamp satisfactory to the Trustee, duly executed by the registered owner or such owner's authorized attorney. The Trustee will not be required to register the transfer or exchange of any Bond called for redemption. Registration of transfers and exchanges will be made without charge to the owners of Bonds, except that the Registrar may require any owner requesting registration of transfer or exchange to pay any required tax or governmental charge.

In the Daily Rate and Weekly Rate, owners may have their Bonds purchased upon demand to the Trustee at the time and in the manner described herein under "Summary of Certain Provisions of the Bonds" and "Purchase of Bonds on Demand of Owner." See also "Book-Entry System."

Book-Entry System

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered bonds registered in the name of Cede & Co., DTC's partnership nominee or such other name as may be requested by an authorized representative of DTC.

DTC is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds securities that its participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission.

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase, but Beneficial Owners are expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC will be registered in the name of DTC's partnership nominee, Cede & Co or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other nominee will effect no change in beneficial ownership. DTC will have no knowledge of the actual Beneficial Owners of the Bonds; DTC's records will reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners may wish to take certain steps to augment transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults and proposed amendments to the Indenture. Beneficial Owners may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to the Beneficial Owners.

Redemption notices will be sent to DTC. If less than all of the Bonds are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's procedures. Under its usual procedures, DTC mails an Omnibus Proxy (the "Omnibus Proxy") to the Pollution Control Corporation as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal and interest payments and redemption proceeds, if any, on the Bonds will be made to Cede & Co. or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the Trustee on

the payment date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street-name," and will be the responsibility of such Participants and not of DTC, the Underwriter, the Trustee or the Pollution Control Corporation, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest payments, and redemption proceeds, if any, to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, disbursement of such payments to Direct Participants is the responsibility of DTC, and disbursement of such payments to the Beneficial Owners is the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the Company, the Pollution Control Corporation and the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, bond certificates are required to be printed and delivered. The Pollution Control Corporation, at the direction of the Company, may determine to discontinue use of the system of book-entry transfers through DTC or a successor securities depository. In that event, Bond certificates will be printed and delivered.

Notwithstanding the provisions of the Indenture described herein, so long as DTC acts as depository for the Bonds, the procedures described under this caption shall apply.

The information under this caption concerning DTC and DTC's book-entry system has been obtained from sources that the Company, the Underwriter and the Pollution Control Corporation believe to be reliable, but neither the Company, the Underwriter nor the Pollution Control Corporation takes responsibility for the accuracy thereof.

The Company, the Underwriter, the Pollution Control Corporation and the Trustee will not have any responsibility or obligation to Direct Participants or the persons for whom they act as nominees with respect to the accuracy of the records of DTC, its nominee, Cede & Co., or any Direct or Indirect Participant with respect to any ownership interest in the Bonds, or payments to, or the providing of notice for, Direct Participants, Indirect Participants or Beneficial Owners.

Certain Definitions

As used herein, each of the following terms will have the meaning indicated:

"Business Day" means any day other than (a) a Saturday or Sunday or legal holiday or a day on which banking institutions in the city or cities in which the Principal Offices of the Trustee or the Credit Facility Issuer are located are authorized or required by law or executive order to close or (b) a day on which the principal office of the Remarketing Agent or The New York Stock Exchange is closed.

"Conversion" means, with respect to a Bond, any conversion from time to time in accordance with the terms of the Indenture of that Bond from one Interest Rate Mode to another Interest Rate Mode.

"Conversion Date" means the date on which any Conversion becomes effective.

"Daily Rate Period" means the period beginning on, and including, a Conversion Date of the Bonds to the Daily Rate and ending on, and including, the day preceding the next Business Day and each period thereafter beginning on, and including, a Business Day and ending on, and including, the day preceding the next Business Day until the day preceding the earlier of the Conversion of such Bonds to a different Interest Rate Mode or the maturity of the Bonds.

"Interest Payment Date" means if the Interest Rate Mode is the Daily Rate or the Weekly Rate, the 15th calendar day of each month, commencing January 15, 2011, or, if such day shall not be a Business Day, the next Business Day. In any case, the final Interest Payment Date shall be the maturity date.

"Interest Period" means for any Bond the period from, and including, each Interest Payment Date for such Bond to, and including, the day next preceding the next Interest Payment Date for such Bond, provided, however, that the first Interest Period for any Bond will begin on (and include) the Date of the Bonds and the final Interest Period will end on the day next preceding the maturity date of the Bonds.

"Interest Rate Mode" means the Commercial Paper Rate, the Daily Rate, the Weekly Rate, the Five Year Call Term Rate, the Ten Year Call Term Rate and the No Call Term Rate.

"Moody's" means Moody's Investors Service, Inc., a Delaware corporation, its successors and assigns, and, if such corporation is dissolved or liquidated or no longer performs the functions of a securities rating agency, "Moody's" will be deemed to refer to any other nationally recognized securities rating agency designated in writing by the Company.

"Outstanding", when used in reference to the Bonds, means, as at any particular date, the aggregate of all Bonds authenticated and delivered under the Indenture except: (i) those canceled by the Trustee at or prior to such date or delivered to or acquired by the Trustee at or prior to such date for cancellation; (ii) on or after any Purchase Date for Bonds, all Bonds (or portions of Bonds) which have been purchased on such date, but which have not been delivered to the Trustee, provided that funds sufficient for such purchase are on deposit with the Trustee; (iii) those deemed to be paid in accordance with the defeasance provisions of the Indenture; and (iv) those in lieu of or in exchange or substitution for which other Bonds shall have been authenticated and delivered pursuant to the Indenture, unless proof satisfactory to the Trustee and the Company is presented that such Bonds are held by a bona fide holder in due course.

"Purchase Date" means with respect to a Bond (a) if the Interest Rate Mode is the Daily Rate or the Weekly Rate, any Business Day upon delivery of notice in accordance with the provisions set forth in the Indenture and (b) each day that such Bond is subject to mandatory purchase pursuant to the Indenture; provided, however, that the date of the stated maturity of the Bonds will not be a Purchase Date.

"Rate Period" means any period during which a single interest rate is in effect for a Bond.

"Rating Agency" means Moody's, S&P and any other nationally recognized securities rating agency which has assigned a rating on the Bonds.

"Record Date" means with respect to any Interest Period during which the Interest Rate Mode is the Weekly Rate or the Daily Rate, the close of business on the last Business Day of such Interest Period.

"S&P" means Standard & Poor's Ratings Service, a division of The McGraw Hill Companies and its successors and assigns, and, if such division shall be dissolved or liquidated or shall no longer perform the functions of a securities rating agency, "S&P" shall be deemed to refer to any other nationally recognized securities rating agency designated in writing by the Company.

"SIFMA Swap Index" means, on any date, a rate determined on the basis of the seven-day high grade market index of tax-exempt variable rate demand obligations, as produced by Municipal Market Data, Inc., and published or made available by the Securities Industry & Financial Markets Association (formerly the Bond Market Association) ("SIFMA") or any person acting in cooperation with or under the sponsorship of SIFMA and effective from such date; provided, however, that, if such index is no longer provided by Municipal Market Data, Inc. or its successor, the "Municipal Index" shall mean such other reasonably comparable index selected by the Remarketing Agent.

"Weekly Rate Period" means the period beginning on, and including, the date of original issuance of the Bonds or any subsequent Conversion Date of Bonds to the Weekly Rate and, in each case, ending on, and including, the next Tuesday, and thereafter the period beginning on, and including, any Wednesday and ending on, and including, the earliest of the following Tuesday, the day preceding the Conversion of such Bonds to a different Interest Rate Mode or the maturity of the Bonds.

Summary of Certain Provisions of the Bonds

The following table summarizes, for Bonds in the Daily Rate or Weekly Rate: the dates on which interest will be paid (Interest Payment Dates); the dates on which each interest rate will be determined (Interest Rate Determination Dates); the period of time each interest rate will be in effect (Interest Rate Periods) which Interest Rate Periods do not, and are not intended to, reflect the initial Interest Rate Period for each Interest Rate Mode which would begin on the Conversion Date and end on the day preceding the commencement of the next Interest Rate Period; the basis on which interest will be calculated (Calculation of Interest); the dates on which owners may have their Bonds purchased upon demand to the Trustee and the notice requirements therefor (Purchase on Demand of Owner; Required Notice); the dates on which Bonds are subject to mandatory purchase (Mandatory Purchase Dates); and the dates on which Bonds are subject to redemption (Redemption).

	DAILY RATE	**WEEKLY RATE**
Interest Payment Dates	The fifteenth calendar day of each month, or if not a Business Day, the next Business Day.	The fifteenth calendar day of each month, or if not a Business Day, the next Business Day.
Interest Rate Determination Dates	Not later than 10:30 a.m. New York City time on each Business Day.	Not later than 10:00 a.m. New York City time on the first day of such Weekly Rate Period or, if not a Business Day, the next preceding Business Day.
Interest Rate Periods	From and including each Business Day to but not including the next Business Day.	From and including each Wednesday to and including the following Tuesday.
Calculation of Interest	On basis of a 365- or 366-day year, as appropriate, for actual number of days elapsed.	On basis of a 365- or 366-day year as appropriate, for actual number of days elapsed.
Purchase on Demand of Owner; Required Notice	Any Business Day; by written or electronic notice to the Remarketing Agent and the Trustee by 11:00 a.m. New York City time on such Business Day.	Any Business Day; by written notice to the Trustee by 5:00 p.m. New York City time on a Business Day at least seven days prior to the Purchase Date.
Mandatory Purchase Dates	Any Conversion Date; prior to the cancellation, termination, expiration or substitution of a Credit Facility, if any, unless appropriate rating agency confirms no ratings impact as described below.	Any Conversion Date; prior to the cancellation, termination, expiration or substitution of a Credit Facility, if any, unless appropriate rating agency confirms no ratings impact as described below.
Redemption	Optional at par plus accrued interest on any Business Day; Mandatory at par plus accrued interest under certain circumstances described below. See "Redemption – Mandatory Redemption Upon Taxability of Interest.	Optional at par plus accrued interest on any Business Day; Mandatory at par plus accrued interest under certain circumstances described below. See "Redemption – Mandatory Redemption Upon Taxability of Interest.

Determination of Interest Rates for Interest Rate Modes

For any Daily Rate Period or Weekly Rate Period, interest rates will be established by the Remarketing Agent as follows:

Daily Rate. If the Interest Rate Mode for Bonds is the Daily Rate, the interest rate on such Bonds for any Business Day will be the rate established by the Remarketing Agent no later than 10:30 a.m. (New York City time) on such Business Day as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, taking into account the then Prevailing Market Conditions, to enable the Remarketing Agent to sell such Bonds on such Business Day at a price equal to the principal amount thereof, plus accrued interest, if any, thereon as of such day. For any day which is not a Business Day or in the event that the interest rate on a Bond is not or cannot be determined by the Remarketing Agent for whatever reason, or if there is no Remarketing Agent in place, the interest rate on the Bonds will be the interest rate in effect for the next preceding Business Day.

Weekly Rate. If the Interest Rate Mode for Bonds is the Weekly Rate, the interest rate on such Bonds for a particular Weekly Rate Period will be the rate established by the Remarketing Agent no later than 10:00 a.m. (New York City time) on the first day of such Weekly Rate Period, or, if such day is not a Business Day, on the next preceding Business Day, as the minimum rate of interest necessary, in the judgment of the Remarketing Agent, taking into account the then prevailing market conditions, to enable the Remarketing Agent to sell such Bonds on such first day at a price equal to the principal amount thereof plus accrued interest, if any, thereon.

If for any reason the interest rate on the Bonds in a Weekly Rate is not determined by the Remarketing Agent, or if there is no Remarketing Agent in place, the Interest Rate Mode for such Bonds will remain in the Weekly Rate and the Weekly Rate for such Weekly Rate Period will be equal to 100% of the SIFMA Swap Index (as defined in the Indenture).

THIS OFFICIAL STATEMENT DOES NOT PROVIDE ANY INFORMATION REGARDING THE BONDS AFTER THE DATE, IF ANY, ON WHICH THE BONDS CONVERT TO BEAR INTEREST AT AN INTEREST RATE MODE OTHER THAN THE DAILY RATE OR WEEKLY RATE.

Conversion of Interest Rate Modes

Method of Conversion. The Interest Rate Mode for any Bond is subject to Conversion from time to time on the dates specified below under " - Limitations on Conversion," at the option of the Company, upon notice from the Trustee to the owners of such Bonds, as described below. In the case of a Conversion to the Ten Year Call Term Rate, the Five Year Call Term Rate or the No Call Term Rate from the Daily Rate or Weekly Rate, as the case may be, such Conversion shall be conditioned upon the delivery to the Pollution Control Corporation, the Trustee and the Company on or prior to the Conversion Date of an opinion of Bond Counsel stating that such Conversion is authorized or permitted by the Act and is authorized by the Indenture and will not, in and of itself, adversely affect any exclusion of interest on the Bonds from gross income for purposes of federal income taxation. Any such Conversion may be cancelled by the Company by telephonic notice (to be confirmed in writing) to the Trustee, the Credit Facility Issuer, if any, and the Remarketing Agent by the opening of business on the Conversion Date, in which case, the Company's notice of Conversion shall be of no effect and the Conversion shall not occur, provided, however, that any mandatory purchase of Bonds on the proposed conversion date shall remain effective

Limitations on Conversion. Any Conversion of the Interest Rate Mode for Bonds must be in compliance with the following conditions: (a) the Conversion Date must be a date on which such Bonds are subject to optional redemption (see "Redemption - Optional Redemption" below); (b) if the proposed Conversion Date would not be an Interest Payment Date, but for the Conversion, the Conversion Date must be a Business Day; (c) after a determination is made requiring mandatory redemption of any Bond (see "Redemption - Mandatory Redemption Upon Taxability of Interest" below), no change in the Interest Rate Mode for that Bond may be made prior to such mandatory redemption; and (d) the Credit Facility, if any, to be held by the Trustee after such Conversion must cover the principal of and accrued interest on the Outstanding Bonds for the maximum permitted period between Interest Payment Dates for the proposed Interest Rate Mode plus at least two (2) days.

Determination Conclusive and Binding. The determination of each interest rate in accordance with the terms of the Indenture shall be conclusive and binding upon the owners of the Bonds, the Pollution Control Corporation, the Company, the Trustee, the Remarketing Agent and the Initial Credit Facility Issuer with respect to the Letter of Credit or the institution issuing any Alternate Credit Facility (each a "Credit Facility Issuer"), if any.

Notice to Owners of Conversion of Interest Rate Mode. The Trustee will notify the Remarketing Agent and each owner of a Bond of each Conversion by Mail or Electronic Means at least fifteen (15) days but not more than thirty (30) days before the Conversion Date. The notice will state, among other things, that the Interest Rate Mode will be converted and what the new Interest Rate Mode will be, the Conversion Date, that the Bonds will be subject to mandatory purchase on the Conversion Date and the purchase price.

Cancellation of Conversion of Interest Rate Mode. No Conversion of Bonds will occur if (a) the Remarketing Agent has not determined the initial interest rate for the new Interest Rate Mode for such Bonds in accordance with the terms of the Indenture, (b) if such Conversion is canceled by the Company as discussed above under - "Method of Conversion", or (c) in the case of a Conversion requiring an opinion of Bond Counsel, the Trustee shall have failed to receive such opinion prior to the opening of business on the Conversion Date. If such Conversion fails to occur, the Interest Rate Mode of the Bonds will remain in the Weekly Rate, if in the Weekly Rate or, if in the Daily Rate will automatically be converted to the Weekly Rate and the interest rate for the initial Interest Period will be equal to 100% of the SIFMA Swap Index.

Purchase of Bonds on Demand of Owner

When the Interest Rate Mode is the Daily Rate or Weekly Rate, the Bonds are subject to purchase on the demand of the owners thereof as provided in the Indenture and described below. If the Bonds are in the book-entry-only system, demands for purchase may be made by Beneficial Owners only through such Beneficial Owner's Direct Participant. If the Bonds are in certificated form, demands for purchase may be made only by registered owners.

Daily Rate. If the Interest Rate Mode for the Bonds is the Daily Rate, any such Bond will be purchased on the demand of the owner thereof on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon irrevocable written notice or electronic notice to the Remarketing Agent and to the Trustee at the designated corporate trust office of the Trustee not later than 11:00 a.m. (New York City time) on such Business Day.

Weekly Rate. If the Interest Rate Mode for the Bonds is the Weekly Rate, any such Bond will be purchased on the demand of the owner thereof on any Business Day at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date upon irrevocable written notice to the Trustee at the principal office of the Trustee not later than 5:00 p.m. (New York City time) on a Business Day not later than the seventh day prior to the Purchase Date.

Limitations on Purchases. Notwithstanding the foregoing, there will be no purchase of (a) less than the entire amount of any Bond unless the amount to be purchased and the amount to be retained by such owner are in authorized denominations or (b) any Bond upon the demand of the owner if the Bonds have been declared due and payable following an Event of Default under the Indenture. Bonds will be offered for sale by the Remarketing Agent during the continuance of an Event of Default under the Indenture only in the sole discretion of the Remarketing Agent.

Notice Required for Purchases on Demand of Owners. Any notice delivered to the Trustee by an owner demanding the purchase of Bonds must (a) state the principal amount (or portion thereof in an authorized denomination) of such Bond to be purchased, (b) state the Purchase Date on which such Bond is to be purchased and (c) irrevocably request such purchase and state that the owner agrees to deliver such Bond (if not in Book-Entry Form) to the Trustee on the Purchase Date at or prior to 11:00 a.m. (New York City time) if in the Daily Rate Mode or 12:00 noon (New York City time) if in the Weekly Rate Mode. During any period that the Bonds are in DTC's book-entry-only system, notice by a Beneficial Owner demanding the purchase of Bonds will be given as described above under "Book-Entry System."

Mandatory Purchases of Bonds

Mandatory Purchase on Conversion Date. Bonds shall be subject to mandatory purchase at a purchase price equal to the principal amount thereof plus accrued interest, if any, on each Conversion Date for such Bonds for any Conversion.

Mandatory Purchase in Certain Circumstances on Cancellation, Substitution, Termination or Expiration of Credit Facility. As long as a Credit Facility is in effect, the Bonds will be subject to mandatory purchase at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date, on the Business Day preceding the date of cancellation, substitution or termination by the Trustee at the request of the Company of the current Credit Facility, or on the fifteenth day (or if such day is not a Business Day, the preceding Business Day) preceding the stated expiration of the term of, the then current Credit Facility, if any, provided that if the then current Credit Facility, if any, is canceled, substituted or terminated by the Trustee at the request of the Company, including such cancellation in connection with the delivery of an Alternate Credit Facility (see "THE INDENTURE – Alternate Credit Facilities" herein), the Purchase Date will be a Business Day on which the Bonds are subject to optional redemption; provided, further, that the Bonds shall not be so purchased if the Company shall have furnished to the Trustee a certificate or letter from Moody's, if the Bonds are then rated by Moody's, and from S&P, if the Bonds are then rated by S&P, to the effect that the cancellation, expiration or termination of such Credit Facility or the cancellation, expiration or termination of such Credit Facility and the substitution of an Alternate Credit Facility in lieu thereof, as the case may be, will not, by itself, result in a reduction or withdrawal of its ratings then in effect on the Bonds. The Company shall provide written notice to Bondholders at least fifteen (15) days prior to the effective date of any cancellation, expiration or termination of a Credit Facility or the cancellation, expiration or termination of a Credit Facility and the substitution of an Alternate Credit Facility in lieu thereof, as the case may be, if such cancellation, expiration, termination or substitution will not subject the Bonds to mandatory purchase.

Mandatory Purchase at Direction of the Credit Facility Issuer. As long as a Credit Facility is in effect, the Bonds will be subject to mandatory purchase at a purchase price equal to the principal amount thereof plus accrued interest, if any, to the Purchase Date, on the second Business Day after the date of receipt by the Trustee of a notice from the Credit Facility Issuer stating that an event of default has occurred and is continuing under the Credit Agreement and directing such mandatory purchase.

Notice of Mandatory Purchase Upon Direction of the Credit Facility Issuer. The Trustee shall notify the Remarketing Agent and, as soon as practicable but in no event later than one Business Day prior to the Purchase Date, the Bondholders, by Mail or Electronic Means, of a mandatory purchase of Bonds at the direction of the Credit Facility Issuer as a result of the receipt by the Trustee of a notice from the Credit Facility Issuer stating that an event of default has occurred and is continuing under the Credit Agreement.

Payment of Purchase Price

Payment of the purchase price of any Bond (if not in Book-Entry Form) will be payable upon delivery of such Bond to the Trustee. Except as described under "Book-Entry System," any such Bond must be accompanied by an appropriate instrument of transfer, executed in blank, with signature guaranteed, and must be delivered to the Principal Office of the Trustee at or prior to 12:00 noon (New York City time) for payment by close of business on the Purchase Date.

Any Bond (or portion thereof) as to which a notice of demand for purchase has been given or which is subject to mandatory purchase and for which moneys for the payment of the purchase price have been deposited with the Trustee will nevertheless be purchased on the Purchase Date whether or not such Bond has been delivered to the Trustee. Thereafter, such Bond will not be transferable and will not be outstanding under the Indenture and the owner of such Bond will be entitled only to payment of the purchase price of such Bond by the Trustee from those moneys deposited with the Trustee.

On each date Bonds are to be purchased pursuant to optional or mandatory purchase under the Indenture, such Bonds will be purchased from the following sources in the order of priority indicated, provided that the funds

described in clause (c) below will not be combined with funds described in clause (a) or (b) below to purchase any Bonds (or authorized denomination thereof):

(a) Proceeds of the remarketing of such Bonds to persons other than the Company, its Affiliates, the Pollution Control Corporation or any guarantor of the Bonds pursuant to the provisions of the Indenture and furnished to the Trustee by the Remarketing Agent and deposited directly into, and held in, the Remarketing Proceeds Account of the Purchase Fund established with the Trustee under the Indenture (the "Purchase Fund");

(b) Proceeds of a draw on the Credit Facility, if any, deposited by the Trustee directly into, and held in, the Credit Facility Proceeds Account of the Purchase Fund; and

(c) Moneys paid by the Company (including the proceeds of the remarketing of such Bonds to the Company, its Affiliates, the Pollution Control Corporation or any guarantor of the Bonds) to pay the purchase price furnished to the Trustee.

The Purchase Fund will be held on and after any Purchase Date solely for the benefit of the owners of Bonds purchased on such Purchase Date and shall not secure any other Bonds and will not be invested or commingled with any other funds of the Trustee.

Redemption

Optional Redemption. Whenever the Interest Rate Mode for the Bonds is the Daily Rate or Weekly Rate, such Bonds will be subject to redemption on any Business Day at the option of the Pollution Control Corporation, upon the direction of the Company, in whole or in part, at a redemption price of 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

Mandatory Redemption Upon Taxability of Interest. The Bonds will be subject to mandatory redemption by the Pollution Control Corporation, at the principal amount thereof plus accrued interest to the redemption date, on the 180th day (or such earlier date as may be designated by the Company) after a final determination by a court of competent jurisdiction or an administrative agency, to the effect that, as a result of a failure by the Company to perform or observe any covenant, agreement or representation contained in the Loan Agreement, the interest payable on the Bonds is included for federal income tax purposes in the gross income of the owners thereof, other than any owner who is a "substantial user" of the Facilities or other facilities deemed financed or refinanced by the Bonds for federal income tax purposes or a "related person" (within the meaning of Section 103(b)(13) of the 1954 Code or Section 147(a) of the 1986 Code). No determination by any court or administrative agency will be considered final unless the Company has been given timely notice of the proceeding which resulted in such determination and an opportunity to participate in such proceeding, either directly or through an owner of a Bond, and until the conclusion of any appellate review sought by any party to such proceeding or the expiration of the time for seeking such review. The Bonds will be redeemed either in whole or in part in such principal amount that, in the opinion of Bond Counsel, the interest payable on the Bonds, including the Bonds remaining outstanding after such redemption, would not be included in the gross income of any owner thereof, other than an owner who is a "substantial user" of the Facilities or other facilities deemed financed or refinanced by the Bonds for federal income tax purposes or a "related person" (within the meaning of Section 103(b)(13) of the 1954 Code or Section 147(a) of the 1986 Code).

Purchase in Lieu of Redemption. Bonds subject to optional redemption may be purchased in lieu of redemption on the applicable redemption date at a purchase price equal the redemption price thereof, plus accrued interest, if any, thereon to, but not including, the date of such purchase, if the Trustee has received a written request from the Company on or before the Business Day prior to the date the Bonds would otherwise be subject to redemption specifying that the moneys provided or to be provided by the Company will be used to purchase such Bonds in lieu of redemption. Moneys received for such purpose will be held by the Trustee in trust for the registered owner of the Bonds so purchased. While a Credit Facility is in place, any such purchase will be made from moneys received from a drawing on such Credit Facility and applied as provided in the Indenture. No purchase of Bonds by the Company in lieu of redemption or advance or use of any moneys to effectuate any such purpose will be deemed to be a payment or redemption of the Bonds or any portion thereof, and such purchase will not extinguish or discharge the indebtedness evidenced by such Bonds.

Procedure for and Notice of Redemption

If less than all of the Bonds shall be called for redemption, the particular Bonds or portions thereof to be redeemed will be selected by the Trustee, in such manner as the Trustee in its discretion may deem proper, in the principal amount designated by the Company or otherwise as required by the Indenture; provided, however, that if the Company shall have offered to purchase all Bonds then outstanding and if less than all of such Bonds shall have been tendered to the Company for purchase, the Trustee, at the direction of the Company, will select for redemption all such Bonds which have not been so tendered. The Trustee shall treat any Bond of a denomination greater than the minimum authorized denomination for the Interest Rate Mode then applicable to the Bonds as representing that number of separate Bonds each of that minimum authorized denomination (and, if any Bond is not in a denomination that is an integral multiple of the minimum authorized denomination for such Interest Rate Mode, one separate Bond of the remaining principal amount of the Bond) as can be obtained by dividing the actual principal amount of such Bond by that minimum authorized denomination; provided that no Bond shall be redeemed in part if it results in the unredeemed portion of the Bond being in a principal amount other than an authorized denomination. Any Bonds selected for redemption will cease to bear interest on the date fixed for redemption provided that moneys sufficient to pay the principal of, premium, if any, and interest on such Bonds shall be on deposit with the Trustee on the date fixed for redemption so that such Bonds will be deemed to be paid in accordance with the Indenture. Upon presentation and surrender of such Bonds (if not in Book-Entry Form) at the place or places of payment, such Bonds shall be paid and redeemed. Notice of redemption will be given by Mail or Electronic Means at least twenty (20) days prior to the date fixed for redemption to the owners of the Bonds to be redeemed; provided, however, that failure duly to give such notice by Mail or Electronic Means, or any defect therein, shall not affect the validity of any proceedings for the redemption of Bonds as to which there shall have been no such failure or defect.

With respect to notice of any optional redemption of the Bonds, unless moneys sufficient to pay the principal of and premium, if any, and interest on the Bonds to be redeemed shall have been received by the Trustee prior to the giving of such notice, such notice will state that said redemption shall be conditional upon the receipt of such moneys by the Trustee on or prior to the date fixed for such redemption. If the redemption notice contains such a condition and such moneys are not so received, such notice will be of no force and effect, the Pollution Control Corporation will not redeem such Bonds and such failure to redeem shall not constitute an event of default under the Indenture. In the event that such notice of redemption contains such a condition and such moneys are not so received or any other condition referenced in the notice of redemption shall not have been met, the redemption shall not be made and the Trustee shall within a reasonable time thereafter give notice, in the manner in which the notice of redemption was given, that such moneys were not so received or such other conditions were not satisfied. If a notice of a redemption shall be unconditional, or if the conditions of a conditional notice of redemption shall have been satisfied, then, upon presentation and surrender of Bonds (if not in Book-Entry Form) so called for redemption at the place or places of payment, such Bonds will be redeemed.

In addition to any conditional calls otherwise permitted pursuant to the terms of the Indenture, any notice of optional redemption may be revoked by the Company by written notice delivered to the Trustee by the Company on or prior to the date set for redemption date. In the event that a notice of redemption is so revoked by the Company, such notice of redemption shall be of no force and effect, the redemption shall not be made, such failure to redeem shall not constitute an Event of Default under the Indenture and the Trustee shall, within a reasonable time thereafter, give notice, in the manner in which the notice of redemption was given, that such notice of redemption was revoked by the Company.

Acceleration of Bonds

The Bonds may be accelerated under the circumstances described under THE INDENTURE—"Remedies."

Special Considerations Relating to the Remarketing Agent

The Remarketing Agent is Paid by the Company. The Remarketing Agent's responsibilities include determining the interest rate from time to time and remarketing Bonds that are optionally or mandatorily tendered by the owners thereof (subject, in each case, to the terms of the Remarketing Agreement), all as further described in this Official Statement. The Remarketing Agent is appointed by the Company and is paid by the Company for its services. As a result, the interests of the Remarketing Agent may differ from those of purchasers of Bonds.

The Remarketing Agent Routinely Purchases Bonds for its Own Account. The Remarketing Agent acts as remarketing agent for a variety of variable rate demand obligations and, in its sole discretion, routinely purchases such obligations for its own account. The Remarketing Agent is permitted, but not obligated, to purchase tendered Bonds for its own account and, in its sole discretion, routinely acquires such tendered Bonds in order to achieve a successful remarketing of the Bonds (i.e., because there otherwise are not enough buyers to purchase the Bonds) or for other reasons. However, the Remarketing Agent is not obligated to purchase Bonds, and may cease doing so at any time without notice. The Remarketing Agent may also make a market in the Bonds by routinely purchasing and selling Bonds other than in connection with an optional or mandatory tender and remarketing. Such purchases and sales may be at or below par. However, the Remarketing Agent is not required to make a market in the Bonds. The Remarketing Agent may also remarket Bonds or sell any Bonds it has purchased to one or more affiliated investment vehicles for collective ownership or enter into derivative arrangements with affiliates or others in order to reduce its exposure to the Bonds. The purchase of Bonds by the Remarketing Agent may cause the interest rate to be lower than it would be if the Remarketing Agent did not purchase Bonds and may create the appearance that there is greater third party demand for the Bonds in the market than is actually the case. The practices described above also may result in fewer Bonds being tendered in a remarketing.

Bonds May be Offered at Different Prices on Any Date Including an Interest Rate Determination Date. Pursuant to the Remarketing Agreement, the Remarketing Agent is required to determine the applicable rate of interest that, in its judgment, is the lowest rate that would permit the sale of the Bonds bearing interest at the applicable interest rate at par plus accrued interest, if any, on and as of the applicable Interest Rate Determination Date (as such term is defined under the caption "Summary of Certain Provisions of the Bonds"). The interest rate will reflect, among other factors, the level of market demand for the Bonds (including whether the Remarketing Agent is willing to purchase Bonds for its own account). The purchase of the Bonds by the Remarketing Agent may cause the interest rate to be lower than it would be if the Remarketing Agent did not purchase Bonds. There may or may not be Bonds tendered and remarketed on an Interest Rate Determination Date, the Remarketing Agent may or may not be able to remarket any Bonds tendered for purchase on such date at par and the Remarketing Agent may sell Bonds at varying prices to different investors on such date or any other date. The Remarketing Agent is not obligated to advise purchasers in a remarketing if it does not have third party buyers for all of the Bonds at the remarketing price. The Remarketing Agent, in its sole discretion, may offer Bonds on any date, including the Interest Rate Determination Date, at a discount to par to some investors.

The Ability to Sell the Bonds Other than Through the Tender Process May Be Limited. The Remarketing Agent may buy and sell Bonds other than through the tender process. However, it is not obligated to do so and may cease doing so at any time without notice and may require holders that wish to tender their Bonds to do so through the Trustee with appropriate notice. Thus, investors who purchase the Bonds, whether in a remarketing or otherwise, should not assume that they will be able to sell their Bonds other than by tendering the Bonds in accordance with the tender process.

Under Certain Circumstances, the Remarketing Agent May Be Removed, Resign or Cease Remarketing the Bonds, Without a Successor Being Named. Under certain circumstances the Remarketing Agent may be removed or have the ability to resign or cease its remarketing efforts, without a successor having been named, subject to the terms of the Remarketing Agreement.

Limited Obligations

Neither Coconino County nor the State of Arizona will in any event be liable for the payment of the principal of, or premium, if any, or interest on the Bonds or the purchase price of tendered Bonds or for the performance of any pledge, mortgage, obligation or agreement of any kind which may be undertaken by the Pollution Control Corporation, and neither the Bonds nor the premium, if any, or the interest thereon or any of the agreements or obligations of the Pollution Control Corporation, will be construed to constitute an indebtedness of Coconino County or the State of Arizona within the meaning of any constitutional or statutory provisions whatsoever. The Bonds and the premium, if any, and the interest thereon shall be limited obligations of the Pollution Control Corporation payable solely from the receipts and revenues of the Pollution Control Corporation from the Loan Agreement and the other moneys pledged therefor under the Indenture. The Pollution Control Corporation will not be liable for the purchase of tendered bonds.

THE LETTER OF CREDIT

The Letter of Credit will be held by the Trustee. The Letter of Credit is an irrevocable obligation of the Initial Credit Facility Issuer to pay to the Trustee, upon drawings by the Trustee pursuant to the terms and conditions set forth in the Letter of Credit, while the Interest Rate Mode for the Bonds is the Weekly Rate or Daily Rate, up to (a) an amount equal to the principal amount of the Outstanding Bonds to enable the Trustee to pay (i) the principal of the Bonds when due at maturity, redemption or acceleration and (ii) the portion of the purchase price of Bonds tendered to the Trustee and not remarketed corresponding to the principal amount of such Bonds, plus (b) an amount equal to 45 days' interest on the Outstanding Bonds at the rate of 10% per annum (calculated on the basis of a 365-day (or 366-day, as applicable) year) to enable the Trustee to pay (i) interest on the Bonds when due and (ii) the portion of the purchase price of Bonds tendered to the Trustee and not remarketed corresponding to the accrued interest on such Bonds.

Pursuant to the Indenture, the Trustee is required to draw upon the Letter of Credit in the following circumstances:

(a) to make timely payment of the principal of and interest on the Bonds;

(b) to make timely payment of the redemption or purchase price of Bonds called for mandatory or optional redemption or purchased in lieu of redemption; and

(c) to make timely payment of the purchase price of Bonds required to be purchased, as the result of an optional or mandatory purchase, pursuant to the provisions of the Indenture to the extent other funds are not available to pay such purchase price under the Indenture.

The Letter of Credit will expire upon the earliest to occur of the following: (a) December 14, 2014, or such later date to which the Letter of Credit may be extended by the Initial Credit Facility Issuer in its sole discretion (the "Stated Expiration Date"), (b) the earlier to occur of (i) the date which is fifteen (15) days following the Conversion Date of the Interest Rate Mode for the Bonds to an Interest Rate Mode other than the Weekly Rate or Daily Rate or (ii) the date on which the Initial Credit Facility Issuer honors a drawing (other than a drawing to pay accrued interest) on or after such a Conversion, (c) the date of the Initial Credit Facility Issuer's receipt from the Trustee of a certificate that the Bonds are no longer outstanding, (d) the date on which the available amount under the Letter of Credit is permanently reduced to zero in accordance with the terms of the Letter of Credit or the next Business Day following the date of the Initial Credit Facility Issuer's receipt from the Trustee of a certificate reducing the available amount under the Letter of Credit to zero, (e) the date on which a drawing to pay the Bonds upon acceleration of maturity is honored, (f) the date on which the Initial Credit Facility Issuer honors a draw for mandatory purchase upon cancellation, substitution, expiration or termination of the Letter of Credit pursuant to the terms of the Indenture and (g) the date which is five (5) Business Days after receipt by the Trustee of notice from the Initial Credit Facility Issuer that there has occurred an event of default under the Reimbursement Agreement.

Each drawing honored by the Initial Credit Facility Issuer under the Letter of Credit shall immediately reduce the principal component and the interest component (as the case may be) of the amount available under the Letter of Credit by the amount of such drawing, and the aggregate amount available under the Letter of Credit shall be correspondingly reduced. The principal component and the interest component and the aggregate amount available under the Letter of Credit, as so reduced, shall be reinstated only as follows:

(a) In the case of a reduction in the interest component resulting from a drawing to pay accrued and unpaid interest on the Bonds, other than at maturity, redemption or acceleration, such interest component shall be reinstated automatically upon payment by the Initial Credit Facility Issuer of such drawing.

(b) In the case of a reduction resulting from a drawing to pay the purchase price of any Bonds tendered to the Trustee, such amount shall be reinstated automatically when and to the extent that the Initial Credit Facility Issuer has received, or the Trustee has received on behalf of the Initial Credit Facility Issuer, an amount equal to the purchase price of such Bonds, together with interest thereon paid as part of the purchase price.

The amount available under the Letter of Credit and the respective principal and interest components thereof shall also be reduced automatically and permanently following the payment of principal of the Bonds pursuant to the Indenture, upon receipt by the Initial Credit Facility Issuer from the Trustee of a certificate in the form prescribed by the Letter of Credit, each such reduction to be in the amount necessary to reduce the amount available under the Letter of Credit and the principal and interest components thereof to the respective amounts specified by the Trustee in such certificate.

THE REIMBURSEMENT AGREEMENT

The Letter of Credit will be issued pursuant to the Reimbursement Agreement among the Initial Credit Facility Issuer, the financial institutions party thereto as "Banks" (the "Lender Banks"), JPMorgan Chase Bank, N.A., as administrative agent for the Lender Banks (the "Administrative Agent"), and the Company.

The Reimbursement Agreement will provide for (i) the issuance of the Letter of Credit, (ii) the payment of certain expenses and fees of the Initial Credit Facility Issuer, and (iii) the reimbursement of the Initial Credit Facility Issuer by the Company of amounts drawn on the Letter of Credit.

The Reimbursement Agreement contains a number of covenants which restricts the Company and its subsidiaries, including restrictions on liens, mergers and sale of assets. The Reimbursement Agreement also requires the Company not to exceed a maximum leverage ratio.

Events of default under the Reimbursement Agreement include the failure to make payments required thereunder or to comply with the covenants contained therein, change in control, as defined, or certain bankruptcy events with respect to the Company or certain subsidiaries. In addition, an event of default under the Reimbursement Agreement would include the failure of the Company or certain subsidiaries to make required payments on indebtedness in excess of $30 million or the events giving the holders of such indebtedness the right to require repayment of such indebtedness.

The occurrence and continuance of an event of default under the Reimbursement Agreement may, among other remedies, entitle the Initial Credit Facility Issuer to notify the Trustee of such event of default and effect a mandatory purchase of the Bonds, thereby causing the Letter of Credit to expire 15 days thereafter.

THE LOAN AGREEMENT

General

The Company and the Pollution Control Corporation will enter into the Loan Agreement, pursuant to which the Pollution Control Corporation will lend to the Company the proceeds from the issuance of the Bonds.

Issuance of the Bonds; Application of Proceeds

The Pollution Control Corporation is issuing the Bonds to refund $36,700,000 in aggregate principal amount of the 1997 Bonds. The proceeds of the Bonds will be loaned to the Company pursuant to the Loan Agreement. Such proceeds will be delivered to the trustee for the 1997 Bonds and, together with other moneys supplied therefor by the Company, will be applied to pay the principal of and interest on the 1997 Bonds upon their redemption.

Loan Payments and Purchase Payments

The Company will pay, or cause to be paid, to the Trustee for the account of the Pollution Control Corporation an amount equal to the aggregate principal amount of the Bonds and, as interest on its obligation to pay such amount, an amount equal to the premium, if any, and interest on the Bonds (the "Loan Payments"), such amounts to be paid in installments due on the dates, in the amounts and in the manner provided in the Indenture, for the Pollution Control Corporation to cause amounts to be deposited in the Bond Fund established under such

Indenture for the payment of the principal of and premium, if any, and interest on the Bonds whether at stated maturity, upon redemption or acceleration or otherwise; provided, however, that the obligation of the Company to make any Loan Payment shall be reduced by the amount of any reduction under the Indenture of the amount of the corresponding payment required to be made by the Pollution Control Corporation under such Indenture.

Notwithstanding the foregoing, while any Credit Facility is in effect with respect to the Bonds, the Company's obligation to make Loan Payments will be deemed to have been satisfied to the extent that moneys shall have been paid by a Credit Facility Issuer to the Trustee for such payment in respect of the Bonds, and no Event of Default (as such term is defined in the Loan Agreement) shall occur under the Loan Agreement by reason of any failure of the Company to make any such Loan Payment to the Trustee under the preceding paragraph.

To the extent that moneys on deposit in the Remarketing Proceeds Account of the Purchase Fund established under the Indenture are insufficient to pay the full purchase price of the Bonds, the Company will promptly pay to the Trustee as Purchase Payments for deposit in the Company Fund established under the Indenture amounts sufficient to cover the shortfall; provided, however, that the obligation of the Company to make any Purchase Payment under the Loan Agreement will be deemed to have been satisfied to the extent that moneys shall have been paid by a Credit Facility Issuer to the Trustee for such payment in respect of the Bonds.

The Company is also obligated to pay Administration Expenses.

Maintenance; Remodeling; Use of Facilities; Taxes

The Company will at all times exercise all of its rights, powers, elections and options under the Plant Agreements to cause the Facilities to be maintained, preserved and kept in thorough repair, working order and condition; provided that the Company may exercise all of its rights, powers, elections and options under the Plant Agreements to cause the operation of the Facilities, or any element or unit thereof to be discontinued, if in the judgment of the Company it is no longer advisable to operate the same or if the Company intends to sell or dispose of the same and within a reasonable time shall endeavor to effectuate such sale or disposition.

The Company may at its own expense consent to the remodeling of the Facilities or to the making of such substitutions, modifications and improvements as it deems desirable, all of which will be included under the terms of the Loan Agreement as part of the Facilities.

So long as the Company has an ownership interest in the Facilities, the Company will exercise all of its rights, power, elections and options under the Plant Agreements to cause the Facilities to be used for purposes contemplated by the Act and in the Tax Agreement.

The Company will pay or cause to be paid all lawful taxes and assessments and governmental charges levied or assessed upon the Facilities or any part thereof or upon the Pollution Control Corporation with respect to the Loan Payments or the Purchase Payments.

Insurance; Condemnation

The Company will exercise all of its rights, powers, elections and options under the Plant Agreements to keep the Facilities insured against fire and other risks to the extent usually insured against by companies owning and operating similar property, in the manner and to the extent specified in the Loan Agreement, and all proceeds of such insurance will be for the account of the Company.

The Company will be entitled to the entire proceeds of any condemnation award or portion thereof made for damage to or taking of the Facilities or other property of the Company.

Assignment, Lease or Sale

The Company's interest in the Loan Agreement may be assigned as a whole or in part, and its interest in the Facilities may be leased, sold, transferred or otherwise disposed of by the Company as a whole or in part, to any

Person, provided, however, that no such assignment, lease, sale, transfer or other disposition (a) will relieve the Company from its primary liability for its obligations to make the Loan Payments and the Purchase Payments or (b) will be made unless the assignee, lessee, purchaser or other transferee, as the case may be, prior to or simultaneously with such assignment, lease, sale, transfer or other disposition, assumes, by delivery of an instrument in writing satisfactory in form to the Trustee and the Pollution Control Corporation, all other obligations of the Company under the Loan Agreement to the extent of the interest assigned, leased, sold, transferred or otherwise disposed of, and the Company shall be released of and discharged from such obligations to the extent so assumed. Notwithstanding the foregoing, (a) if (i) the Company's interest in the Loan Agreement is assigned as a whole or in undivided part, (ii) the Company's interest in the Facilities is leased as a whole or in undivided part and the term of such leasehold or the term of any extension or extensions thereof at the option of the Company extends beyond the maturity date of the Bonds or (iii) the Company's interest in the Facilities is sold, transferred or otherwise disposed of as a whole or in undivided part, and (b) if the assignee, lessee, purchaser or other transferee assumes the obligations of the Company to make the Loan Payments and the Purchase Payments for the remaining term of the Loan Agreement, to the extent of such assignment, lease, sale, transfer or other disposition, the Company shall be released from and discharged of all liability in respect of the Loan Payments and Purchase Payments to the extent so assumed (but only to such extent); provided, however, that the release and discharge of the Company pursuant to the provisions of the Loan Agreement described in clause (b) shall be conditioned upon delivery by the Company to the Pollution Control Corporation and the Trustee of a certificate of an Independent Expert (as is defined in the Loan Agreement) (x) describing the interests so assigned, leased, sold, transferred or otherwise disposed of, together with all other rights, interests, assets and/or properties assigned, leased, sold, transferred or otherwise disposed of by the Company to the same Person in the same or a related transaction, (y) stating that such rights, interests, assets and/or properties so described constitute facilities for the generation, transmission and/or distribution of electric energy and (z) stating that, in the opinion of such Independent Expert, the Fair Value (as defined in the Loan Agreement) of such rights, interests, assets and/or properties to the Person acquiring the same is not less than an amount equal to 10/7 of the sum of (x) the aggregate principal amount of the Bonds then outstanding and (y) the outstanding principal amount of all other obligations of the Company representing indebtedness for borrowed money or for the deferred purchase price of property which are being assumed by such Person; and provided, further, that after any such assumption, release and discharge as aforesaid, the Company may again assume the obligation to make the Loan Payments and Purchase Payments as a whole or in part, at any time and from time to time, and, to the extent of any such assumption by the Company (but only to such extent), the aforesaid assignee, lessee, purchaser or other transferee will be released from and discharged of all liability in respect of the Loan Payments and Purchase Payments.

The provisions described above will not apply to any sale, transfer or other disposition by the Company of all of its assets, as or substantially as an entirety, as contemplated below under "Merger".

Notwithstanding the foregoing, the Company will not make any assignment, lease or sale unless it shall have furnished to the Pollution Control Corporation and the Trustee an opinion of Bond Counsel (as such term is defined in the Indenture) to the effect that the proposed assignment, lease or sale will not impair the validity under the Act of the Bonds and will not, in and of itself, adversely affect the exclusion of interest on the Bonds from gross income for federal tax purposes.

Merger

The Company may consolidate with or merge into another entity organized and existing under the laws of the United States of America, any state thereof or the District of Columbia, or sell, transfer or otherwise dispose of all of its assets, as or substantially as an entirety, to any Person, if the surviving or resulting Person (if other than the Company) or the transferee Person , as the case may be, assumes, by delivery to the Trustee and the Pollution Control Corporation of an instrument in writing satisfactory in form to the Trustee and the Pollution Control Corporation, all the obligations of the Company under the Loan Agreement, including the obligation to make the Loan Payments and the Purchase Payments. Upon such an assumption following any such consolidation or merger or sale, transfer or other disposition of assets, the Company will be released and discharged from all liability in respect of all obligations under the Loan Agreement. Notwithstanding the foregoing, in the case of any such sale, transfer or other disposition of assets, which does not include the Facilities, the Company will remain liable in respect of all obligations under the Loan Agreement other than the obligations to make Loan Payments and Purchase Payments, and the transferee will not be required to assume any obligations under the Loan Agreement other than the obligations to make Loan Payments and Purchase Payments; provided, however, that the transferee will be

required to assume all such other obligations unless the Company shall have delivered to the Pollution Control Corporation and the Trustee an opinion of Bond Counsel to the effect that the non-assumption by the transferee of such other obligations will not impair the validity under the Act of the Bonds and will not, in and of itself, adversely affect the exclusion from gross income for federal tax purposes of interest on the Bonds.

For purposes of the Loan Agreement, the sale, transfer or other disposition by the Company of all of its facilities (a) for the generation of electric energy, (b) for the transmission of electric energy or (c) for the distribution of electric energy, in each case considered alone, or all of its facilities described in clauses (a) and (b), considered together, or all of its facilities described in clauses (b) and (c), considered together, will in no event be deemed to constitute a sale, transfer or other disposition of all the properties of the Company, as or substantially as an entirety, unless, immediately following such sale, transfer or other disposition, the Company shall own no properties in the other such categories of property not so sold, transferred or otherwise disposed of.

Defaults

Each of the following events will constitute an "Event of Default" under the Loan Agreement:

(a) a failure by the Company to make a Loan Payment or Purchase Payment, which failure shall have resulted in an "Event of Default" described in clause (a), (b) or (c) under THE INDENTURE—"Defaults"; or

(b) a failure by the Company to pay when due any amount required to be paid under the Loan Agreement or to observe and perform any other covenant, condition or agreement under the Loan Agreement (other than a failure described in clause (a) above), which failure continues for a period of sixty (60) days after written notice given by the Pollution Control Corporation or the Trustee, unless such period is extended by the Pollution Control Corporation and the Trustee; provided, however, that the Pollution Control Corporation and the Trustee will be deemed to have agreed to an extension of such period if corrective action is initiated by the Company within such period and is being diligently pursued; or

(c) the dissolution or liquidation of the Company, or failure by the Company promptly to lift any execution, garnishment or attachment of such consequence as will impair its ability to make any payments under the Loan Agreement, or the entry of an order for relief by a court of competent jurisdiction in any proceeding for its liquidation or reorganization under the provisions of any bankruptcy act or under any similar act which may be hereafter enacted, or an assignment by the Company for the benefit of its creditors, or the entry by the Company into an agreement of composition with its creditors (the term "dissolution or liquidation of the Company", as used in this clause, shall not be construed to include the cessation of the corporate existence of the Company resulting either from a merger or a consolidation of the Company into or with another entity or a dissolution or liquidation of the Company following a transfer of all its assets, as or substantially as an entirety, under the conditions permitting such actions described above under "Merger").

The Loan Agreement provides that if by reason of acts of God, strikes or other industrial disturbances, orders of political bodies, certain natural disasters, civil disturbances and certain other events, or any other cause or event not reasonably within the control of the Company, the Company is unable in whole or in part to carry out one or more of its agreements or obligations contained in the Loan Agreement (other than its obligations to pay the Loan Payments and the Purchase Payments, to pay certain expenses and taxes, to discharge liens and to maintain its corporate existence) the Company shall not be deemed in default by reason of not carrying out such agreement or performing such obligation during the continuance of such inability.

Remedies

Upon the occurrence and continuance of any Event of Default described in clause (a) above under "Defaults", and further upon the condition that, in accordance with the terms of the Indenture, the Bonds shall have been declared to be immediately due and payable pursuant to any provision of the Indenture, the Loan Payments shall, without further action, become and be immediately due and payable. Any waiver of any "Event of Default"

under the Indenture and a rescission and annulment of its consequences will constitute a waiver of the corresponding Event or Events of Default under the Loan Agreement and a rescission and annulment of the consequences thereof. See THE INDENTURE—"Defaults".

Upon the occurrence and continuance of any Event of Default under the Loan Agreement, the Trustee with respect to the rights of the Pollution Control Corporation assigned to the Trustee, may take any action at law or in equity to collect any payments then due and thereafter to become due, or to enforce performance and observance of any obligation, agreement or covenant of the Company under the Loan Agreement.

Any amounts collected by the Trustee upon an Event of Default under the Loan Agreement will be applied in accordance with the Indenture.

Amendments

The Loan Agreement may be amended subject to the limitations contained in the Indenture. See THE INDENTURE—"Amendment of the Loan Agreement".

THE INDENTURE

The following is a summary of certain provisions of the Indenture. Additional information summarizing certain other provisions of the Indenture is contained under "THE BONDS."

Pledge and Security

Pursuant to the Indenture, (a) all of the right, title and interest of the Pollution Control Corporation in and to the Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement (as defined below), insofar as they relate to the Bonds issued and Outstanding under the Indenture (except for certain rights of the Pollution Control Corporation) including, without limitation, all loan payments to be received under and pursuant to and subject to the Loan Agreement, and (b) all amounts on deposit in the Bond Fund or other funds created under the Indenture other than the Purchase Fund and the Rebate Fund, which are not pledged thereunder and do not constitute security for the Bonds, will be pledged by the Pollution Control Corporation to the Trustee to secure the payment of the principal of, premium, if any, and interest on the Bonds; provided that the Trustee will have a prior claim on the Bond Fund for the payment of its compensation and expenses and for the repayment of any advances (plus interest thereon) made by it to effect performance of certain covenants in the Indenture.

"Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement" means all moneys paid or payable to the Trustee for the account of the Pollution Control Corporation by the Company in respect of the Loan Payments and payments pursuant to the redemption provisions of the Loan Agreement, including all moneys drawn by the Trustee under the Letter of Credit, and all receipts of the Trustee which, under the provisions of the Indenture, reduce the amount of such payments. The term "Receipts and Revenues of the Pollution Control Corporation from the Loan Agreement" does not include any moneys or investments in the Rebate Fund or the Purchase Fund.

Application of Proceeds

The proceeds from the sale of the Bonds will be applied as described under USE OF PROCEEDS and THE LOAN AGREEMENT—"Issuance of Bonds; Application of Proceeds."

Application of the Bond Fund

Loan Payments and certain other amounts specified in the Indenture are to be deposited in the Company Account of the Bond Fund. While any Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal of and premium, if any, and interest on the Bonds, subject to the prior claim of the Trustee referred to above in "Pledge and Security". All moneys drawn by the Trustee under the Credit Facility to pay principal or redemption price of the Bonds and interest on the Bonds as specified in the Indenture will be deposited

into the Credit Facility Account of the Bond Fund. While the Bonds are Outstanding, moneys in the Bond Fund will be used solely for the payment of the principal or redemption price of and interest on the Bonds as they mature or become due or to reimburse the Credit Facility Issuer for such payments. Any amounts remaining in the Bond Fund after payment in full of the principal of and premium, if any, and interest on the Bonds (or provision for the payment thereof) will be paid first to the Credit Facility Issuer, to the extent of any amounts owed by the Company to the Credit Facility Issuer, and second to the Company.

Investment

The moneys in the Bond Fund will, at the direction of the Company, be invested in securities or obligations specified in the Indenture.

In furtherance of the covenants of the Pollution Control Corporation and the Company set forth in the Loan Agreement and a related Tax Agreement respecting arbitrage, the Indenture requires the Trustee to comply with any and all instructions of the Company to pay all or a portion of the income from the investment or reinvestment of moneys in the Bond Fund to, or upon the order of, the Department of the Treasury of the United States of America.

Remarketing of Bonds

The Indenture provides that, with certain exceptions, the Remarketing Agent will, subject to the terms of the Remarketing Agreement with the Company, use its best efforts to offer for sale Bonds purchased upon demand of the owners thereof and upon mandatory purchase. Each such sale will be at a price equal to the principal amount of such Bonds, plus interest accrued, if any, to the Purchase Date. The Remarketing Agent, the Trustee or the Credit Facility Issuer may buy any Bonds offered for sale for its own account.

Alternate Credit Facilities

The Company may at any time deliver an Alternate Credit Facility to the Trustee in compliance with the conditions set forth in the Indenture. The Alternate Credit Facility will be a direct-pay letter of credit or any bond insurance policy, guaranty, surety bond, line of credit, revolving credit agreement, standby bond purchase agreement or other agreement or security device in favor of the Trustee for the benefit of the Bondholders. The Alternative Credit Facility will provide for (i) payment of the principal, interest and redemption premium on the Bonds or a portion thereof, (ii) payment of the purchase price of the Bonds or (iii) both (i) and (ii), in accordance with the terms thereof.

If the Company has elected to deliver an Alternate Credit Facility to the Trustee it may thereafter, at its option and in compliance with conditions set forth in the Indenture, provide for the delivery to the Trustee of a subsequent Alternate Credit Facility having administrative terms acceptable to the Trustee.

Delivery of an Alternate Credit Facility will not subject the Bonds to mandatory purchase if, prior to such delivery, the Company shall have furnished to the Trustee a certificate or letter from Moody's, if the Bonds are then rated by Moody's, and from S&P, if the Bonds are then rated by S&P, to the effect that the cancellation, expiration or termination of the existing Credit Facility and the substitution of an Alternate Credit Facility in lieu thereof, will not, by itself, result in a reduction or withdrawal of its ratings then in effect on the Bonds. The Company shall provide written notice to Bondholders at least fifteen (15) days prior to the effective date of any cancellation, expiration or termination of the existing Credit Facility and the substitution of an Alternate Credit Facility in lieu thereof, if such cancellation, expiration, termination and substitution will not subject the Bonds to mandatory purchase.

Defaults

Each of the following events will constitute an "Event of Default" under the Indenture:

(a) a failure to pay the principal of or premium, if any, on any of the Bonds when the same shall have become due and payable at maturity, upon redemption or otherwise;

(b) a failure to pay an installment of interest on any of the Bonds after such interest shall have become due and payable for a period of five (5) days;

(c) a failure to pay the purchase price of any Bond required to be purchased upon demand of owner for a period of five (5) days after such payment becomes due and payable; and

(d) a failure by the Pollution Control Corporation to observe and perform any other covenant, condition or agreement (other than as described in clauses (a), (b) or (c) above) contained in the Bonds or the Indenture, which failure shall continue for a period of sixty (60) days after written notice given to the Pollution Control Corporation and the Company by the Trustee, which notice may be given in the discretion of the Trustee and shall be given at the written request of the owners of not less than a majority of the principal amount of Bonds then outstanding, unless such period is extended by the Trustee, or by the Trustee and the owners of a principal amount of Bonds not less than the principal amount of Bonds the owners of which requested that such notice be given, as the case may be; provided, however, that the Trustee, or the Trustee and the owners of such principal amount of Bonds, as the case may be, will be deemed to have agreed to an extension of such period if corrective action is initiated by the Pollution Control Corporation, or the Company on behalf of the Pollution Control Corporation, within such period and is being diligently pursued.

Remedies

Upon the occurrence and continuance of any Event of Default described in clause (a), (b) or (c) of the preceding paragraph, the Trustee may, and at the written request of the owners of not less than a majority of the principal amount of Bonds then outstanding shall, by written notice to the Pollution Control Corporation, the Credit Facility Issuer, if any, and the Company, declare the Bonds to be immediately due and payable, whereupon the Bonds will, without further action, become and be immediately due and payable, anything in the Indenture or in the Bonds to the contrary notwithstanding, and the Trustee shall give notice thereof by Mail or Electronic Means to all owners of outstanding Bonds.

The provisions of the Indenture described in the preceding paragraph, however, are subject to the condition that if, after the principal of the Bonds shall have been so declared to be due and payable, and before any judgment or decree for the payment of the moneys due shall have been obtained or entered as hereinafter provided, the Pollution Control Corporation shall cause to be deposited with the Trustee a sum sufficient to pay all matured installments of interest upon all Bonds and the principal of any and all Bonds which shall have become due otherwise than by reason of such declaration (with interest upon such principal and, to the extent permissible by law, on overdue installments of interest, at the rate per annum borne by the Bonds) and such amounts as shall be sufficient to cover reasonable compensation and reimbursement of expenses payable to the Trustee, and all Events of Default under the Indenture other than nonpayment of the principal of Bonds which shall have become due by said declaration shall have been remedied, then, in every such case, such Event of Default shall be deemed waived and such declaration and its consequences rescinded and annulled, and the Trustee shall promptly give written notice of such waiver, rescission and annulment to the Pollution Control Corporation and the Company, and, if notice of the acceleration of the Bonds shall have been given to the owners of the Bonds, shall give notice thereof by Mail or Electronic Means to all owners of outstanding Bonds, but no such waiver, rescission and annulment shall extend to or affect any subsequent Event of Default or impair any right or remedy consequent thereon. The Trustee shall not annul any declaration resulting from any Event of Default which has resulted in a drawing under the Credit Facility unless the Trustee has received written confirmation from the Credit Facility Issuer that the notice that resulted in such Event of Default has been rescinded and the Credit Facility has been fully reinstated.

No Event of Default described in clause (a), (b) or (c) above shall be deemed to have occurred solely by reason of such failure to make such payment if and to the extent that payments have nonetheless been made by a Credit Facility Issuer to the Trustee pursuant to the Credit Facility for deposit in the Bond Fund at such time and in such manner as to prevent an Event of Default described under such clause (a), (b) or (c) above.

Upon the occurrence and continuance of any Event of Default under the Indenture, the Trustee may pursue any available remedy to enforce the rights of the owners of the Bonds and require the Pollution Control Corporation or the Company to carry out its agreements, bring suit upon the Bonds, or enjoin any acts or things which may be

unlawful or in violation of the rights of the owners of the Bonds. The Trustee is not required to take any action in respect of an Event of Default, except to enforce the trusts created by the Indenture, except upon the written request of the owners of not less than a majority in principal amount of the Bonds then outstanding and receipt of indemnity satisfactory to it. The owners of a majority in principal amount of Bonds then outstanding will have the right to direct the time, method and place of conducting all remedial proceedings under the Indenture or exercising any trust or power conferred on the Trustee; provided, however, that such direction shall not be otherwise than in accordance with law and the provisions of the Indenture and that the Trustee shall have the right (but not the obligation) to decline to follow any such direction if the Trustee, being advised by counsel, shall determine that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceedings so directed would involve the Trustee in personal liability or if the Trustee in good faith shall so determine that the actions or forbearances specified in or pursuant to such direction would be unduly prejudicial to the interests of owners not joining in the giving of said direction, it being understood that the Trustee shall have no duty to ascertain whether or not such actions or forbearances are unduly prejudicial to such Owners.

No owner of any Bond will have any right to institute suit for the execution of any trust or power of the Trustee under the Indenture unless such owner has previously given the Trustee written notice of an Event of Default and also unless the holders of not less than a majority in principal amount of the Bonds then outstanding have made written request of the Trustee so to do, and unless satisfactory indemnity has been offered to the Trustee and the Trustee has not complied with such request within a reasonable time.

Notwithstanding any other provision in the Indenture, the right of the owner of any Bond to receive payment of the principal of and premium, if any, and interest on such Bond, on or after the respective due dates expressed therein, or to institute suit for the enforcement of any such payment on or after such respective dates, will not be impaired or affected without the consent of such owner.

Defeasance

The Indenture provides that when the principal or redemption price of (as the case may be), and interest on, all Bonds have been paid, or provision has been made for their payment, together with the compensation of the Trustee and all other sums payable by the Pollution Control Corporation, and all obligations owed to the Credit Facility Issuer have been paid and the Credit Facility has been returned to the Credit Facility Issuer for cancellation, the right, title and interest of the Trustee in the Loan Agreement and the moneys payable thereunder will cease and the Trustee, on demand of the Pollution Control Corporation, will release the lien of the Indenture and will turn over to the Company all balances then held by it under the Indenture; provided, however, that notwithstanding any other provision in the Indenture, any money in the Credit Facility Account will be paid solely to the Credit Facility Issuer and not to the Company. If payment or provision for payment is made for less than all of the Bonds, the particular Bonds (or portions thereof) to be deemed paid will be selected by lot by the Trustee, and the Trustee will release the Indenture with respect to such Bonds.

Any Bond will be deemed to be paid within the meaning of the Indenture when the Trustee holds in the Bond Fund, in trust, and irrevocably sets aside exclusively for such payment (a) moneys sufficient to make such payment and any payment of the purchase price of Bonds in accordance with the Indenture and/or (b) non-callable Governmental Obligations maturing as to principal and interest in such amounts and at such times as will provide sufficient moneys (without consideration of any reinvestment of such moneys) to make such payment and any payment of the purchase price of Bonds in accordance with the Indenture; provided, however, that if a Credit Facility is held by the Trustee, certain conditions shall apply as described in the Indenture.

No Bonds in respect of which a deposit under clause (a) or (b) above has been made will be deemed paid within the meaning of the Indenture unless (A) the Bonds mature on the last day of the current Rate Period and no Bonds are required to be purchased upon demand of the owners or subject to mandatory purchase pursuant to the Indenture between the date of such deposit and the maturity date of the Bonds, or (B) the Bonds may be redeemed on or before the last day of the then current Rate Period and provision has been irrevocably made for such redemption on or before such date and no Bonds are required to be purchased upon demand of the owners or subject to mandatory purchase pursuant to the Indenture between the date of such deposit and the redemption date of the Bonds, and (C) in the case of a deposit of Governmental Obligations or a deposit consisting of a combination of cash and Governmental Obligations, (i) the Trustee has received a certificate from a firm of independent certified public

accountants to the effect that the amounts deposited are sufficient, without the need to reinvest any principal or interest, to make all payments that might become due on the Bonds and (ii) the Trustee will thereafter have received a written confirmation from the Rating Agency that such action would not result in (x) a permanent withdrawal of its rating on the Bonds or (y) a reduction in the then current rating on the Bonds; provided that notwithstanding any other provision of the Indenture, any Bonds purchased pursuant to the optional or mandatory purchase provisions of the Indenture after such a deposit must be surrendered to the Trustee for cancellation and will not be remarketed.

Removal of Trustee

The Trustee may be removed, and a successor Trustee appointed, by the owners of not less than a majority in principal amount of Bonds at the time outstanding or by the Pollution Control Corporation at the direction of the Company. No resignation or removal of the Trustee and no appointment of a successor Trustee will become effective until the acceptance of appointment by the successor Trustee.

Modifications and Amendments

The Indenture may be modified or amended by a Supplemental Indenture without the consent of or notice to the owners of the Bonds for any of the following purposes: (a) to cure any formal defect, omission, inconsistency or ambiguity in the Indenture; (b) to grant to or confer or impose upon the Trustee for the benefit of the owners of the Bonds or any Credit Facility Issuer any additional rights, remedies, powers, authority, security, liabilities or duties which may lawfully be granted, conferred or imposed; (c) to add other covenants, agreements, limitations and restrictions to be observed by the Pollution Control Corporation; (d) to further confirm the lien or pledge created by the Indenture; (e) to authorize a different denomination or denominations of the Bonds and to make correlative amendments; (f) to permit the qualification of the Indenture under the Trust Indenture Act of 1939, as amended; (g) to provide for or eliminate the registration and registration of transfer of the Bonds through a book-entry or similar method, whether or not the Bonds are to be evidenced by certificates; (h) to make any amendments appropriate or necessary to provide for any Alternate Credit Facility; (i) to make any changes required by a Rating Agency in order to obtain or maintain a rating for the Bonds; (j) to make any changes in connection with a Conversion; (k) in connection with any mandatory purchase of all of the Bonds or purchase of all the Bonds in lieu of redemption, to modify the Indenture in any respect (even if such modification is adverse to the interests of the Bondholders) provided that such amendment shall not be effective until after such mandatory purchase or purchase in lieu of redemption and the payment of the purchase price in connection therewith and provided that arrangements are made to cause notice of such changes to be given to all Owners who purchase such Bonds on or after such mandatory purchase or purchase in lieu of redemption; (l) to modify, alter, amend or supplement the Indenture in any other respect which is not materially adverse to the owners of the Bonds and which does not involve a change described in clause (a), (b), (c) or (d) in the next succeeding paragraph; or (m) to provide any additional procedures, covenants or agreements necessary or desirable to maintain the tax-exempt status of interest on the Bonds.

Except for Supplemental Indentures entered into for the purposes described in the preceding paragraph, the Indenture will not be modified or amended, subject to the immediately succeeding paragraph, without the consent of the owners of at least a majority of the principal amount of Bonds Outstanding which would be adversely affected thereby; provided that, unless approved in writing by the owners of all Bonds then Outstanding and adversely affected thereby, there will not be permitted (a) a change in the times, amounts or currency of payment of the principal of, premium, if any, or interest on or purchase price of any Bond, a reduction of the principal amount or redemption price of any Bond, or a change in the rate of interest thereon, or the purchase provisions of any Bonds, or any impairment of the right of any owner to institute suit for the payment of any Bond owned by such owner, (b) the creation of a claim or lien on or a pledge of the receipts and revenues of the Pollution Control Corporation under the Loan Agreement ranking prior to or on a parity with the lien or pledge created by the Indenture, (c) a preference or priority of any Bond over any other Bond or (d) a reduction in the aggregate principal amount of Bonds the consent of the owners of which is required to approve any such Supplemental Indenture or which is required to approve any modification or amendment to the Loan Agreement.

Anything in the Indenture to the contrary notwithstanding, any Supplemental Indenture which affects any rights, powers, agreement or obligations of the Company under the Loan Agreement shall not become effective unless and until the Company shall have consented to such Supplemental Indenture.

Amendment of the Loan Agreement

Without the consent of or notice to the owners of the Bonds, the Pollution Control Corporation may enter into an amendment of the Loan Agreement, and the Trustee may consent thereto, as may be required (a) by the provisions of the Loan Agreement and the Indenture, (b) for the purpose of curing any formal defect, omission, inconsistency or ambiguity in the Loan Agreement, (c) to provide any additional procedures, covenants or agreements necessary or desirable to maintain the tax-exempt status of interest on the Bonds or (d) in connection with any other change therein which is not materially adverse to the owners of the Bonds; provided, however, that notwithstanding the foregoing, in connection with any mandatory purchase of all of the Bonds or any purchase in lieu of redemption of all of the Bonds no consent of Bondholders shall be required for any amendment to the Loan Agreement in any respect (even if such amendment is adverse to the interests of the Bondholders) provided that such amendment shall not be effective until after such mandatory purchase or purchase in lieu of redemption and the payment of the purchase price in connection therewith and further provided that notwithstanding the foregoing, the Pollution Control Corporation and the Company may amend the Loan Agreement to make any changes without the consent of the Bondholders which may be required by a Rating Agency in order to obtain or maintain a rating for the Bonds.

The Pollution Control Corporation shall not enter into and the Trustee will not consent to any other amendment of the Loan Agreement without the written approval or consent of the owners of not less than a majority in aggregate principal amount of the Bonds at the time Outstanding which would be adversely affected thereby; provided that, unless approved in writing by the owners of all Bonds then Outstanding and adversely affected thereby, there will not be permitted a change in the Company's obligations to make, or cause to be made, Loan Payments.

RELATIONSHIP WITH THE TRUSTEE

U.S. Bank Trust National Association is the trustee under various indentures and ordinances relating to pollution control and industrial development revenue bonds issued by various governmental bodies, the net proceeds of which have been made available to the Company.

OTHER MATTERS

Under the provisions of Section 38-511, Arizona Revised Statutes, as amended, the Pollution Control Corporation may, within three years after its execution, cancel any contract, without penalty or further obligation, if any person significantly involved in initiating, negotiating, securing, drafting or creating the contract on behalf of the Pollution Control Corporation is, at any time while the contract or any extension thereof is in effect, an employee or agent of any other party to the contract in any capacity or a consultant to any other party of the contract with respect to the subject matter thereof. The Company and the Trustee have covenanted not to employ as an employee, agent or, with respect to the subject matter of the Loan Agreement and the Indenture, respectively, a consultant, any person significantly involved in initiating, negotiating, securing, drafting or creating such documents on behalf of the Pollution Control Corporation within three years from the execution thereof, unless a waiver is provided by the Pollution Control Corporation. The cancellation of any financing agreement which is material to the payment of the Bonds, including the Loan Agreement and the Indenture, could adversely affect the holders of the Bonds.

CONTINUING DISCLOSURE AGREEMENT

The Pollution Control Corporation is not an obligated person, and no financial or operating data concerning the Pollution Control Corporation is material to any decision to purchase, hold or sell the Bonds, and the Pollution Control Corporation will not provide any such information. The Company has undertaken all responsibilities for any continuing disclosure to the owners or Beneficial Owners of the Bonds as described below. The Pollution Control Corporation will have no liability to any owner or Beneficial Owner or any other person with respect to such disclosures.

The Company agrees to deliver certain continuing disclosure information satisfying the requirements of Rule 15c2-12 (the "Rule") under the Securities Exchange Act of 1934, as amended, as set forth in Appendix A hereto concerning the Company. Any record or Beneficial Owner of an outstanding Bond, directly or through the Trustee, may specifically enforce the Company's disclosure obligations but any breach by the Company of this undertaking pursuant to the Rule will not constitute an Event of Default under the Loan Agreement or the Indenture. In the past five years, the Company has not failed to comply in all material respects with any undertaking under the Rule.

The form of Continuing Disclosure Agreement between the Company and the Trustee is included as Appendix D.

UNDERWRITING

Wells Fargo Bank, National Association (the "Underwriter"), has agreed to purchase the Bonds from the Pollution Control Corporation under a Bond Purchase Agreement, at a purchase price of $36,700,000, which is equal to 100% of the principal amount of the Bonds. The Company will separately pay to the Underwriter an aggregate underwriting commission of $91,750.

The Underwriter does not have the right under the Bond Purchase Agreement to purchase less than all of the Bonds. The offering price may be changed from that set forth on the cover page hereof from time to time by the Underwriter. The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into investment trusts) and others at prices lower than the public offering price stated on the cover page hereof. The Company has agreed to indemnify the Pollution Control Corporation and the Underwriter against certain liabilities, including certain liabilities under the federal securities laws.

CERTAIN RELATIONSHIPS

Wells Fargo Securities is the trade name for certain capital markets and investment banking services of Wells Fargo & Company and its subsidiaries, including Wells Fargo Bank, National Association. In the ordinary course of its business, Wells Fargo & Company and certain of its affiliates have engaged, and may in the future engage, in investment banking or commercial banking transactions with the Company and certain of its affiliates. Wells Fargo Bank, National Association, a subsidiary of Wells Fargo & Company, is the Underwriter and the Remarketing Agent for the Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP ("Bond Counsel"), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the 1986 Code, Section 103 of the 1954 Code and Title XIII of the Tax Reform Act of 1986 (the "1986 Act"), except that no opinion is expressed as to the status of interest on any Bond for any period that such Bond is held by a "substantial user" of the facilities treated for federal income tax purposes as financed or refinanced by the Bonds or by a "related person" within the meaning of Section 103(b)(13) of the 1954 Code or Section 147(a) of the 1986 Code. Bond Counsel observes, however, that interest on the Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. Bond Counsel is also of the opinion that the Bonds and the income therefrom are exempt from all taxation in the State of Arizona. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) ("Premium Bonds") will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of bonds, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner's basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial

Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The 1986 Code, Title XIII of the 1986 Act and the 1954 Code impose various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Pollution Control Corporation and the Company have made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes and that the Bonds and the income therefrom are exempt from all taxation in the State of Arizona, the ownership or disposition of, or the accrual or receipt of interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Future legislative proposals, if enacted into law, clarification of the 1986 Code, the 1954 Code, the 1986 Act or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation or to be subject to or exempted from state income taxation, or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such future legislative proposals, clarification of the 1986 Code, the 1954 Code, the 1986 Act or court decisions may also affect the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Pollution Control Corporation or the Company, or about the effect of future changes in the 1986 Code, the 1954 Code, the 1986 Act, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Pollution Control Corporation and the Company have covenanted and agreed for the benefit of Beneficial Owners of the Bonds, however, not directly or indirectly to use or permit the use of (to the extent within its control) of proceeds of the Bonds or other funds, or take or omit to take any action, if and to the extent such use, or the taking or omission to take such action, would subject interest on the Bonds to federal income tax by reason of failing to qualify under Section 103 of the 1986 Code, Section 103 of the 1954 Code and Title XIII of the 1986 Act, as applicable, and any applicable regulations promulgated thereunder.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the Pollution Control Corporation, the Company or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Pollution Control Corporation, the Company and their appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Pollution Control Corporation or the Company legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Pollution Control Corporation, the Company or the Beneficial Owners to incur significant expense.

OTHER LEGAL OPINIONS

The validity of the Bonds and certain other legal matters are subject to the approving opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel. A complete copy of the proposed form of opinion of Bond Counsel for the Bonds is contained in Appendix C hereto. Bond Counsel undertakes no responsibility for the accuracy, completeness or fairness of this Official Statement. Certain legal matters will be passed upon for the Company by Raymond S. Heyman, Esq., Senior Vice President and General Counsel of the Company, Tucson, Arizona, and Morgan, Lewis & Bockius LLP, of New York, New York. Certain legal matters will be passed upon for the Underwriter by Kutak Rock LLP, of Omaha, Nebraska. In giving their respective opinions, Morgan, Lewis & Bockius LLP and Kutak Rock LLP may rely, as to all matters of Arizona law, upon the opinion of Mr. Heyman.

Except for the information under THE POLLUTION CONTROL CORPORATION, the Pollution Control Corporation neither has nor assumes any responsibility for the accuracy or completeness of any information contained herein.

TUCSON ELECTRIC POWER COMPANY

Tucson Electric Power Company, an Arizona corporation (the "Company), is a vertically-integrated, regulated public utility that generates, purchases, transports and distributes electricity to residential, commercial and industrial customers. The Company is UniSource Energy Corporation's ("UniSource Energy") largest operating subsidiary. The Company represented approximately 81% of UniSource Energy's assets as of December 31, 2009. The Company generates, transmits and distributes electricity to approximately 402,000 retail electric customers as of December 31, 2009 (400,000 retail customers as of December 31, 2008) in a 1,155 square mile area in Southern Arizona. The Company also sells electricity to other utilities and power marketing entities primarily located in the Western U.S.

The Company's principal executive offices are located at One South Church Avenue, Tucson, Arizona 85701 and its telephone number is 520-571-4000.

The information above is only a summary and does not purport to be comprehensive. For additional information concerning the Company, including certain assumptions, risks and uncertainties involved in the forward-looking statements contained or incorporated by reference in this Official Statement, you should refer to the information described in "Available Information" and "Incorporation of Certain Documents by Reference."

AVAILABLE INFORMATION

The Company files reports and other information with the Securities and Exchange Commission (the "SEC") under the Securities Exchange Act of 1934 (the "Exchange Act"). Such reports and other information can be inspected and copied at the offices of the SEC at the public reference facilities maintained by the SEC at Room 1580, 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. The Company's SEC filings also are available to the public on the SEC's website at http://www.sec.gov, which contains reports, proxies and information statements and other information regarding issuers that file electronically. In addition, the Company's SEC filings are available on its website at http://www.unisourceenergy.com. ***Information other than the Company's SEC filings contained on the Company's website does not constitute a part of this Official Statement and is not being incorporated by reference herein.***

The Company will provide, at least annually, to the repository specified in Rule 15c2-12 under the Exchange Act, annual financial information in the form required by the SEC for companies required to file reports under Section 13 or 15(d) of the Exchange Act, as well as, in a timely manner, other notices required by Rule 15c2-12 under the Exchange Act.

INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE

The documents listed below, in addition to all documents and reports subsequently filed by the Company pursuant to Section 13(a), 13(c), 14 or 15(d) of the Exchange Act prior to the termination of the offering of the Bonds, shall be deemed to be incorporated by reference in this Appendix A to this Official Statement and to be a part hereof from the date of filing such documents and reports; provided, however, the Company is not incorporating any information furnished under Items 2.02 or 7.01 of any current report on Form 8-K unless specifically stated otherwise.

- The Company's Annual Report on Form 10-K for the year ended December 31, 2009, as amended by the Form 10-K/A filed with the SEC on March 18, 2010.

- The Company's Quarterly Reports on Form 10-Q for the quarters ended March 31, 2010, June 30, 2010 and September 30, 2010.

- The Company's Current Reports on Form 8-K, filed with the SEC on January 15, 2010, March 5, 2010, May 4, 2010, October 8, 2010 and November 15, 2010.

The Company hereby undertakes to provide without charge to each person to whom a copy of this Official Statement has been delivered, on the written or oral request of any such person, a copy of any and all of the documents and reports referred to above which have been or may have been incorporated by reference in this Appendix A to this Official Statement other than exhibits to such documents. Requests for such copies should be directed to Kevin P. Larson, Senior Vice President and Chief Financial Officer, by mail at One South Church Avenue, Tucson, Arizona 85701, or by telephone at 520-571-4000.

RISK FACTORS

Investing in the Bonds involves certain risks. You are urged to read and consider the risk factors relating to an investment in the Bonds described in the Company's annual, quarterly and current reports filed with the SEC under the Exchange Act, which are incorporated by reference into the Official Statement to which this Appendix A is attached. Before making an investment decision, you should carefully consider these risks as well as other information the Company includes or incorporates by reference in that Official Statement. The risks and uncertainties the Company has described may not be the only ones facing the Company.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The consolidated financial statements of the Company as of December 31, 2009 and 2008 and for each of the three years in the period ended December 31, 2009, incorporated by reference in this Official Statement, have been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is incorporated herein.

The information contained and incorporated by reference in this Appendix A to the Official Statement has been obtained from the Company and is reasonably believed to be reliable. The Pollution Control Corporation and the Underwriter make no representation as to the accuracy or completeness of such information.

JPMORGAN CHASE BANK, N.A.

JPMorgan Chase Bank, N.A. (the "Bank") is a wholly owned bank subsidiary of JPMorgan Chase & Co., a Delaware corporation whose principal office is located in New York, New York. The Bank offers a wide range of banking services to its customers, both domestically and internationally. It is chartered and its business is subject to examination and regulation by the Office of the Comptroller of the Currency.

As of September 30th, 2010, JPMorgan Chase Bank, N.A., had total assets of $1,642.7 billion, total net loans of $538.4 billion, total deposits of $984.2 billion, and total stockholder's equity of $132.3 billion. These figures are extracted from the Bank's unaudited Consolidated Reports of Condition and Income (the "Call Report") as of September 30th, 2010, prepared in accordance with regulatory instructions that do not in all cases follow U.S. generally accepted accounting principles, which are filed with the Federal Deposit Insurance Corporation. The Call Report, including any update to the above quarterly figures, can be found at www.fdic.gov.

Additional information, including the most recent annual report on Form 10-K for the year ended December 31, 2009, of JPMorgan Chase & Co., the 2009 Annual Report of JPMorgan Chase & Co., and additional annual, quarterly and current reports filed with or furnished to the Securities and Exchange Commission (the "SEC") by JPMorgan Chase & Co., as they become available, may be obtained without charge by each person to whom this Official Statement is delivered upon the written request of any such person to the Office of the Secretary, JPMorgan Chase & Co., 270 Park Avenue, New York, New York 10017 or at the SEC's website at www.sec.gov.

The information contained in this Appendix relates to and has been obtained from the Bank. The delivery of the Official Statement shall not create any implication that there has been no change in the affairs of the Bank since the date hereof, or that the information contained or referred to in this Appendix is correct as of any time subsequent to its date. Neither the Company, the Underwriter nor the Pollution Control Corporation takes any responsibility for the accuracy of the information relating to the Bank contained in this Appendix B or in the documents referred to herein.

APPENDIX C

PROPOSED FORM OF OPINION OF BOND COUNSEL

[Closing Date]

Coconino County, Arizona
Pollution Control Corporation
Flagstaff, Arizona

Coconino County, Arizona Pollution Control Corporation
Pollution Control Revenue Bonds, 2010 Series A
(Tucson Electric Power Company Navajo Project)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to the Coconino County, Arizona Pollution Control Corporation (the "Issuer") in connection with the issuance of $36,700,000 aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project) (the "Bonds"), issued pursuant to an Indenture of Trust, dated as of December 1, 2010 (the "Indenture"), between the Issuer and U.S. Bank Trust National Association, as trustee (the "Trustee"). The Indenture provides that the Bonds are issued for the purpose of making a loan of the proceeds thereof to Tucson Electric Power Company, an Arizona corporation (the "Company"), pursuant to a Loan Agreement, dated as of December 1, 2010 (the "Loan Agreement"), between the Issuer and the Company. Capitalized terms not otherwise defined herein shall have the meanings ascribed to such terms in the Indenture.

In such connection, we have reviewed the Indenture, the Loan Agreement, the Tax Certificate and Agreement, dated the date hereof (the "Tax Agreement"), between the Issuer and the Company, opinions of counsel to the Issuer, the Company and the Trustee, certificates of the Issuer, the Company, the Trustee and others, and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after the date hereof. Accordingly, this opinion speaks only as of its date and is not intended to, and may not, be relied upon in connection with any such actions, events or matters. Our engagement with respect to the Bonds has concluded with their issuance, and we disclaim any obligation to update this opinion. We have assumed the genuineness of all documents and signatures presented to us (whether as originals or as copies) and the due and legal execution and delivery thereof by, and validity against, any parties other than the Issuer. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Indenture, the Loan Agreement and the Tax Agreement, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Bonds, the Indenture, the Loan Agreement and the Tax Agreement and their enforceability may be subject to bankruptcy, insolvency, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities in the State of Arizona. We express no opinion with respect to any indemnification, contribution, penalty, choice of law, choice of forum, choice of venue, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the assets described in or as

subject to the lien of the Indenture or the Loan Agreement or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such assets. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Bonds and express no opinion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Bonds constitute valid and binding limited obligations of the Issuer.

2. The Indenture has been duly executed and delivered by, and constitutes the valid and binding obligation of, the Issuer. The Indenture creates a valid pledge, to secure the payment of the principal of and interest on the Bonds, of the Receipts and Revenues of the Issuer from the Loan Agreement, subject to the provisions of the Indenture permitting the application thereof for the purposes and on the terms and conditions set forth in the Indenture, including the prior claim of the Trustee on the Bond Fund for the payment of its compensation and the reimbursement of its expenses as provided in the Indenture.

3. The Loan Agreement has been duly executed and delivered by, and constitutes the valid and binding agreement of, the Issuer.

4. The Bonds are not a lien or charge upon the funds or property of the Issuer except to the extent of the aforementioned pledge. Neither the faith and credit nor the taxing power of the County of Coconino, the State of Arizona or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds.

5. Interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "1986 Code"), Section 103 of the Internal Revenue Code of 1954, as amended (the "1954 Code"), and Title XIII of the Tax Reform Act of 1986, except that no opinion is expressed as to the status of interest on any Bond during any period that such Bond is held by a "substantial user" of any facilities treated for federal income tax purposes as financed or refinanced by the Bonds or by a "related person" within the meaning of Section 103(b)(13) of the 1954 Code or Section 147(a) of the 1986 Code. We observe, however, that interest on the Bonds is a specific preference item for purposes of the federal individual and corporate alternative minimum taxes. The Bonds and the income therefrom are exempt from all State of Arizona taxation. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the accrual or receipt of interest on, the Bonds.

Faithfully yours,

ORRICK, HERRINGTON & SUTCLIFFE LLP

per

APPENDIX D

FORM OF
CONTINUING DISCLOSURE AGREEMENT

This Continuing Disclosure Agreement (this "Disclosure Agreement") is executed and delivered by Tucson Electric Power Company, an Arizona corporation (the "Company"), and U.S. Bank Trust National Association, as trustee under the Indenture referred to below (in such capacity herein, together with any successors in such capacity, called the "Trustee").

WITNESSETH

WHEREAS, the Coconino County, Arizona Pollution Control Corporation (the "Issuer") proposes to issue $36,700,000 aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project) (the "Bonds") for the purpose of refinancing, by redemption of the Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 1997 Series A (Tucson Electric Power Company Navajo Project) (the "1997 Bonds"), or provision therefor, the portion of the costs of certain facilities previously refinanced from the proceeds of the 1997 Bonds, which Bonds are being issued pursuant to an Indenture of Trust, dated as of December 1, 2010 (the "Indenture"), between the Issuer and the Trustee; and

WHEREAS, in connection with the issuance of the Bonds, the Issuer and the Company will enter into a Loan Agreement, dated as of December 1, 2010 (the "Loan Agreement");

NOW, THEREFORE, the Company and the Trustee covenant and agree as follows:

SECTION 1. *Purpose of the Disclosure Agreement*. This Disclosure Agreement is being executed and delivered by the Company and the Trustee for the benefit of the Owners (as defined in the Indenture) and the Holders (as hereinafter defined) and in order to assist each Participating Underwriter (as hereinafter defined) in complying with the Rule (as hereinafter defined). The Company acknowledges that it has undertaken all responsibility for compliance with the continuing disclosure requirements concerning the Bonds. The Company and the Trustee further acknowledge that the Issuer has not undertaken any responsibility with respect to any reports, notices or disclosures provided or required under this Disclosure Agreement or the Rule and has no liability to any person, including any Owner or Holder of the Bonds, with respect to any such reports, notices or disclosures or the Rule.

SECTION 2. *Definitions*. In addition to the definitions set forth in the Indenture, which apply, to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Annual Report" shall mean any Annual Report provided by the Company pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

"EMMA" shall mean the Electronic Municipal Market Access system and the EMMA Continuing Disclosure Service of MSRB, or any successor thereto approved by the United States Securities and Exchange Commission, as a repository for municipal continuing disclosure information pursuant to the Rule.

"Holder" shall mean any person who has or shares the power, directly or indirectly, to make investment decisions with respect to the Bonds, but shall not include persons who have rights to acquire Bonds in the future.

"Listed Events" shall mean any of the events listed in Section 5 of this Disclosure Agreement.

"MSRB" shall mean the Municipal Securities Rulemaking Board, or any successor thereto.

"1934 Act" shall mean the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Participating Underwriter" shall mean the original Underwriter of the Bonds which are required to comply with the Rule in connection with an offering of the Bonds.

"Rule" shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the 1934 Act, as the same may be amended from time to time.

SECTION 3. *Provision of Annual Reports*. The Company shall provide not later than one hundred twenty (120) days after the close of its fiscal year to EMMA and to the Trustee, an Annual Report in compliance with the requirements of Section 4 of this Disclosure Agreement; provided that so long as the Company files annual reports under Sections 13 or 15 of the 1934 Act, it may satisfy such requirement by delivery to EMMA of an instrument incorporating by reference the fiscal year-end report filed in accordance with the 1934 Act for that year, which instrument shall state that such fiscal year-end report constitutes the Annual Report for that year.

SECTION 4. *Content of Annual Reports*. The Company's Annual Report for any year shall consist of the Company's Annual Report on Form 10-K for such year filed under the 1934 Act as provided in Section 3 (or any successor form adopted by the Securities and Exchange Commission) which reports as provided in Section 3 may be provided through a notice cross referencing the filed report as described in Section 3. In the event the Company no longer files annual reports under Sections 13 or 15 of the 1934 Act, the Company's Annual Report shall consist of a copy of its audited financial statements, prepared in accordance with generally accepted accounting principles, meeting the requirements of Regulation S-X under the Securities Act of 1933, as amended.

SECTION 5. *Reporting of Listed Events*. The Company shall provide (i) to EMMA and (ii) to the Trustee, timely notice not in excess of 10 business days after the occurrence of the event, with respect to the Bonds;

(i) Principal and interest payment delinquencies;

(ii) Nonpayment-related defaults, if material;

(iii) Unscheduled draws on debt service reserves reflecting financial difficulties;

(iv) Unscheduled draws on credit enhancements reflecting financial difficulties;

(v) Substitution of credit or liquidity providers, or their failure to perform;

(vi) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds;

(vii) Modifications to rights of Owners of the Bonds, if material;

(viii) Optional, contingent or unscheduled Bond calls, if material, and tender offers;

(ix) Defeasances;

(x) Release, substitution or sale of property securing repayment of the Bonds, if material;

(xi) Rating changes;

(xii) Bankruptcy, insolvency, receivership or similar event of the Company;

(xiii) The consummation of a merger, consolidation or acquisition involving the Company or the sale of all or substantially all of the assets of the Company, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;

(xiv) Appointment of a successor or additional trustee or the change of name of the Trustee, if material; and

(xv) Any failure of the Company to provide an Annual Report on or before the date by which that Annual Report is required to be provided hereunder.

All documents provided to EMMA shall be accompanied by identifying information prescribed by the MSRB.

SECTION 6. *Termination of Reporting Obligation*. The Company's obligations under this Disclosure Agreement with respect to the Bonds shall terminate if the Company is no longer an "obligated person" within the meaning of the Rule, including upon the defeasance, prior redemption or payment in full of all of the Bonds. The Company may not assign or transfer its obligations under the Loan Agreement to any other person, corporation or entity, unless such person, corporation or entity assumes in writing the Company's obligations and responsibilities for compliance with this Disclosure Agreement as an "obligated person" within the meaning of the Rule in the same manner as if it were the Company, and only thereafter shall the company have no further responsibility hereunder.

SECTION 7. *Amendment; Waiver*. Notwithstanding any other provision of this Disclosure Agreement, the Company and the Trustee may amend this Disclosure Agreement (and the Trustee shall agree to any amendment so requested by the Company provided such amendment is not adverse to the Trustee), and any provision of this Disclosure Agreement may be waived, if (a) such amendment or waiver is supported by an opinion of counsel expert in United States federal securities laws selected by the Company, to the effect that such amendment or waiver would not, in and of itself, have caused the undertakings herein not to comply with the Rule if such amendment or waiver had been effective on the date hereof, but taking into account any subsequent change in, or official interpretation of, the Rule, and (b) the amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture, with respect to amendments of the Indenture which require the consent of Owners, or (ii) does not materially impair the interests of the Owners or Holders of the Bonds.

SECTION 8. *Additional Information*. Nothing in this Disclosure Agreement shall be deemed to prevent the Company from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Company chooses to include any information in any Annual Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Company shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Report or notice of occurrence of a Listed Event.

SECTION 9. *Default*. In the event of the failure by the Company to comply with any provision of this Disclosure Agreement, the Trustee may (and, at the request of the Owners of at least 25% aggregate principal amount of outstanding Bonds shall), and any Owner or Holder may take such actions as may be necessary and appropriate, including seeking a mandate or specific performance by court order, to cause the Company to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture or the Loan Agreement, and the sole remedy under this Disclosure Agreement in the event of any failure of the Company to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 10. *Duties, Immunities and Liabilities of Trustee*. Article X of the Indenture is hereby made applicable to this Disclosure Agreement as if this Disclosure Agreement were (solely for this purpose) contained in the Indenture.

SECTION 11. *Beneficiaries*. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Company, the Trustee, the Participating Underwriter, the Owners and the Holders from time to time of the Bonds, and shall create no rights in any other person or entity.

SECTION 12. *Notices*. Except as otherwise provided in this Disclosure Agreement, all notices and other communications hereunder shall be in writing and shall be sufficiently given and shall be deemed given when mailed by registered mail, postage prepaid, addressed as follows: if to the Trustee, at 100 Wall Street, Suite 1600, New York, New York 10005, Attention: Corporate Trust Services, and if to the Company, at One South Church Avenue, Tucson, Arizona 85701, Attention: Treasurer. The Trustee and the Company may by notice given hereunder, designate any further or different addresses to which subsequent notices or other communications shall be sent. Anything herein to the contrary notwithstanding, any notice required to be delivered hereunder may also be delivered by electronic means including, without limitation, email.

SECTION 13. *Governing Law*. This Agreement shall be governed by and construed in accordance with the laws of the State of Arizona, without regard to the conflict of laws provisions thereof.

SECTION 14. *Counterparts*. This Disclosure Agreement may be executed in several counterparts, each of which shall be original and all of which shall constitute but one and the same instrument.

TUCSON ELECTRIC POWER COMPANY

By:_____
Name:
Title:

U.S. BANK TRUST NATIONAL ASSOCIATION
solely in its capacity as Trustee under the Indenture

By:_____
Name:
Title:

Date: December , 2010

Execution Version

REIMBURSEMENT AGREEMENT

DATED AS OF DECEMBER 14, 2010

AMONG

THE BANKS PARTY HERETO,

JPMORGAN CHASE BANK, N.A.,

AS ADMINISTRATIVE AGENT,

and

TUCSON ELECTRIC POWER COMPANY,

AS APPLICANT

J.P. MORGAN SECURITIES LLC,

AS LEAD ARRANGER

$36,700,000 Pollution Control Revenue Bonds, 2010 Series A
(Tucson Electric Power Company Navajo Project)

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I Pricing Grid

REIMBURSEMENT AGREEMENT

This **REIMBURSEMENT AGREEMENT**, dated as of December 14, 2010, is by and among **TUCSON ELECTRIC POWER COMPANY,** an Arizona corporation (the "*Applicant*"), the Banks party hereto from time to time, and **JPMORGAN CHASE BANK, N.A.**, a national banking association, as the Issuing Bank and as Administrative Agent.

WITNESSETH:

WHEREAS, the Coconino County, Arizona Pollution Control Corporation (the "*Issuer*") has issued the Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 1997 Series A (Tucson Electric Power Company Navajo Project) (the "*1997 Bonds*"), the proceeds of which were loaned to the Applicant to finance and refinance the costs to the Applicant of constructing, improving and equipping certain air pollution control facilities (the "*Facilities*");

WHEREAS, the Issuer will issue $36,700,000 in aggregate principal amount of Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project) (the "*Bonds*"), pursuant to the Indenture (as defined below) to redeem the 1997 Bonds;

WHEREAS, concurrently with the issuance of the Bonds, the Applicant and the Issuer will enter into a Loan Agreement relating to the Bonds, dated as of December 1, 2010 (as amended, restated, supplemented or otherwise modified from time to time, the "*Loan Agreement*") in which, among other things, the Issuer will agree to lend the proceeds of the Bonds to the Applicant, and the Applicant will agree to make payments, in respect of the repayment of such loan, at such times and in such amounts as are required for the payment of the principal of and premium, if any, and interest on the Bonds; and

WHEREAS, as additional security for the Bonds, the Applicant has requested the Issuing Bank to issue for the account of the Applicant in favor of the Trustee its irrevocable transferable direct pay letter of credit in the form of Exhibit A attached hereto (as amended from time to time, the "*Letter of Credit*") in an Original Stated Amount of $37,152,465.75; and

WHEREAS, the Issuing Bank has been requested by the Applicant to provide a liquidity facility in the form of certain liquidity drawings under the Letter of Credit and the Issuing Bank has agreed to issue the Letter of Credit and to provide such liquidity facility in the manner and subject to the terms and conditions set forth herein.

Accordingly, the Applicant, the Administrative Agent, the Issuing Bank and the Banks hereby agree as follows:

Article I
Definitions

Section 1.1. Definitions. As used in this Agreement:

"*ABR Advance*" means a Liquidity Advance that bears interest at a rate determined by reference to the Alternate Base Rate.

"*ACC*" means the Arizona Corporation Commission.

"*Adjusted LIBO Rate*" means an interest rate per annum equal to the product of (x) the LIBO Rate and (y) the Statutory Reserve Rate.

"*Administrative Agent*" means JPMorgan, in its capacity as administrative agent for the Banks hereunder, and any successor administrative agent appointed (subject to the acceptance of such appointment) pursuant to Section 8.6 of this Agreement.

"*Affected Bank*" is defined in Section 2.17 hereof.

"*Affiliate*" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"*Agent's Counsel*" is defined in Section 3.1(a) hereof.

"*Agreement*" means this Reimbursement Agreement, as amended, restated, supplemented or otherwise modified from time to time.

"*Alternate Base Rate*" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Federal Funds Effective Rate in effect on such day plus ½ of 1% and (c) the Adjusted LIBO Rate for a one-month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) *plus* 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBO Rate shall be effective from and including the effective date of such change in the Prime Rate, the Federal Funds Effective Rate or the Adjusted LIBO Rate, as applicable.

"*Anti-Terrorism Laws*" is defined in Section 4.16(a) hereof.

"*Applicable Margin*" means a percentage determined in accordance with the Pricing Grid contained in Annex I hereto, in relation to either an ABR Advance or a Eurodollar Advance, as applicable.

"*Applicable Percentage*" means, at any time, with respect to any Bank, a percentage equal to a fraction the numerator of which is such Bank's Commitment and the denominator of which is the face amount of the Letter of Credit at such time.

"*Applicant*" shall have the meaning set forth in the preamble hereto.

"*Approved Fund*" is defined in Section 9.7(b) hereof.

"*Assignment and Assumption*" means an assignment and assumption entered into by an assigning Bank and an assignee (with the consent of any party whose consent is required

by Section 9.7), and accepted by the Administrative Agent, in a form approved by the Administrative Agent.

"*Authorized Officer*" means the president, any vice president, the chief financial officer, the principal accounting officer, the treasurer or the controller of the Applicant.

"*Available Amount*" shall have the meaning set forth in the Letter of Credit.

"*Banks*" means the financial institutions listed on the signature pages hereof, in each case together with their respective successors and assigns. Unless the context otherwise requires, the term "Banks" includes the Issuing Bank.

"*Board*" means the Board of Governors of the Federal Reserve System of the United States (or any successor).

"*Bond Delivery Agreement*" means the Bond Delivery Agreement of even date herewith among the Applicant and the Administrative Agent, substantially in the form of Exhibit D hereto.

"*Bond Fiduciary*" means each of the Trustee and the Remarketing Agent.

"*Bonds*" shall have the meaning set forth in the recitals hereto.

"*Business Day*" means a day of the year, other than (i) a Saturday, Sunday or legal holiday, or a day on which banking institutions in New York, New York and in any of the cities in which the Principal Offices of the Bank, the Applicant, the Securities Depository, or any Bond Fiduciary are located are required or authorized by law or executive order to be closed or (ii) a day on which the New York Stock Exchange is closed.

"*Cap Interest Rate*" shall have the meaning set forth in the Letter of Credit.

"*Capital Lease Investment*" of any Person means the aggregate outstanding capitalized amount of Capital Lease Obligations of the Applicant and the Consolidated Subsidiaries that are owned by such Person and in respect of which such Person has the right to receive all future payments to be made.

"*Capital Lease Obligations*" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"*Capital Stock*" means any and all shares, interests, participations or other equivalents (however designated) of capital stock of a corporation, any and all equivalent ownership interests in a Person (other than a corporation) and any and all warrants, rights or options to purchase any of the foregoing.

"*Change in Control*" means the failure of UniSource Energy to own and control, of record and beneficially, directly or indirectly, Capital Stock of the Applicant representing 100% of the aggregate ordinary voting power of the Applicant, free and clear of all Liens.

"*Change in Law*" means the occurrence, after the date of this Agreement (or with respect to any Bank, if later, the date on which such Bank becomes a Bank), of any of the following: (a) the adoption or taking effect of any law, rule, regulation or treaty, (b) any change in any law, rule, regulation or treaty or in the administration, interpretation or application thereof by any Governmental Authority, or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided, however, that notwithstanding anything herein to the contrary, the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines or directives thereunder or issued in connection therewith shall be deemed to be a "Change in "Law", regardless of the date enacted, adopted or issued.

"*Closing Date*" means December 14, 2010, or any other Business Day agreed to by the Bank and the Applicant on which the Letter of Credit is issued.

"*Code*" means the Internal Revenue Code of 1986, as amended from time to time.

"*Collateral Mortgage Bonds*" means the First Mortgage Bonds, Collateral Series J, substantially in the form attached to the Twelfth Supplemental Indenture.

"*Commitment*" means, with respect to each Bank, the commitment of such Bank to acquire participations in the Letter of Credit, expressed as an amount set forth on such Bank's signature page hereto or in an Assignment and Assumption, as such commitment may be reduced or increased from time to time in accordance with the terms hereof. The initial aggregate amount of the Banks' Commitment equals the Original Stated Amount.

"*Consolidated Net Worth*" means, at any date, the sum as of such date of (a) the par value (or value stated on the books of the Applicant) of all classes of Capital Stock of the Applicant and its Subsidiaries, excluding the Applicant's Capital Stock owned by the Applicant and/or its Subsidiaries, *plus* (or *minus* in the case of a surplus deficit) (b) the amount of consolidated surplus, whether capital or earned, of the Applicant, determined in accordance with GAAP as of the date of determination (excluding the effect on the Applicant's accumulated other comprehensive income/loss of the ongoing application of Accounting Standards Codification Topic 815).

"*Consolidated Subsidiary*" means, at any date, each Subsidiary the accounts of which would be consolidated with those of the Applicant in the Applicant's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date.

"*Consolidated Total Capitalization*" means, with respect to the Applicant at any time, the sum of Consolidated Net Worth and Consolidated Total Indebtedness of the Applicant at such time.

"*Consolidated Total Indebtedness*" means, as of the last day of any fiscal quarter, (a) the sum (without duplication) for the Applicant and the Consolidated Subsidiaries as of such day of (i) the aggregate outstanding principal amount of the Liquidity Advances and LC Disbursements, (ii) the aggregate outstanding principal amount of other Indebtedness for borrowed money (including Guarantees thereof) and (iii) the aggregate outstanding capitalized amount of Capital Lease Obligations, *minus* (b) the sum (without duplication) as of such day of (i) the aggregate outstanding capitalized amount of the Capital Lease Investments of the Applicant and the Consolidated Subsidiaries as of such day and (ii) to the extent included in clause (a)(ii) above, any Treasury Indebtedness of the Applicant and the Consolidated Subsidiaries as of such day, all as determined on a consolidated basis in accordance with GAAP; provided, however, that there shall be disregarded for purposes of the determination of Consolidated Total Indebtedness the aggregate outstanding principal amount of any Indebtedness for borrowed money of the Applicant or any of its Subsidiaries for which (1) cash in an amount sufficient to repay and discharge in full such Indebtedness on its scheduled maturity date or redemption date shall have been irrevocably deposited in trust with a trustee, escrow agent, paying agent or similar agent for the payment thereof on such maturity date or redemption date (as the case may be), and (2) the Applicant or such Subsidiary (as the case may be) shall have irrevocably instructed such trustee, escrow agent, paying agent or similar agent (as the case may be) to apply all such cash to the repayment and discharge of such Indebtedness on such maturity date or redemption date (as the case may be).

"*Control*" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "*Controlling*" and "*Controlled*" have meanings correlative thereto.

"*Costs*" is defined in Section 9.3 hereof.

"*Credit Documents*" means this Agreement, the Letter of Credit, the Custodian Agreement, each Fee Letter, each Drawing Document, each other security agreement or other instrument or document executed and delivered pursuant to Section 5.12 or pursuant to any of the foregoing documents to secure any of the Obligations and, prior to the release of the Collateral Mortgage Bonds pursuant to Section 9.22, the Bond Delivery Agreement, the Twelfth Supplemental Indenture, the Mortgage Indenture and the Collateral Mortgage Bonds.

"*Custodian*" means U.S. Bank Trust National Association, in its capacity as Custodian under the Custodian Agreement, together with its successors and assigns in such capacity.

"*Custodian Agreement*" means the Custodian and Pledge Agreement of even date herewith among the Applicant, the Issuing Bank and the Custodian, substantially in the form of Exhibit E hereto.

"*Date of Issuance*" means the date of issuance and delivery of the Letter of Credit by the Issuing Bank.

"*Default*" means any event or circumstance which, with the giving of notice, the lapse of time, or both, would constitute an Event of Default.

"*Defaulting Bank*" means any Bank, as determined by the Administrative Agent that (a) has defaulted in its obligation to fund its participation in any LC Disbursement or any of its other funding obligations under this Agreement, (b) has notified the Applicant, the Administrative Agent, the Issuing Bank or any Bank in writing of its intention not to fund its participation in any LC Disbursement or any of its other funding obligations under this Agreement, (c) has otherwise failed to pay over to the Administrative Agent or any other Bank any other amount required to be paid by it hereunder within three (3) Business Days of the date when due, (d) has failed, within three (3) Business Days after request by the Administrative Agent to confirm that it will comply with the terms of this Agreement relating to its obligations to fund participations in the outstanding or prospective LC Disbursements or (e) shall (or whose parent company shall) generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or shall have had any proceeding instituted by or against such Bank (or its parent company) seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of thirty (30) days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian for it or for any substantial part of its property) shall occur, or shall take (or whose parent company shall take) any corporate action to authorize any of the actions set forth above in this subsection (e).

"*Defaulting Bank Collateral Account*" is defined in Section 2.16(c) hereof.

"*Disclosure Documents*" means (i) the Annual Report on Form 10-K of the Applicant for the fiscal year ended December 31, 2009, as filed with the SEC, (ii) the Quarterly Reports on Form 10-Q of the Applicant for the fiscal quarters ended March 31, 2010, June 30, 2010 and September 30, 2010, as filed with the SEC, and (iii) the Current Reports on Form 8-K of the Applicant as filed with the SEC on January 15, 2010, March 5, 2010, May 4, 2010, October 8, 2010 and November 10, 2008.

"*Drawing Document*" is defined in Section 9.4 hereof.

"*Environmental Laws*" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

"*Environmental Liability*" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of the Applicant or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"*ERISA*" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"*ERISA Affiliate*" means any trade or business (whether or not incorporated) that, together with the Applicant, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Sections 302 and 303 of ERISA and Sections 412 and 430 of the Code, is treated as a single employer under Section 414 of the Code.

"*ERISA Event*" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) a determination that any Plan is in "at risk" status (within the meaning of Section 430 of the Code or Section 303 of ERISA); (c) the filing pursuant to Section 412(c) of the Code or Section 302(c) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Applicant or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Applicant or any ERISA Affiliate from the PBGC of any notice of its intent to institute proceedings to terminate any Plan or to appoint a trustee to administer any Plan under Section 4042 of ERISA or the providing of notice by a plan administrator of the intent to terminate any Plan under Section 4041 of ERISA; (f) the incurrence by the Applicant or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Applicant or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Applicant or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"*Eurodollar Advance*" means a Liquidity Advance that bears interest at a rate determined by reference to the Adjusted LIBO Rate (other than pursuant to clause (c) of the definition of Alternate Base Rate).

"*Event of Default*" is defined in Section 7.1 hereof.

"*Excluded Taxes*" means, with respect to any payment made by the Applicant under this Agreement or any Related Document, any of the following Taxes imposed on or with respect to a Recipient:

(a) income or franchise Taxes imposed on (or measured by) net income by the United States of America, or by the jurisdiction under the laws of which

such Recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits Taxes imposed by the United States of America or any similar Taxes imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Non U.S. Lender (other than an assignee pursuant to a request by the Borrower under Section 2.17), any U.S. Federal withholding Taxes resulting from any law in effect (including FATCA) on the date such Non U.S. Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Non U.S. Lender's failure to comply with Section 9.15(f), except to the extent that such Non U.S. Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding Taxes pursuant to Section 9.15(a).

"*FATCA*" means Sections 1471 through 1474 of the Code, as of the date of this Agreement and any regulations or official interpretations thereof.

"*Federal Funds Effective Rate*" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"*Fee Letter*" means those certain letter agreements among the Applicant, the Issuing Bank and the Administrative Agent, as the same may be amended or modified and in effect from time to time, providing for certain fees payable by the Applicant in connection with this Agreement.

"*GAAP*" means generally accepted accounting principles in the United States of America.

"*Governmental Authority*" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"*Guarantee*" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the

payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term Guarantee shall not include endorsements for collection or deposit in the ordinary course of business.

"*Hazardous Materials*" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"*Hedging Agreement*" means any interest rate protection agreement, foreign currency exchange agreement or other interest or currency exchange rate hedging arrangement.

"*Indebtedness*" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person upon which interest charges are customarily paid, (d) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (e) all obligations of such Person in respect of the deferred purchase price of property or services (excluding current accounts payable incurred in the ordinary course of business), (f) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (g) all Guarantees by such Person of Indebtedness of others, (h) all Capital Lease Obligations of such Person, (i) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (j) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor.

"*Indemnified Person*" is defined in Section 9.3 hereof.

"*Indemnified Taxes*" means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by the Applicant under this Agreement and any Related Document and (b) Other Taxes.

"*Indenture*" means the Indenture of Trust, dated as of December 1, 2010, between the Issuer and the Trustee, relating to the Bonds, as amended and supplemented in accordance with the terms hereof and thereof from time to time.

"*Index Debt*" means (i) so long as the Revolving Credit Agreement shall be in effect, the Indebtedness of the Applicant under the Revolving Credit Agreement and (ii) thereafter, the Reimbursement Obligations under this Agreement.

"*Instruction*" is defined in Section 9.3 hereof.

"*Interest Election Request*" means a request by the Applicant to convert an ABR Advance into a Eurodollar Advance or continue a Eurodollar Advance in accordance with Section 2.3(d).

"*Interest Payment Date*" means (a) with respect to any ABR Advance, the last Business Day of each calendar quarter and the Termination Date and (b) with respect to any Eurodollar Advance, the last day of the Interest Period applicable to such Eurodollar Advance and, in the case of a Eurodollar Advance with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period, and the Termination Date.

"*Interest Period*" means with respect to any Eurodollar Advance, the period commencing on the date of such Eurodollar Advance and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Applicant may elect; provided, that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Eurodollar Advance shall be the effective date of the most recent conversion or continuation of such Eurodollar Advance.

"*IRS*" means the United States Internal Revenue Service.

"*ISP*" means International Standby Practices 1998 (International Chamber of Commerce Publication No. 590).

"*Issuer*" shall have the meaning set forth in the recitals hereto.

"*Issuing Bank*" means JPMorgan, in its capacity as the issuer of the Letter of Credit, and its successors in such capacity.

"*JPMorgan*" means JPMorgan Chase Bank, N.A., a national banking association, in its individual capacity, and its successors and assigns.

"*LC Disbursement*" means a payment made by the Issuing Bank pursuant to the Letter of Credit.

"*LC Fee Margin*" means, for any day, a rate per annum calculated in accordance with the Pricing Grid attached hereto as Annex I.

"LC Obligations" means, at any time, an amount equal to the sum of (a) the then undrawn and unexpired amount of the Letter of Credit and (b) the aggregate amount of drawings under the Letter of Credit that has not then been reimbursed by the Applicant pursuant to Section 2.4.

"Lead Arranger" means J.P. Morgan Securities LLC in its capacity as Lead Arranger.

"Letter of Credit" shall have the meaning set forth in the recitals hereto.

"LIBO Rate" means, as of any date of determination, the rate appearing on Reuters Screen LIBOR01 Page (or on any successor or substitute page of such service, or any successor to or substitute for such service, providing rate quotations comparable to those currently provided on such page of such service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to deposits in dollars in the London interbank market) at approximately 11:00 a.m., London time, on such date of determination, as the rate for deposits in dollars with a maturity corresponding to the applicable Interest Period. In the event that such rate is not available at such time for any reason, then the "LIBO Rate" shall be the rate at which deposits in dollars in an amount equal to $5,000,000 and for a one-month maturity are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, on such date of determination.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Lien of the Mortgage Indenture" has the meaning assigned to the phrases "Lien of this Indenture" and "lien hereof" in the Mortgage Indenture.

"Liquidity Advance" is defined in Section 2.3(a) hereof.

"Liquidity Drawing" means an LC Disbursement resulting from the presentation of a certificate in the form of Annex E to the Letter of Credit.

"Loan Agreement" shall have the meaning set forth in the recitals hereto.

"Material Adverse Effect" means a material adverse effect on (a) the financial condition, assets, results of operations or business of the Applicant and the Subsidiaries taken as a whole, (b) the ability of the Applicant to perform its obligations under any Credit Document or any Related Document or (c) the rights of or benefits available to the Administrative Agent, the Issuing Bank or the Banks under any Credit Document or any Related Document.

"Material Indebtedness" means Indebtedness (other than the Liquidity Advances, LC Disbursements and the Letter of Credit), or obligations in respect of one or more Hedging

Agreements, of any one or more of the Applicant and the Significant Subsidiaries in an aggregate principal amount exceeding $30,000,000; provided however, that, solely for purposes of Section 7.1(f), the contingent Guarantee obligation of the Applicant or a Significant Subsidiary in respect of Material Indebtedness of one of its subsidiaries that is not a Significant Subsidiary shall not constitute Material Indebtedness of the Applicant or such Significant Subsidiary unless and until such Guarantee obligation is no longer contingent. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of the Applicant or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that the Applicant or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time. "Material Indebtedness" shall not include at any time any Indebtedness that is non-recourse to the Applicant and its Significant Subsidiaries.

"*Moody's*" means Moody's Investors Service, Inc.

"*Mortgage Bonds*" means all "Mortgage Bonds" issued under the Mortgage Indenture.

"*Mortgage Indenture*" means the Indenture of Mortgage and Deed of Trust, dated as of December 1, 1992, between the Applicant and The Bank of New York Mellon (formerly known as The Bank of New York) (as successor in trust to Bank of Montreal Trust Company), as trustee, as amended, supplemented or otherwise modified from time to time, including by the Twelfth Supplemental Indenture.

"*Mortgaged Property*" shall have the meaning assigned to the such term in the Mortgage Indenture.

"*Multiemployer Plan*" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"*Non-U.S. Bank*" means a Bank that is not a U.S. Person.

"*Notice of Extension*" is defined in Section 2.12.

"*Obligations*" means the collective reference to (i) all Reimbursement Obligations (including interest accruing at the then applicable rate provided in this Agreement after the maturity of the Reimbursement Obligations and after the filing of any petition in bankruptcy, or the commencement of any insolvency, reorganization or like proceeding, relating to the Applicant, whether or not a claim for post-filing or post-petition interest is allowed in such proceeding), and (ii) all expense reimbursement and indemnity payments, and all other obligations and liabilities of the Applicant to the Administrative Agent, the Issuing Bank, or any Bank, whether direct or indirect, absolute or contingent, due or to become due, or now existing or hereafter incurred pursuant to this Agreement, any other Credit Document, or any other document made, delivered or given in connection herewith or therewith (including all fees, charges and disbursements of counsel to the Administrative Agent, the Issuing Bank, or to any Bank that are required to be paid pursuant hereto).

"*OFAC*" means the U.S. Department of the Treasury's Office of Foreign Assets Control.

"*Official Statement*" means the Official Statement dated December 7, 2010 relating to the Bonds.

"*Original Stated Amount*" is defined in Section 2.1 hereof.

"*Other Connection Taxes*" means, with respect to any Recipient, Taxes imposed as a result of a present or former connection between such Recipient and the jurisdiction imposing such Taxes (other than a connection arising from such Recipient having executed, delivered, enforced, become a party to, performed its obligations under, received payments under, received or perfected a security interest under, or engaged in any other transaction pursuant to, or enforced, this Agreement, any Credit Document and any Related Document, or sold or assigned an interest in this Agreement, any Credit Document and any Related Document).

"*Other Taxes*" means any present or future stamp, court, documentary, intangible, recording, filing or similar excise or property Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, or from the registration, receipt or perfection of a security interest under, or otherwise with respect to, this Agreement or any Related Document, except any such Taxes that are Other Connection Taxes imposed with respect to an assignment (other than an assignment under Section 2.17).

"*Participant*" has the meaning assigned to such term in Section 9.6.

"*PATRIOT Act*" means the Uniting And Strengthening America By Providing Appropriate Tools Required To Intercept And Obstruct Terrorism (USA Patriot Act of 2001, Title III of Pub. L. 107-56, as amended).

"*Person*" means an individual, company (including a limited liability company), corporation, firm, partnership, joint venture, undertaking, association, organization, trust, Governmental Authority or other entity (in each case whether or not having a separate legal personality).

"*Plan*" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Sections 412 and 430 of the Code or Sections 302 and 303 of ERISA, and in respect of which the Applicant or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"*Pledged Bonds*" means the Bonds purchased with moneys received under the Letter of Credit in connection with a Liquidity Drawing and held by Trustee pursuant to Section 5.05 of the Indenture, or its agent, and pledged to the Issuing Bank on behalf of itself and the Banks pursuant to the Custodian Agreement.

"*Pricing Grid*" means the pricing grid set forth on Annex I hereto.

"*Prime Rate*" means for any day the greater of:

(i) the rate of interest announced by JPMorgan from time to time as its prime commercial rate for U.S. dollar loans, or equivalent, as in effect on such day, with any change in the Prime Rate resulting from a change in said prime commercial rate to be effective as of the date of the relevant change in said prime commercial rate; or

(ii) the sum of (x) the rate determined by JPMorgan to be the average (rounded upwards, if necessary, to the next higher 1/100 of 1%) of the rates per annum quoted to JPMorgan at approximately 10:00 a.m. (New York time) (or as soon thereafter as is practicable) on such day (or, if such day is not a Business Day, on the immediately preceding Business Day) by two or more Federal funds brokers selected by JPMorgan for the sale to JPMorgan at face value of Federal funds in an amount equal or comparable to the principal amount owed to JPMorgan for which such rate is being determined, *plus* (y) 1/2 of 1% (0.50%).

"*Principal Office*" means (a) in the case of the Trustee, the principal corporate trust office of the Trustee at which at any particular time its corporate trust business shall be administered; (b) in the case of the Remarketing Agent, the office thereof designated in writing to the Trustee, the Bank and the Applicant, (c) in the case of any Bond Fiduciary other than the Trustee or the Remarketing Agent, the office thereof designated in writing to the Trustee and the Bank, and (d) in the case of the Bank, its office at which LC Disbursements are to be made.

"*Rating Agencies*" means each of Moody's and S&P.

"*Recipient*" means, as applicable, (a) the Administrative Agent, (b) any Bank and (c) the Issuing Bank.

"*Register*" is defined in Section 9.7 hereof.

"*Regulation D*" means Regulation D of the Board, as the same may be in effect from time to time, and any successor regulations.

"*Regulation U*" means Regulation U of the Board, as the same may be in effect from time to time, and any successor regulations.

"*Regulation X*" means Regulation X of the Board, as the same may be in effect from time to time, and any successor regulations.

"*Reimbursement Obligations*" means, collectively, all reimbursement payments required to be made by the Applicant pursuant to Section 2.4, and any other amounts paid by the Issuing Bank under the Letter of Credit, all fees payable with respect to the Letter of Credit, and all interest payable in respect of such reimbursement payments pursuant to the terms of this Agreement and the other Credit Documents.

"*Related Documents*" means the Bonds, the Indenture, the Loan Agreement and the Remarketing Agreement.

"*Related Parties*" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"*Remarketing Agent*" means a remarketing agent appointed pursuant to Article XII of the Indenture and the Remarketing Agreement, together with its successors and assigns in such capacity pursuant thereto.

"*Remarketing Agreement*" means the Remarketing Agreement dated as of December 1, 2010, between the Remarketing Agent and the Applicant, as amended, restated, supplemented or otherwise modified from time to time in accordance with the terms hereof and thereof, and any successor agreement thereto entered into by the Applicant and a successor Remarketing Agent.

"*Required Banks*" means, at any time, Banks having Commitments representing more than 50% of the aggregate Commitments of all Banks at such time.

"*Requirement of Law*" means, as to any Person, the articles or certificate of incorporation or organization, by-laws, partnership agreement, limited liability company agreement, operating agreement, management agreement, or other organizational or governing documents of such Person, and any law, treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or assets or to which such Person or any of its property or assets is subject.

"*Restricted Payment*" means any dividend or other distribution (whether in cash, securities or other property) with respect to any shares of any class of Capital Stock of the Applicant, or any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancellation or termination of any such shares of Capital Stock of the Applicant or any option, warrant or other right to acquire any such shares of Capital Stock of the Applicant.

"*Revolving Credit Agreement*" means that certain Second Amended and Restated Credit Agreement dated as of November 9, 2010, by and among the Applicant, as borrower, the lenders parties thereto, the issuing banks parties thereto and Union Bank, N.A., as administrative agent, as the same may have been, or may hereafter be, amended, restated, supplemented or otherwise modified and in effect.

"*S&P*" means Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business.

"*Sale Leaseback*" means any transaction or series of related transactions pursuant to which the Applicant or any of its Subsidiaries sells, transfers or otherwise disposes of any property, real or personal, whether now owned or hereafter acquired, and thereafter rents or leases such property or other property that it intends to use for substantially the same purpose or purposes as the property being sold, transferred or disposed of.

"*San Carlos*" means San Carlos Resources Inc., an Arizona corporation.

"*Sanctioned Country*" means a country subject to a sanctions program identified on the list maintained by OFAC and available at http://www.treas.gov/offices/enforcement/ofac/programs/, or as otherwise published from time to time.

"*Sanctioned Person*" means (i) a Person named on the list of Specially Designated Nationals or Blocked Persons maintained by OFAC available at http://www.treas.gov/-offices/enforcement/ofac/sdn/index.shtml, or as otherwise published from time to time, or (ii) (A) an agency of the government of a Sanctioned Country, (B) an organization controlled by a Sanctioned Country, or (C) a Person resident in a Sanctioned Country, to the extent subject to a sanctions program administered by OFAC.

"*SEC*" means the Securities and Exchange Commission, any successor thereto and any analogous Governmental Authority.

"*Securities Depository*" means The Depository Trust Company or any successor thereto.

"*Senior Unsecured Debt*" means the senior unsecured, long-term Indebtedness of the Applicant that is not guaranteed by any other Person or subject to any other credit enhancement.

"*Significant Subsidiary*" means (a) San Carlos, (b) any Subsidiary that directly or indirectly owns or Controls any other Significant Subsidiary and (c) any other Subsidiary of the Applicant whose direct or indirect proportionate share of consolidated total assets as of the end of the most recent fiscal quarter for which financial statements have been delivered pursuant to Section 5.1(a) or 5.1(b) was greater than or equal to 15% of the consolidated total assets as of such date of the Applicant and the Consolidated Subsidiaries, taken as a whole. For purposes of making the determinations required by this definition, revenues and assets of foreign Subsidiaries shall be converted into dollars at the rates used in preparing the consolidated balance sheet of the Applicant included in the applicable financial statements.

"*Solvent*" means, with respect to any Person, as of any date of determination, that (a) the amount of the "present fair saleable value" of the assets of such Person will, as of such date, exceed the amount of all "liabilities of such Person, contingent or otherwise", as of such date, as such quoted terms are determined in accordance with applicable federal and state laws governing determinations of the insolvency of debtors, (b) the present fair saleable value of the assets of such Person will, as of such date, be greater than the amount that will be required to pay the liability of such Person on its debts as such debts become absolute and matured, (c) such Person will not have, as of such date, an unreasonably small amount of capital with which to conduct its business, and (d) such Person will be able to pay its debts as they mature. For purposes of this definition, (i) "debt" means liability on a "claim", and (ii) "claim" means any (x) right to payment, whether or not such a right is reduced to judgment, liquidated, unliquidated, fixed, contingent, matured, unmatured, disputed, undisputed, legal, equitable, secured or unsecured or (y) right to an equitable remedy for breach of performance if such breach gives rise to a right to payment, whether or not such right to an equitable remedy is reduced to judgment, fixed, contingent, matured or unmatured, disputed, undisputed, secured or unsecured.

"*Standard Letter of Credit Practice*" means, for the Issuing Bank, any domestic or foreign law or letter of credit practices applicable in the city in which the Issuing Bank issued the Letter of Credit. Such practices shall be (i) of banks that regularly issue letters of credit in the particular city and (ii) required or permitted under the ISP.

"*Stated Expiration Date*" shall have the meaning set forth in the Letter of Credit.

"*Statutory Reserve Rate*" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Liquidity Advances (to the extent bearing interest at the Alternate Base Rate pursuant to clause (c) of the definition thereof) shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Bank under such Regulation D or any comparable regulation. The Statutory Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"*subsidiary*" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled by the parent or one or more subsidiaries of the parent.

"*Subsidiary*" means any subsidiary of the Applicant.

"*Supported Rate*" means the Daily Rate or the Weekly Rate.

"*Taxes*" means any and all present or future taxes, levies, imposts, duties, deductions, withholdings, assessments, fees or other charges imposed by any Governmental Authority (including any interest or penalties or additions to tax imposed with respect thereto).

"*Termination Date*" shall have the meaning set forth in the Letter of Credit.

"*Transactions*" means the execution, delivery and performance by the Applicant of this Agreement, the other Credit Documents and the Related Documents, the borrowing of Liquidity Advances, the use of the proceeds thereof, the issuance (or deemed issuance) of the Letter of Credit, and the issuance of Collateral Mortgage Bonds to the Administrative Agent under the Twelfth Supplemental Indenture.

"*Treasury Indebtedness*" means, with respect to any Person, the aggregate outstanding principal amount of Indebtedness of such Person and its subsidiaries that is owned by such Person or its subsidiaries and in respect of which such Person or one or more of its subsidiaries has the right to receive, pursuant to the terms of such Indebtedness, all future principal, interest and other payments to be made with respect thereto.

"*Trustee*" means U.S. Bank Trust National Association, as trustee under the Indenture, and any successor trustee thereunder.

"*Twelfth Supplemental Indenture*" means Supplemental Indenture No. 12 under the Mortgage Indenture, substantially in the form of Exhibit F hereto.

"*Unsupported Rate*" means any rate of interest applicable to the Bonds other than a Supported Rate.

"*U.S. Person*" means a "United States person" within the meaning of Section 7701(a)(30) of the Code.

"*U.S. Tax Certificate*" has the meaning assigned to such term in Section 9.15(f)(i)(4)(y).

"*Utility Business*" means the business of producing, developing, generating, transmitting, distributing, selling or supplying electrical energy for any purpose, or any business incidental thereto or necessary in connection therewith, or any business reasonably desirable in connection therewith which the ACC or other utility regulatory body shall have authorized the Applicant to enter.

"*Withholding Agent*" means the Applicant or the Administrative Agent.

The foregoing definitions shall be equally applicable to both the singular and plural forms of the defined terms. Any capitalized terms used herein which are not specifically defined herein shall have the same meanings herein as in the Indenture. All references in this Agreement to times of day shall be references to New York time unless otherwise expressly provided herein. Any definition of or reference to any statute, rule or regulation shall be construed as referring thereto as from time to time amended, supplemented or otherwise modified (including by succession of comparable successor laws).

Section 1.2. Other Defined Terms. The following capitalized terms used in this Agreement have the meanings given such terms in the Indenture as of the date of this Agreement and are incorporated herein by reference:

Daily Rate
Weekly Rate
Tax Agreement

Section 1.3. Accounting Terms; GAAP. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Applicant notifies the Administrative

Agent that the Applicant requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (including the effects of the application or discontinuance of the application of accounting for the effects of regulation to all or any portion of the Applicant's operations), or if the Administrative Agent notifies the Applicant that the Required Banks request an amendment to any provision hereof for such purpose, regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith.

Article II
Letter of Credit

Section 2.1. Issuance of Letter of Credit. Upon the terms, subject to the conditions and relying upon the representations and warranties set forth in this Agreement or incorporated herein by reference, the Issuing Bank agrees to issue the Letter of Credit. The Letter of Credit shall be in the original stated amount of U.S. $37,152,465.75 (the "*Original Stated Amount*"), which is the sum of (i) the principal amount of Bonds outstanding on the Closing Date, plus (ii) interest thereon at the Cap Interest Rate for a period of 45 days.

Section 2.2. Letter of Credit Drawings; Participations.

(a) The Trustee is authorized to make drawings under the Letter of Credit in accordance with the terms thereof. The Applicant hereby directs the Issuing Bank to make payments under the Letter of Credit in the manner therein provided. The Applicant hereby irrevocably approves reductions and reinstatements of the Available Amount as provided in the Letter of Credit.

(b) By the issuance of the Letter of Credit and without any further action on the part of the Issuing Bank or the Banks, the Issuing Bank hereby grants to each Bank, and each Bank hereby acquires from the Issuing Bank, a participation in the Letter of Credit equal to such Bank's Applicable Percentage of the aggregate amount available to be drawn under the Letter of Credit. In consideration and in furtherance of the foregoing, each Bank hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Bank's Applicable Percentage of (x) each Liquidity Drawing constituting a Liquidity Advance, (y) each LC Disbursement made by the Issuing Bank and not reimbursed by the Applicant on the date due as provided in Sections 2.3 or 2.4 and (z) any reimbursement payment required to be refunded to the Applicant for any reason. Each Bank acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of the Letter of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of the Letter of Credit or the occurrence and continuance of an Event of Default, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

Section 2.3. Reimbursement of Certain Liquidity Drawings Under the Letter of Credit; Liquidity Advances; Prepayment.

(a) Each Liquidity Drawing made under the Letter of Credit shall constitute an advance ("*Liquidity Advance*") to the Applicant; provided, that the portion of a Liquidity Drawing representing the interest component of the purchase price of the Bonds and the corresponding Pledged Bonds shall only be considered a Liquidity Advance if (x) the conditions precedent contained in Section 3.2 hereof are satisfied at the time of payment by the Issuing Bank of a Liquidity Drawing and (y) prior to or immediately upon payment by the Issuing Bank of any Liquidity Drawing the Applicant shall not have reimbursed the Issuing Bank by making payment to the Administrative Agent for the account of the Issuing Bank the full amount of such LC Disbursement representing the interest component of the purchase price of the Bonds and the corresponding Pledged Bonds. The Applicant promises to pay to the Administrative Agent for the account of the Issuing Bank and, to the extent a Bank made a payment pursuant to Section 2.5 hereof to reimburse the Issuing Bank, such Bank, the portion of each Liquidity Advance representing the interest component of the purchase price of the Bonds and the corresponding Pledged Bonds on the earliest of (i) the date on which any Pledged Bonds are redeemed or cancelled pursuant to the Indenture, (ii) the date on which any Pledged Bonds are remarketed pursuant to the Indenture, (iii) the date on which the Letter of Credit is replaced by a substitute letter of credit pursuant to the terms of the Indenture and the Loan Agreement, (iv) the regularly scheduled interest payment date for the Bonds next succeeding the date on which such Liquidity Advance was made, and (v) the Termination Date. The Applicant promises to pay to the Administrative Agent for the account of the Issuing Bank and, to the extent a Bank made a payment pursuant to Section 2.5 hereof to reimburse the Issuing Bank, such Bank, the portion of each Liquidity Advance representing the principal component of the purchase price of the Bonds and the corresponding Pledged Bonds on the earliest of (i) the date on which any Pledged Bonds are redeemed or cancelled pursuant to the Indenture, (ii) the date on which any Pledged Bonds are remarketed pursuant to the Indenture, (iii) the date on which the Letter of Credit is replaced by a substitute letter of credit pursuant to the terms of the Indenture and the Loan Agreement, and (iv) the Termination Date.

(b) Each Liquidity Advance shall bear interest in accordance with and at a rate per annum as provided in clause (c) below. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Bank pursuant to Section 2.5 hereof to reimburse the Issuing Bank shall be for the account of such Bank to the extent of such payment.

(c) The Applicant promises to pay to the Administrative Agent for the account of the Issuing Bank on each Interest Payment Date in arrears, interest on the unpaid principal amount of each Liquidity Advance and the corresponding Pledged Bonds (subject to the provisions of the Indenture), from the date such Liquidity Advance is made until it is paid in full as provided herein, at a rate per annum equal to the sum of (w) the Applicable Margin for ABR Advances and (x) the Alternate Base Rate, or, if the Applicant so elects in accordance with paragraph (d) of this Section, the sum of (y) the Adjusted LIBO Rate, payable in arrears on the Interest Payment Dates, subject to Section 2.9 hereof and (z) the Applicable Margin for Eurodollar Advances; provided that interest accrued on and after the date of payment by any Bank pursuant to Section 2.5 hereof to reimburse the Issuing Bank shall be for the account of

such Bank to the extent of such payment. Any Liquidity Advance and the corresponding Pledged Bonds (subject to the provisions of the Indenture) not paid when due shall bear interest at the rate per annum specified in Section 2.10 hereof, as and to the extent applicable.

(d) Each Liquidity Advance initially shall be an ABR Advance. Thereafter, the Applicant may, subject to Sections 2.10 and 2.15 hereof, elect to convert such Liquidity Advance into a Eurodollar Advance. To request a conversion of an ABR Advance into a Eurodollar Advance, the Applicant shall notify the Administrative Agent of such request by telecopy not later than 11:00 a.m., New York City time, three (3) Business Days before the date of the proposed conversion. Each such Interest Election Request shall be irrevocable and shall be in a form approved by the Administrative Agent and signed by the Applicant. Each such Interest Election Request shall specify the following information:

(i) the date of such conversion, which shall be a Business Day; and

(ii) the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period".

Thereafter, the Applicant may elect to convert such Eurodollar Advance into an ABR Advance or, subject to Sections 2.10 and 2.15 hereof, continue such Eurodollar Advance and may elect Interest Periods therefor, all as provided in this Section 2.3(d). To make such an election, the Applicant shall notify the Administrative Agent of such election by telecopy by the time specified in this Section 2.3(d) above. Each such Interest Election Request shall be irrevocable and shall be in a form approved by the Administrative Agent and signed by the Applicant. Each written Interest Election Request shall specify the following information:

(i) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(ii) whether the resulting Liquidity Advance is to be an ABR Advance or a Eurodollar Advance; and

(iii) if the resulting Liquidity Advance is a Eurodollar Advance, the Interest Period to be applicable thereto after giving effect to such election, which Interest Period shall be a period contemplated by the definition of the term "Interest Period".

If no Interest Period is specified in any Interest Election Request, then the Applicant shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of an Interest Election Request in accordance with this Section 2.3(d), the Administrative Agent shall advise each Bank of the details thereof. Notwithstanding any other provision of this Agreement, the Applicant shall not be entitled to request any Interest Period that would end after the Termination Date. If the Applicant fails to deliver a timely Interest Election Request with respect to a Eurodollar Advance prior to the end of the Interest Period applicable thereto, then, unless such Liquidity Advance is repaid as provided herein, at the end of such Interest Period such Liquidity Advance shall be converted to an ABR Advance.

(e) Any Liquidity Advance and the corresponding Pledged Bonds created pursuant to paragraph (a) above may be prepaid in whole or in part at any time on any Business Day, subject to prior notice in accordance with the provisions of this Section 2.3(e), without premium or penalty; provided that the Applicant shall be obligated to pay (i) the accrued interest payable pursuant to Section 2.3 in accordance with Section 2.8 and (ii) the break funding payments pursuant to Section 9.1(c), if any. Upon any such prepayment, the Pledged Bonds so prepaid shall cease to be Pledged Bonds and the Applicant will so notify the Trustee. Upon the resale of Pledged Bonds acquired with the proceeds of one or more Liquidity Drawings, the Applicant shall prepay or cause the Trustee on behalf of the Applicant to prepay the then outstanding Liquidity Advances resulting from such Liquidity Drawings (in the order in which they were made) by paying to the Administrative Agent or to the Issuing Bank an amount equal to the sum of (i) the portion of the purchase price corresponding to the aggregate principal amount of the Pledged Bonds being resold or to be resold plus (ii) the portion of the purchase price corresponding to the aggregate amount of accrued and unpaid interest on such Pledged Bonds which was paid by such Liquidity Drawings and accrued interest thereon. Such payments shall be applied in reimbursement of such Liquidity Drawings (as prepayment of Liquidity Advances resulting from such Liquidity Drawings in the manner described above), and the Applicant irrevocably authorizes the Issuing Bank to reinstate the Letter of Credit in accordance therewith. The Applicant shall notify the Administrative Agent of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Advance, not later than 11:00 a.m., New York City time, three (3) Business Days before the date of prepayment, (ii) in the case of prepayment of an ABR Advance, not later than 11:00 a.m., New York City time, on the date of prepayment; provided, however that in the case of a prepayment of Liquidity Advances from proceeds of resale of the related Pledged Bonds, the Applicant or its designee shall deliver notice to the Administrative Agent, not later than 12:30 p.m. (New York City time) on the date of such proposed prepayment, which notice may be given by telephone (promptly verified in writing). Each such notice shall be irrevocable and shall specify the prepayment date and the principal amount of the Liquidity Advance or portion thereof to be prepaid.

(f) Upon the Administrative Agent's receipt of any payment or prepayment of any Liquidity Advance, the amount of such Liquidity Advance shall be reduced by the amount of such payment or prepayment.

Section 2.4. Reimbursement of LC Disbursements Other Than Liquidity Drawings Creating Liquidity Advances Under the Letter of Credit. The Applicant agrees to reimburse the Issuing Bank by making a payment to the Administrative Agent for the account of the Issuing Bank for the full amount of any LC Disbursement that does not constitute a Liquidity Advance pursuant to Section 2.3(a) prior to or immediately upon making by the Issuing Bank of each such LC Disbursement at the times set forth in the Letter of Credit on the date of each such LC Disbursement; provided that any moneys received from the Applicant in connection with any LC Disbursement shall be applied solely for the purpose of reimbursement of the related LC Disbursement. If the Applicant does not reimburse such LC Disbursement in full on the date such LC Disbursement is made by the times provided for herein and such LC Disbursement does not constitute a Liquidity Advance pursuant to Section 2.3(a), the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Applicant reimburses such LC Disbursement, at the Alternate Base Rate plus the rate per annum specified in Section 2.10 hereof. Interest accrued pursuant to this

paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Bank pursuant to Section 2.5 to reimburse the Issuing Bank shall be for the account of such Bank to the extent of such payment.

Section 2.5. Reimbursement by the Banks; Sharing of Set-off; Payments by Banks and Administrative Agent.

(a) If a Liquidity Drawing shall constitute a Liquidity Advance or if the Applicant fails to make payments due and payable pursuant to Sections 2.3 or 2.4 when due, the Administrative Agent shall immediately notify each Bank of the applicable LC Disbursement, the amount of such Liquidity Advance and/or the payment then due from the Applicant in respect thereof and such Bank's Applicable Percentage thereof. Following receipt of such notice, each Bank shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Applicant by no later than 3:00 p.m. on the same day, if such notice has been received by such Bank prior to 1:00 p.m., and by no later than 10:00 a.m. on the following Business Day, if such notice has been received by such Bank after 1:00 p.m., by wire transfer of immediately available funds to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Banks, and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Banks. Promptly following receipt by the Administrative Agent of any payment from the Applicant pursuant to Sections 2.3 or 2.4, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Banks have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Banks and the Issuing Bank as their interests may appear. Any payment made by a Bank pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement shall not relieve the Applicant of its obligation to reimburse such LC Disbursement.

(b) If any Bank shall, by exercising any right of set off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its participations in LC Disbursements resulting in such Bank receiving payment of a greater proportion of the aggregate amount of its participations in LC Disbursements and accrued interest thereon than the proportion received by any other Bank, then the Bank receiving such greater proportion shall purchase (for cash at face value) participations in the participations in LC Disbursements of other Banks to the extent necessary so that the benefit of all such payments shall be shared by the Banks ratably in accordance with the aggregate amount of principal of and accrued interest on their respective participations in LC Disbursements; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Applicant pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Bank as consideration for the assignment of or sale of a participation in any of its participations in LC Disbursements to any assignee or participant, other than to the Applicant or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Applicant consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Bank acquiring a participation pursuant to the foregoing arrangements may exercise against the Applicant rights of set-off and counterclaim

with respect to such participation as fully as if such Bank were a direct creditor of the Applicant in the amount of such participation.

(c) Unless the Administrative Agent shall have received notice from the Applicant prior to the date on which any payment is due to the Administrative Agent for the account of the Banks hereunder that the Applicant will not make such payment, the Administrative Agent may assume that the Applicant has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Banks the amount due. In such event, if the Applicant has not in fact made such payment, then each of the Banks severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the Prime Rate.

(d) If any Bank shall fail to make any payment required to be made by it hereunder, then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Bank to satisfy such Bank's obligations hereunder until all such unsatisfied obligations are fully paid.

Section 2.6. Fees. The Applicant hereby agrees to pay, or cause to be paid, to the Administrative Agent for its own account and for the account of each Bank, as applicable:

(a) quarterly in arrears on the last Business Day of each calendar quarter (commencing on the last Business Day of the calendar quarter in which the Letter of Credit is issued) and on the date on which the Commitments terminate, a non-refundable participation fee for the account of each Bank which shall equal on any such payment date the product of (i) the LC Fee Margin on such date and (ii) the Available Amount multiplied by such Bank's Applicable Percentage on such date;

(b) on the date of any extension of the Letter of Credit for the account of the Issuing Bank, an amendment fee in an amount mutually agreed upon between the Issuing Bank and the Applicant;

(c) on the date of any LC Disbursement, for the account of the Issuing Bank, a drawing fee in an amount equal to $250 per draw; and

(d) on the date of any transfer of the Letter of Credit, for the account of the Issuing Bank, a transfer fee, if any, in an amount equal to $3,500.

Section 2.7. Payments; Etc. All payments to be made by the Applicant under this Agreement for the account of the Issuing Bank relative to reimbursement of an LC Disbursement shall be made at the Chicago office of the Administrative Agent not later than 2:30 p.m., New York City time, on the date payments are required to be made pursuant to Section 2.4, and all other payments to be made by the Applicant under this Agreement shall be made at the Chicago office of the Administrative Agent not later than 2:00 p.m., New York City time, on the date when due and in either case shall be made in lawful money of the United States of America in freely transferable and immediately available funds. The Administrative Agent shall distribute

any such payments received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof.

Section 2.8. Computation of Interest and Fees. The ABR Advances shall bear interest at the Alternate Base Rate in accordance with Section 2.3(c). The Eurodollar Advances shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Liquidity Advance in accordance with Section 2.3(c). All computations of interest and fees payable by the Applicant under this Agreement shall be made on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed. The applicable Alternate Base Rate (including the components thereof) or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

Section 2.9. Payment Due on Non-Business Day to Be Made on Next Business Day. If any sum becomes payable pursuant to this Agreement on a day which is not a Business Day, the date for payment thereof shall be extended, without penalty, to the next succeeding Business Day, and such extended time shall be included in the computation of interest and fees.

Section 2.10. Rates Applicable After an Event of Default; Late Payments. If an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Banks, so notifies the Applicant (which notice may be revoked at the option of the Required Banks notwithstanding any provision of Section 9.9 hereof requiring unanimous consent of the Banks to changes in interest rates), then, so long as an Event of Default is continuing (i) no outstanding Liquidity Advance may be converted to or continued as a Eurodollar Advance and (ii) unless repaid, each Eurodollar Advance shall be converted to an ABR Advance at the end of the Interest Period applicable thereto; provided that, during the continuance of an Event of Default under Section 7.1(b), (d), (f) or (g) (relating to the Applicant) and without any election or action on the part of the Administrative Agent or any Bank, (i) each Eurodollar Advance shall bear interest for the remainder of the applicable Interest Period at a rate per annum equal to the sum of (A) the rate otherwise applicable to such Interest Period plus (B) the Applicable Margin for Eurodollar Advances plus (C) 2.00% per annum and (ii) each ABR Advance shall bear interest at a rate per annum equal to the sum of (X) the Alternate Base Rate in effect from time to time *plus* (Y) the Applicable Margin for ABR Advances plus (Z) 2.00% per annum, provided that the Required Banks may, at their option, revoke such increase notwithstanding any provision of Section 9.9 hereof requiring unanimous consent of the Banks to changes in interest rates.

(b) The amount of any Obligation which is not paid when due shall bear interest until paid in full at a rate per annum equal to the sum of (x) the Alternate Base Rate from time to time in effect (without giving effect to any increase in rate per annum pursuant to clause (a) of this Section 2.10) *plus* (y) 2.00% per annum, payable on demand.

Section 2.11. Source of Funds. All payments made by the Issuing Bank pursuant to the Letter of Credit shall be made from funds of the Issuing Bank, and not from the funds of any other Person.

Section 2.12. Extension of Stated Expiration Date. At any time there shall remain no less than ninety (90) days to the then current Stated Expiration Date of the Letter of Credit, the Applicant may request the Banks, through the Administrative Agent, to extend the then current Stated Expiration Date for a period of one year. If each of the Banks, in its sole discretion, elects to extend the Stated Expiration Date then in effect, they shall advise the Administrative Agent of such election, and the Administrative Agent shall, within thirty (30) days of receipt of such extension request, advise the Applicant and the Issuing Bank who will deliver to the Trustee a Notice of Extension Amendment in the form of Annex K to the Letter of Credit (herein referred to as a "*Notice of Extension*") designating the date to which the Stated Expiration Date is being extended, it being understood and agreed that the failure of the Administrative Agent to notify the Issuing Bank of any decision within such 30-day period shall be deemed to be a rejection of such request and the Issuing Bank shall not incur any liability or responsibility whatsoever by reason of the Administrative Agent's failure to notify such parties within such 30-day period. The Administrative Agent's consent to any such extension of the stated expiration date shall be conditioned upon the preparation, execution and delivery of documentation in form and substance satisfactory to the Administrative Agent, the Banks, and each of their respective counsel. Such extension of the Stated Expiration Date shall be effective, after receipt of such notice, on the Business Day following the date of delivery of such Notice of Extension Amendment, and thereafter all references in this Agreement to the Stated Expiration Date shall be deemed to be references to the date designated as such in the most recent Notice of Extension Amendment delivered to the Trustee. Any date to which the Stated Expiration Date has been extended in accordance with this Section 2.12 may be extended in like manner.

Section 2.13. Amendments upon Extension. Upon any extension of the Stated Expiration Date pursuant to Section 2.12 of this Agreement, each of the Banks and the Applicant each reserves the right to renegotiate any provision hereof.

Section 2.14. Electronic Transmissions. Each of the Issuing Bank and the Administrative Agent is authorized to accept and process any amendments, transfers, assignments of proceeds, Instructions, consents, waivers and all documents relating to the Letter of Credit which are sent to the Issuing Bank or the Administrative Agent, as applicable, by electronic transmission, including SWIFT, electronic mail, telex, telecopy, telefax, courier, mail or other computer generated telecommunications and such electronic communication shall have the same legal effect as if written and shall be binding upon and enforceable against the Applicant. Each of the Issuing Bank and the Administrative Agent may, but shall not be obligated to, require authentication of such electronic transmission or that the Issuing Bank or the Administrative Agent, as applicable, receives original documents prior to acting on such electronic transmission.

Section 2.15. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Advance:

(a) the Administrative Agent shall have determined in its reasonable and good faith judgment (which determination shall be conclusive absent manifest error) that, by reason of circumstances affecting the relevant market, adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(b) the Administrative Agent shall have received notice from the Required Banks that the Adjusted LIBO Rate determined or to be determined for such Interest Period will not adequately and fairly reflect the actual cost to such Banks of making or maintaining their participations included in such Liquidity Advance for such Interest Period; or

(c) the Administrative Agent shall have received notice from any Bank that the introduction of or any change in or in the interpretation of any Requirement of Law makes it unlawful, or any central bank or other Governmental Authority asserts that it is unlawful after the date hereof, for any Bank or its Eurodollar Lending Office to make, fund or maintain Eurodollar Advances hereunder;

then the Administrative Agent shall give notice thereof to the Applicant and the Banks by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Applicant and the Banks that the circumstances giving rise to such notice no longer exist, any Interest Election Request that requests the conversion of any Liquidity Advance to, or continuation of any Liquidity Advance as, a Eurodollar Advance shall be ineffective and any such Eurodollar Advance shall be converted into an ABR Advance on the last day of the then current Interest Period applicable thereto or, if required by applicable law, immediately upon such demand.

Section 2.16. Defaulting Banks. Notwithstanding any provision of this Agreement to the contrary, if any Bank becomes a Defaulting Bank, then the following provisions shall apply for so long as such Bank is a Defaulting Bank:

(a) the Applicant shall not be required to pay any participation fees to such Defaulting Bank pursuant to Section 2.6 with respect to such Defaulting Bank's Commitment; provided that if such Defaulting Bank's Commitment is not cash collateralized pursuant to Section 2.16(c), then, without prejudice to any rights or remedies of the Issuing Bank or any Bank hereunder, the participation fee payable under Section 2.6 with respect to such Defaulting Bank's Commitment shall be payable to the Issuing Bank until such Commitment is cash collateralized pursuant to Section 2.16(c). For the avoidance of doubt, it is being understood that, the interest payable by the Applicant pursuant to Section 2.3 or Section 2.4 on LC Disbursements and Liquidity Advances shall continue to be payable to the applicable Banks, including the Defaulting Bank, to the extent the Defaulting Bank has funded its share of any such LC Disbursement or Liquidity Advance and would be entitled to such interest had it not become a Defaulting Bank;

(b) the Commitment of such Defaulting Bank shall not be included in determining whether the Required Banks have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 9.9), other than any waiver, amendment or modification requiring the consent of all Banks or of each affected Bank;

(c) the Applicant shall, within one Business Day following written notice from the Administrative Agent demanding the deposit of cash collateral pursuant to this Section 2.16, deposit in an account established by the Applicant with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Banks (the "*Defaulting Bank Collateral Account*"), an amount in cash which is, to the extent allowed by law, free and clear of all rights and claims of third parties equal to such Defaulting Bank's Commitment for so long as such Commitment is outstanding; provided that (i) if at any time the Administrative Agent determines that the amount on deposit in the Defaulting Bank Collateral Account shall be less than such Defaulting Bank's Commitment, the Administrative Agent may make demand on the Applicant to pay, and the Applicant will, within one Business Day after written notice from the Administrative Agent making such demand, pay to the Administrative Agent an amount equal to such deficiency, which funds shall be deposited in the Defaulting Bank Collateral Account, (ii) the Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such Defaulting Bank Collateral Account, (iii) other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent, such deposits shall not bear interest and, subject to the provisions of this clause (c), interest or profits, if any, on such investments shall accumulate in such account, (iv) amounts held in the Defaulting Bank Collateral Account will be paid to the Issuing Bank from time to time as necessary to pay amounts owing to the Issuing Bank by the Defaulting Bank pursuant to Sections 2.2 and 2.5 hereof, (v) if the Applicant is required to provide an amount of cash collateral under this clause (c), such amount (to the extent not applied as aforesaid) shall be returned to the Applicant within three Business Days after a Defaulting Bank has been determined in accordance with the terms of this Section 2.16 to no longer be a Defaulting Bank or such Defaulting Bank has been replaced in accordance with Section 2.17 and (vi) amounts in such Defaulting Bank Collateral Account shall be repaid to the Applicant to the extent not required as collateral from time to time pursuant to the provisions of this clause (c);

(d) to the extent the Administrative Agent receives any payments or other amounts for the account of a Defaulting Bank, such Defaulting Bank shall be deemed to have requested that the Administrative Agent use such payment or other amount to fulfill such Defaulting Bank's previously unsatisfied obligations to fund a Liquidity Advance or any other unfunded payment obligation of such Defaulting Bank under Sections 2.2, 2.5 or 9.3(b) hereof; and

(e) for the avoidance of doubt, the Applicant shall retain and reserve its other rights and remedies respecting each Defaulting Bank.

In the event that the Administrative Agent, the Applicant and the Issuing Bank each agrees that a Defaulting Bank has adequately remedied all matters that caused such Bank to be a Defaulting Bank, then this Section 2.16 shall no longer apply in respect of such rehabilitated Defaulting Bank.

Section 2.17. Replacement of Bank. If (x) the Applicant is required pursuant to Section 9.1(a) or 9.1(b) to make any additional payment to any Bank or if any Bank's obligation to continue, or to convert Liquidity Advances into, Eurodollar Advances shall be suspended pursuant to Section 2.15 (any Bank so affected an "*Affected Bank*") or (y) any Bank becomes a Defaulting Bank, the Applicant may elect to replace the Commitment and participations in the

Letter of Credit of such Affected Bank or Defaulting Bank, as applicable, provided that no Event of Default shall have occurred and be continuing at the time of such replacement, and provided further that, concurrently with such replacement, (i) another bank or other entity which is reasonably satisfactory to the Applicant and the Administrative Agent shall agree, as of such date, to purchase for cash (to the extent of the principal amount of such Affected Bank's or Defaulting Bank's, as applicable, Liquidity Advances and accrued interest and fees and other reimbursable amounts then due and payable) and otherwise assume the Commitment and participation in the Letter of Credit of, and other Obligations then due to, such Affected Bank or Defaulting Bank, as applicable, pursuant to an Assignment and Assumption and to become a Bank for all purposes under this Agreement and to assume all obligations of such Affected Bank or Defaulting Bank, as applicable, to be replaced as of such date and to comply with the requirements of Section 9.7 applicable to assignments, (ii) the Applicant shall pay to such Affected Bank or Defaulting Bank, as applicable, in same day funds on the day of such replacement (A) all interest, fees and other amounts then accrued but unpaid to such Affected Bank or Defaulting Bank, as applicable, by the Applicant hereunder to and including the date of replacement, including without limitation payments due to such Affected Bank or Defaulting Bank, as applicable, under Sections 9.1(a) and 9.1(b), and (B) an amount, if any, equal to the payment which would have been due to such Bank on the day of such replacement under Section 9.1(c) had the Eurodollar Advances of such Affected Bank or Defaulting Bank, as applicable, been prepaid on such date rather than sold to the replacement Bank, in each case to the extent not paid by the purchasing Bank, and (iii) concurrently with the effectiveness of such replacement, such Affected Bank or Defaulting Bank, as applicable, shall be released with respect to its Commitment, such Commitment shall be terminated, and Liquidity Advances assigned by such Affected Bank or Defaulting Bank, as applicable, and shall cease to be a Bank hereunder but shall continue to be entitled to the benefits of, and subject to, those provisions of this Agreement which survive payment of the Obligations and termination of the Agreement.

Article III
Conditions Precedent

Section 3.1. Conditions Precedent to Issuance of Letter of Credit. The obligation of the Issuing Bank to issue the Letter of Credit shall not become effective until the date on which each of the following conditions is satisfied:

(a) the Administrative Agent and the Banks shall have received from the Applicant, each of the following, in form and substance satisfactory to the Administrative Agent and its counsel, Sidley Austin LLP (hereinafter, "*Agent's Counsel*"):

(i) counterparts of this Agreement, duly executed by the Applicant, the Administrative Agent, the Issuing Bank and the Banks;

(ii) counterparts of the Custodian Agreement, duly executed by the Applicant, the Issuing Bank and the Custodian;

(iii) an original of each Collateral Mortgage Bond, duly executed and delivered by the Applicant and (x) a duplicate copy of each other Credit Document and Related Document (other than the Letter of Credit) not delivered pursuant to clause (i) or (ii) above and (y) a copy of the

ACC order, in each case, certified by an Authorized Officer of the Applicant as being the true, correct and complete copy thereof and as being in full force and effect;

(iv) evidence that the Remarketing Agent has acknowledged and accepted in writing its appointment as Remarketing Agent under the Indenture and its duties and obligations thereunder;

(v) a reliance letter relating to the final opinion of Orrick Herrington & Sutcliffe LLP, bond counsel, dated the Closing Date and addressed to the Administrative Agent, the Issuing Bank and the Banks, such final opinion to be in substantially such form as is set forth as Appendix C to the Official Statement;

(vi) the written opinion of each of (1) Raymond S. Heyman, Esq., General Counsel to the Applicant, (2) Morgan, Lewis & Bockius, New York counsel to the Applicant, and (3) Rodey, Dickason, Sloan, Akin & Robb, PA, special New Mexico counsel to the Applicant, each dated the Closing Date and addressed to the Administrative Agent, the Issuing Bank and the Banks;

(vii) a certificate signed by an Authorized Officer of the Applicant, dated the Closing Date and stating that:

(1) the representations and warranties contained in Article IV of this Agreement are true and correct in all material respects (except for such representations and warranties which are already subject to materiality or Material Adverse Effect qualifiers, which representations and warranties shall be true and correct in all respects) on and as of the Closing Date as though made on such date; and

(2) no Event of Default or Default has occurred and is continuing, or would result from the issuance of the Letter of Credit or the execution, delivery or performance of this Agreement or any Related Document to which the Applicant is a party;

(viii) certified copies of the articles of incorporation and by-laws of the Applicant;

(ix) a good standing certificate of the Applicant certified by ACC;

(x) a copy of resolutions of the board of directors of the Applicant and all other necessary corporate approvals, if any, certified as of the Closing Date by the Secretary or Assistant Secretary of the Applicant, authorizing, among other things, the execution, delivery and performance by the Applicant of the Related Documents to which it is a party, and the issuance of the Letter of Credit;

(xi) true and correct copies of all Governmental Approvals and other third-party approvals, if any, necessary for the Applicant to execute, deliver and perform the Related Documents to which it is a party and to authorize the Applicant to obtain the issuance of the Letter of Credit (which Governmental Approvals and other approvals shall be in full force and effect as of the Closing Date);

(xii) evidence that the Applicant has received all consents and other approvals, if any, from creditors necessary for the Applicant to execute, deliver and perform the Related Documents to which it is a party and to authorize the Applicant to obtain the issuance of the Letter of Credit and that all such approvals are in full force and effect as of the Closing Date;

(xiii) a certificate of the Secretary or Assistant Secretary of the Applicant certifying the names and true signatures of the officers of the Applicant authorized to sign this Agreement, each Credit Document and Related Document to which the Applicant is a party and the other documents to be delivered by it hereunder or thereunder;

(xiv) a certificate of an authorized officer of the Custodian certifying the names, true signatures and incumbency of the officers of the Custodian authorized to sign the documents to be delivered by it hereunder and as to such other matters as the Administrative Agent may reasonably request;

(xv) a certificate of an authorized officer of the Trustee certifying the names, true signatures and incumbency of the officers of the Trustee authorized to make drawings under the Letter of Credit and as to such other matters as the Administrative Agent may reasonably request;

(xvi) evidence that the Issuer shall have duly executed, issued and delivered the Bonds to the Trustee and that the Trustee shall have duly authenticated the Bonds and delivered the Bonds against payment;

(xvii) copies of each document (including any Uniform Commercial Code financing statement) required by the Credit Documents or any Related Document or under law or reasonably requested by the Administrative Agent to be filed, registered or recorded in order to create in favor of the Trustee for the benefit of the holders of the Bonds, and perfect the security interest created by the Indenture;

(xviii) copies of any amendments or supplements to the Mortgage Indenture, certified by an authorized officer of the Borrower as being a true, correct and complete copy thereof and as being in full force and effect and such other documents and certificates as the Administrative Agent or its counsel may reasonably request relating to any other legal matters relating to the Credit Documents, the Related Documents, the Mortgage Indenture, the Lien of the Mortgage Indenture or the Transactions;

(xix) a duplicate copy of all proceedings relating to the issuance and sale of the Bonds;

(xx) written evidence satisfactory to the Administrative Agent that a new and separate CUSIP number has been obtained and reserved from S&P's CUSIP Service Bureau, a division of The McGraw-Hill Companies, Inc., for the Pledged Bonds;

(xxi) copies of the Official Statement used in connection with the offering of the Bonds and the issuance of the Letter of Credit;

(xxii) letters from S&P and Moody's to the effect that the Bonds have been rated at least A-1 and VMIG-1, respectively, upon the issuance of the Letter of Credit, such letters to be in form and substance reasonably satisfactory to the Administrative Agent; and

(xxiii) (a) satisfactory audited consolidated financial statements of the Applicant for the two most recent fiscal years ended prior to the Closing Date as to which such financial statements are available, (b) satisfactory unaudited interim consolidated financial statements of the Applicant for each quarterly period ended subsequent to the date of the latest financial statements delivered pursuant to clause (a) of this paragraph as to which such financial statements are available and (c) satisfactory financial statement projections through and including the Applicant's 2013 fiscal year, together with such information as the Administrative Agent shall reasonably request (including, without limitation, a detailed description of the assumptions used in preparing such projections).

(b) no law, regulation, ruling or other action of the United States or the State of New York or any political subdivision or authority therein or thereof shall be in effect or shall have occurred, the effect of which would be to prevent any Bank from fulfilling its obligations under this Agreement or the Letter of Credit;

(c) all legal requirements provided herein incident to the execution, delivery and performance of the Related Documents and the transactions contemplated thereby, shall be reasonably satisfactory to the Administrative Agent and Agent's Counsel; and

(d) the Administrative Agent shall have received all fees due and payable to the Banks and the Issuing Bank by the Applicant pursuant to Section 2.6 and pursuant to the Fee Letter, if any, and all other amounts due and payable on or prior to the Closing Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses required to be reimbursed or paid by the Applicant hereunder.

Section 3.2. Conditions Precedent to Liquidity Advances. Following any LC Disbursement constituting a Liquidity Drawing, a Liquidity Advance in respect of the portion of such Liquidity Drawing representing the interest component of the purchase price of the Bonds and the corresponding Pledged Bonds shall be made available to the Applicant *only if* on the date of payment of such Liquidity Drawing by the Bank the following statements shall be true and correct:

(a) the representations and warranties of the Applicant contained in Article IV of this Agreement (other than the representations and warranties set forth in Section 4.4(b), 4.6(a)(i) and 4.6(c)) are true and correct in all material respects (except for such representations and warranties which are already subject to a materiality or Material Adverse Effect qualifier, which representations and warranties shall be true and correct in all respects) on and as of the date of such payment as though made on and as of such date (except where such representations and warranties expressly relate to an earlier date, in which case such representations and warranties shall have been true and correct as of such earlier date); and

(b) no event has occurred and is continuing, or would result from such payment, which constitutes a Default or Event of Default.

Unless the Applicant shall have previously advised the Administrative Agent in writing that one or both of the above statements is no longer true, the Applicant shall be deemed to have represented and warranted on the date of such payment that both of the above statements are true and correct.

Article IV
Representations and Warranties

To induce the Administrative Agent, the Issuing Bank, and the Banks to enter into this Agreement and to issue or participate in the Letter of Credit, the Applicant hereby represents and warrants to the Administrative Agent, the Issuing Bank, and each Bank that:

Section 4.1. Organization; Powers. The Applicant and each of its Consolidated Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite corporate, partnership, limited liability company or other applicable organizational power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, is qualified to do business, and is in good standing, in every jurisdiction where such qualification is required.

Section 4.2. Authorization; Enforceability. The Transactions are within the Applicant's organizational powers and have been duly authorized by all necessary corporate and, if required, stockholder action. This Agreement has been duly executed and delivered by the Applicant and constitutes, and the Mortgage Indenture constitutes, and each other Credit Document and Related Document to which the Applicant is to be a party, when executed and delivered by the Applicant (and, in the case of the Collateral Mortgage Bonds, authenticated by the trustee therefor), will constitute, a legal, valid and binding obligation of the Applicant, enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

Section 4.3. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except for (i) such approvals of the ACC that have been obtained and are in full force and effect, and (ii) filings necessary to perfect Liens created under the Credit Documents (other than the Lien of the Mortgage Indenture, in respect of which all requisite filings have been made), (b) will not violate any Requirement of Law, (c) will not violate or result in a default under any indenture, agreement or other instrument binding upon the Applicant or any of its Consolidated Subsidiaries or its assets, or give rise to a right thereunder to require any payment to be made by the Applicant or any of its Consolidated Subsidiaries, and (d) will not result in the creation or imposition of any Lien on any asset of the Applicant or any of its Consolidated Subsidiaries, except Liens created under the Credit Documents or under the Mortgage Indenture.

Section 4.4. Financial Condition; No Material Adverse Change; Secured Indebtedness.

(a) The audited consolidated balance sheet and related statements of income, stockholders' equity and cash flows of the Applicant and its Consolidated Subsidiaries for the fiscal year ended December 31, 2009 and the most recent financial statements delivered by the Applicant pursuant to Section 5.1(a) or (b), in each case, present fairly, in all material respects, the financial position and results of operations and cash flows of the Applicant and its Consolidated Subsidiaries as of such dates and for such periods in accordance with GAAP, subject to year-end audit adjustments and the absence of footnotes in the case of the statements delivered pursuant to Section 5.1(a). Neither the Applicant nor any of its Consolidated Subsidiaries had, at the date of the most recent balance sheet referred to above, any Guarantee, contingent liability or liability for taxes, or any long-term lease or unusual forward or long-term commitment, including any interest rate or foreign currency swap or exchange transaction, which, in any case, is material to the Applicant and its Consolidated Subsidiaries, taken as a whole, and which is not reflected in the foregoing statements or in the notes thereto. During the period from December 31, 2009 to and including the Closing Date there has been no sale, transfer or other disposition by the Applicant or any of its Consolidated Subsidiaries of any part of its business or property, and no purchase or other acquisition of any business or property (including any Capital Stock of any other Person), which, in either case, is material in relation to the consolidated financial condition of the Applicant and its Consolidated Subsidiaries taken as a whole at December 31, 2009.

(b) Except to the extent that any specific change is explicitly disclosed in the Disclosure Documents, since December 31, 2009, there has been no material adverse change in the financial condition, results of operations, business or prospects of the Applicant and its Consolidated Subsidiaries, taken as a whole.

Section 4.5. Properties.

(a) Other than as explicitly disclosed in the Disclosure Documents, each of the Applicant and its Consolidated Subsidiaries has good title to, or valid leasehold interests in, and enjoys peaceful and undisturbed possession of, all its real and personal property material to its business, except for minor defects in title that do not interfere with its ability to conduct its business as currently conducted or to utilize such properties for their intended purposes.

(b) Each of the Applicant and its Consolidated Subsidiaries owns, or is licensed to use, all trademarks, tradenames, copyrights, patents and other intellectual property material to its business, and the use thereof by the Applicant and its Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 4.6. Litigation and Environmental Matters.

(a) Except as explicitly disclosed in the Disclosure Documents, there are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of the Applicant, threatened against or affecting the Applicant or any of its Consolidated Subsidiaries (i) as to which there is a reasonable possibility of an adverse

determination and that, if adversely determined, would, individually or in the aggregate, result in a Material Adverse Effect or (ii) that involve any of the Credit Documents, any of the Related Documents, the Mortgage Indenture or the Transactions.

(b) Except as explicitly disclosed in the Disclosure Documents, and except with respect to any other matters that, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect, neither the Applicant nor any of its Consolidated Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Except as explicitly disclosed in the Disclosure Documents, there has been no change in the status of any matters disclosed in the Disclosure Documents that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

Section 4.7. Compliance with Laws and Agreements. Except as explicitly disclosed in the Disclosure Documents, each of the Applicant and its Consolidated Subsidiaries is in compliance with all Requirements of Law, including the Fair Labor Standards Act, the Americans with Disabilities Act, the Foreign Corrupt Practices Act and Anti-Terrorism Laws, applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to be in compliance, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect. No Default or Event of Default has occurred and is continuing.

Section 4.8. Federal Regulations. No part of the proceeds of any LC Disbursement or any Liquidity Advance will be used for "purchasing" or "carrying" any "margin stock" within the respective meanings of each of the quoted terms under Regulation U as now and from time to time hereafter in effect or for any purpose that violates the provisions of the regulations of the Board. If requested by any Bank or the Administrative Agent, the Applicant will furnish to the Administrative Agent and each Bank a statement to the foregoing effect in conformity with the requirements of FR Form G-3 or FR Form U-1 referred to in Regulation U.

Section 4.9. Investment Company Status.

(a) Neither the Applicant nor any of its Consolidated Subsidiaries is an "investment company" or a company "controlled" by an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940, as amended.

(b) The Applicant is not subject to regulation under any Requirement of Law (other than Regulation X of the Board and Requirements of Law pertaining to utility regulation) which limits its ability to incur Indebtedness.

Section 4.10. Taxes. Each of the Applicant and its Consolidated Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which the Applicant or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so could not reasonably be expected to result in a Material Adverse Effect.

Section 4.11. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of such Plan by an amount that has resulted or could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed the fair market value of the assets of all such underfunded Plans by an amount that has resulted or could reasonably be expected to result in a Material Adverse Effect.

Section 4.12. Mortgage Indenture; Collateral Mortgage Bonds.

(a) Prior to the release of the Collateral Mortgage Bonds pursuant to Section 9.22, the Collateral Mortgage Bonds are and shall be entitled to the benefits of the Mortgage Indenture and secured by the Lien of the Mortgage Indenture. Upon delivery of the Collateral Mortgage Bonds to the Administrative Agent and at all times thereafter prior to the release of the Collateral Mortgage Bonds pursuant to Section 9.22, the Collateral Mortgage Bonds will be "Outstanding" and the Administrative Agent will be the "Holder" of the Collateral Mortgage Bonds for all purposes of the Mortgage Indenture.

(b) The Mortgage Indenture creates in favor of the trustee thereunder for the ratable benefit of the holders of the Mortgage Bonds, including, without limitation, the Collateral Mortgage Bonds, a legally valid and enforceable first priority security interest in the Mortgaged Property existing as of the date of issuance of such Collateral Mortgage Bonds and as of the date of any supplement thereto and constitutes a perfected security interest in all such Mortgaged Property, subject only to Permitted Encumbrances and Prepaid Liens (as such terms are defined in the Mortgage Indenture) and any other Liens expressly permitted pursuant to Section 5 of Article IV of the Mortgage Indenture.

(c) The Applicant has good title to the Mortgaged Property, subject only to the exceptions set forth in the Mortgage Indenture and in subsection (b) above, none of which materially impairs the use of the property affected thereby for the use intended in the operation of the business of the Applicant and except for defects in title or interest that would not, in the aggregate, have a material adverse effect on the value of the Mortgaged Property.

(d) As of the Closing Date no material properties or franchises described in the Mortgage Indenture as being subject to the Lien of the Mortgage Indenture have been released from such Lien, and, as of any subsequent date, no such properties or franchises shall have been released from the Lien of the Mortgage Indenture except in accordance with the terms thereof and hereof.

(e) The Collateral Mortgage Bonds (i) are the legal, valid and binding obligations of the Applicant, (ii) have been issued pursuant to, and entitled to the benefit of, the Mortgage Indenture and have been duly authorized, authenticated, issued and delivered in accordance therewith and are not in default and (iii) have been validly issued and authenticated, in each case in an aggregate principal amount of not less than $37,153,000, and remain outstanding and in full force and effect (except to the extent any reduction in the principal amount of the Collateral Mortgage Bonds in accordance with the Bond Delivery Agreement. As of the Closing Date, after giving effect to the issuance of the Collateral Mortgage Bonds, there will be $577,741,000 in aggregate principal amount of Mortgage Bonds outstanding.

(f) The Collateral Mortgage Bonds are not required to be registered under the Securities Act of 1933, as amended. The Mortgage Indenture conforms to the requirements of the Trust Indenture Act of 1939, as amended.

Section 4.13. Disclosure. The Applicant has disclosed to the Banks all agreements, instruments and corporate or other restrictions to which it or any of its Subsidiaries is subject, and all other matters known to it, that, individually or in the aggregate, could reasonably be expected to result in a Material Adverse Effect. None of the other reports, financial statements, certificates or other information, including, without limitation, information relating to the Applicant and its Subsidiaries included in the Official Statement, furnished by or on behalf of the Applicant to the Administrative Agent or any Bank in connection with the negotiation of this Agreement, any other Credit Document or any Related Document or delivered hereunder (as modified or supplemented by, and taken together with, other information so furnished) contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to forward looking statements, the Applicant represents only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time and notes that there can be no assurance that such expectations, beliefs or projections will be achieved or accomplished and that such projections are subject to an increasing degree of uncertainty as they relate to later periods of time.

Section 4.14. Solvency. On the Closing Date, the Applicant is Solvent.

Section 4.15. Labor Matters. There are no strikes or other labor disputes against the Applicant or any of its Subsidiaries pending or, to the knowledge of the Applicant, threatened that (individually or in the aggregate) could reasonably be expected to have a Material Adverse Effect. Hours worked by and payment made to employees of the Applicant and its Subsidiaries have not been in violation of the Fair Labor Standards Act or any other applicable Requirement of Law dealing with such matters that (individually or in the aggregate) could reasonably be expected to have a Material Adverse Effect. All payments due from the Applicant or any of its Subsidiaries on account of employee health and welfare insurance that (individually or in the

aggregate) could reasonably be expected to have a Material Adverse Effect if not paid have been paid or accrued as a liability on the books of the Applicant or the relevant Subsidiary.

Section 4.16. Anti-Terrorism Laws.

(a) Neither the Applicant nor, to the knowledge of the Applicant, any of its Affiliates is in violation of any Requirement of Law relating to terrorism or money laundering ("Anti-Terrorism Laws"), including Executive Order No. 13224 on Terrorist Financing, effective September 24, 2001 (the "Executive Order"), and the PATRIOT Act.

(b) Neither the Applicant nor, to the knowledge of the Applicant, any of its Affiliates is any of the following:

(i) a Person that is listed in the annex to, or is otherwise subject to the provisions of, the Executive Order;

(ii) a Person owned or controlled by, or acting for or on behalf of, any Person that is listed on the Annex to, or is otherwise subject to the provisions of, the Executive Order;

(iii) a Person with whom the Applicant is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law;

(iv) a Person who commits, threatens or conspires to commit or supports "terrorism" as defined in the Executive Order; or

(v) a Person that is named as a "specially designated national or blocked person" on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website or any replacement website or other replacement official publication of such list.

(c) Neither the Applicant nor, to the knowledge of the Applicant, any of its Affiliates (i) conducts any business or engages in making or receiving any contribution of funds, goods or services to or for the benefit of any Person described in clause (b)(i), (ii), (iii) or (v) above or, to the knowledge of the Applicant, clause (b)(iv) above; (ii) deals in, or otherwise engages in any transaction relating to, any property or interest in property blocked pursuant to the Executive Order; or (iii) engages in or conspires to engage in any transaction that evades or avoids, or has the purposes of evading or avoiding, or attempts to violate, any of the prohibitions set forth in any Anti-Terrorism Law.

(d) No broker or other agent (other than the Lead Arranger in connection with the syndication of the credit facilities established by this Agreement) is acting for the benefit of the Applicant or any of its Affiliates, or benefiting in any capacity, in each case in connection with the Credit Documents or the Related Documents.

All representations and warranties made under this Agreement shall be made and shall be true at and as of (a) the date hereof, (b) the Closing Date, and (c) the time of each Liquidity Advance in respect of the interest component of the purchase price of the Bonds and the corresponding Pledged Bonds, except that any representation and warranty specifically referring to the date

hereof or any other specified date shall, when deemed made at a later time pursuant to this Article IV, be required to be true only as of the date hereof or such other specified date, as the case may be.

All representations and warranties made by the Applicant in this Agreement, and in the certificates or other instruments prepared or delivered in connection with or pursuant to this Agreement, shall (i) be considered to have been relied upon by the Administrative Agent, the Issuing Bank and the Banks, (ii) survive the issuance of the Letter of Credit regardless of any investigation made by, or on behalf of, any Bank, and (iii) continue in full force and effect as long as the Letter of Credit shall remain outstanding or any amounts drawn under the Letter of Credit or any Obligations remain outstanding under this Agreement.

Article V
Affirmative Covenants

Until the Commitments have expired or been terminated, the principal of and interest on each Liquidity Advance and all fees and other amounts payable hereunder have been paid in full, the Letter of Credit has expired or terminated and all LC Disbursements have been reimbursed in full, the Applicant covenants and agrees with the Administrative Agent, the Issuing Banks and the Banks that:

Section 5.1. Financial Statements; Ratings Change and Other Information. The Applicant will furnish to the Administrative Agent (and the Administrative Agent will, promptly after its receipt thereof, forward such copies to the Banks):

(a) as soon as available and in any event within sixty (60) days after the end of each of the first three fiscal quarterly periods of each fiscal year of the Applicant, or fifteen (15) days after the date on which its quarterly report for such fiscal quarterly period is to be filed with the SEC in order to have been considered filed on a timely basis, whichever is later, consolidated statements of income of the Applicant and its Consolidated Subsidiaries for such period and for the period from the beginning of the respective fiscal year to the end of such period, consolidated statements of cash flows of the Applicant and its Consolidated Subsidiaries from the beginning of the applicable fiscal year to the end of such period and the related consolidated balance sheets as of the end of such period, setting forth in each case in comparative form the corresponding consolidated figures for the corresponding period in the preceding fiscal year, accompanied by a certificate of an Authorized Officer, which certificate shall state that the financial statements fairly present in all material respects the consolidated financial condition and results of operations, as the case may be, of the Applicant and its Consolidated Subsidiaries in accordance with GAAP, consistently applied (except where noted), as of the end of, and for, such period (subject to normal year-end audit adjustments and the absence of footnotes);

(b) as soon as available and in any event within one hundred and five (105) days after the end of each fiscal year of the Applicant, or fifteen (15) days after the date on which its annual report for such fiscal year is to be filed with the SEC in order to have been considered filed on a timely basis, whichever is later, consolidated statements of income and cash flows of the Applicant and its Consolidated Subsidiaries for such year and the related consolidated balance sheets as of the end of such year, setting forth in each case in comparative form the

corresponding consolidated figures for the preceding fiscal year, and accompanied by an opinion of independent public accountants of recognized national standing selected by the Applicant, which opinion shall not contain any qualification or exception as to the scope of such audit and shall state that the consolidated financial statements fairly present in all material respects the consolidated financial condition and results of operations of the Applicant and its Consolidated Subsidiaries as of the end of, and for, such fiscal year and have been prepared in accordance with GAAP, consistently applied (except where noted);

(c) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of an Authorized Officer (i) certifying as to whether a Default or Event of Default has occurred and, if a Default or Event of Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth reasonably detailed calculations demonstrating compliance with Section 6.5 (including, without limitation, a listing of any Indebtedness for borrowed money of the Applicant or any of its Subsidiaries that has been disregarded for purposes of the determination of Consolidated Total Indebtedness pursuant to the proviso contained in the definition thereof set forth in Section 1.1) and (iii) stating whether any change in GAAP or in the application thereof not disclosed in any prior such certificate has occurred since December 31, 2009 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(d) promptly upon their becoming available, copies of all registration statements (other than on Form S-8 or any successor form) and regular periodic reports, if any, that the Applicant shall have filed pursuant to Section 13(a) or 15 of the Exchange Act with the SEC (or any governmental agency substituted therefor) or filed with any national securities exchange;

(e) promptly upon the mailing thereof to the shareholders of the Applicant generally, copies of all financial statements, reports and proxy statements so mailed;

(f) promptly upon their becoming available, copies of all current reports on Form 8-K filed by the Applicant with the SEC, and all similar reports filed with any national securities exchange;

(g) promptly upon their becoming available, copies of (i) any certified resolutions of the board of directors of the Applicant and net earnings certificates delivered under the Mortgage Indenture in connection with the issuance of Mortgage Bonds upon the basis of net property additions or deposits of cash; any certificates of an Authorized Officer under the Mortgage Indenture with respect to amounts charged to replacement reserve, detailing insurance on the Applicant's property or showing compliance by the Applicant with the covenants contained in the Mortgage Indenture; any supplemental indentures to the Mortgage Indenture; any redemption notices under the Mortgage Indenture; and any notices of defaults under the Mortgage Indenture or accelerations of Mortgage Bonds; (ii) any notices of default under the documentation for any Sale Leaseback of the Applicant or any Consolidated Subsidiary, any notices of non-payment of rent or any other material amounts owing under any such Sale Leaseback documentation and any notices of acceleration of any amounts due under any such Sale Leaseback documentation; and (iii) any written notices from the ACC of non-compliance by the Applicant or any of its Consolidated Subsidiaries with any material ACC decision or with any other rules, regulations or

orders of the ACC, and any written notices of any extraordinary audit or investigation by the ACC into the business, affairs or operations of the Applicant or any of its Consolidated Subsidiaries;

(h) as soon as practicable and in any event within five (5) Business Days after the Applicant receives written notice of an upgrading or a downgrading of the Index Debt by any Rating Agency, a notice of such upgrading or downgrading;

(i) if requested by the Administrative Agent, concurrently with any delivery of financial statements under clause (a) or (b) above, consolidating statements of income and cash flows for the applicable periods and the consolidating balance sheets as of the end of such periods, accompanied (i) in the case of a delivery of financial statements under clause (a) above, by a certificate of an Authorized Officer, which certificate shall state that such financial statements fairly present in all material respects the consolidating financial condition and results of operations, as the case may be, of the Applicant and its Consolidated Subsidiaries in accordance with GAAP, consistently applied (except where noted), as of the end of, and for, the applicable period (subject to normal year-end audit adjustments), and (ii) in the case of a delivery of financial statements under clause (b) above, by (A) a certificate of an Authorized Officer, which certificate shall state that such consolidating financial statements fairly present in all material respects the financial condition and results of operations of the Applicant and its Consolidated Subsidiaries as of the end of, and for, the applicable fiscal year and have been prepared in accordance with GAAP, consistently applied (except where noted), and (B) a certificate of the independent public accountants referred to in clause (b) above, which certificate should state that such consolidating financial statements are the consolidating financial statements that served as the basis for the audited consolidated financial statements in respect of which such accountants delivered the opinion referred to in such clause (b);

(j) promptly and in any event within two Business Days after receipt thereof, copies of each notice of default or event of default received by the Applicant pursuant to any of the Related Documents;

(k) promptly and in any event within two Business Days after the applicable trustee resigns as trustee under the Indenture or the Mortgage Indenture, notice of such resignation;

(l) within the notice periods provided therefor to the Trustee in the Indenture, notice of any optional redemption of the Bonds; and

(m) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of the Applicant or any Subsidiary, or compliance with the terms of any Credit Document or the Mortgage Indenture, as the Administrative Agent or any Bank may reasonably request.

So long as the Applicant files periodic reports under the Exchange Act and the financial statements contained in any quarterly or annual reports filed with the SEC are prepared in accordance with the Exchange Act and the rules and regulations promulgated thereunder, such financial statements may be delivered by the Applicant in satisfaction of its obligations to deliver

consolidated financial statements pursuant to clauses (a) or (b), as the case may be, of this Section 5.1.

Section 5.2. Notices of Material Events. The Applicant will furnish to the Administrative Agent and each Bank prompt written notice of the following:

(a) the occurrence of any Default or Event of Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting the Applicant or any Affiliate thereof as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of the Applicant and its Subsidiaries in an aggregate amount exceeding $30,000,000; and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of an Authorized Officer or other executive officer of the Applicant setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

Section 5.3. Existence; Conduct of Business. The Applicant will, and will cause each of its Consolidated Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges and franchises material to the conduct of its business, except to the extent the failure to do so could not reasonably be expected to result in a Material Adverse Effect; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.2.

Section 5.4. Payment of Obligations. The Applicant will, and will cause each of its Consolidated Subsidiaries to, pay its obligations, including Tax liabilities and assessments (including water assessments by the Arizona State Land Department), that, if not paid, could reasonably be expected to result in a Material Adverse Effect, before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) the Applicant or such Subsidiary has set aside on its books adequate reserves with respect thereto to the extent required by and otherwise in accordance with GAAP and (c) the failure to make payment pending such contest could not reasonably be expected to result in a Material Adverse Effect.

Section 5.5. Maintenance of Properties; Insurance. The Applicant will, and will cause each of its Consolidated Subsidiaries to, (a) keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted; provided that the Applicant or any of its Consolidated Subsidiaries may discontinue the operation of any of its properties to the extent, in the judgment of the Applicant, it is no longer

advisable to operate such property, or to the extent the Applicant or such Subsidiary intends to sell or otherwise dispose of such property, which disposition is not prohibited by Section 6.3; and (b) maintain, with financially sound and reputable insurance companies, or through its own program of self-insurance, insurance in such amounts and against such risks as are customarily maintained by companies engaged in the same or similar businesses operating in the same or similar locations.

Section 5.6. Books and Records; Inspection Rights. The Applicant will, and will cause each of its Consolidated Subsidiaries to, keep proper books of record and account in which entries are made of all dealings and transactions in relation to its business and activities, all in accordance with customary and prudent business practices. The Applicant will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Bank, upon reasonable prior notice, to visit and inspect its properties, and, subject to contractual or statutory limitations regarding confidential or proprietary information, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its officers and independent accountants, all at such reasonable times and as often as reasonably requested.

Section 5.7. Compliance with Laws and Agreements. The Applicant will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property (including, without limitation, ERISA and Environmental Laws), in each case except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

Section 5.8. Use of Proceeds and Letter of Credit. The proceeds of the Liquidity Advances and the Letter of Credit will be used only in support of the payment of principal, and interest on the principal amount, and the purchase price, of the Bonds. No part of the proceeds of any Liquidity Advance or of any LC Disbursement will be used, whether directly or indirectly, for any purpose that entails a violation of any of the regulations of the Board, including Regulations U and X.

Section 5.9. Environmental Laws.

(a) The Applicant will, and will cause each of its Consolidated Subsidiaries to, comply with, and use commercially reasonable efforts to insure compliance by all tenants and subtenants, if any, with, all Environmental Laws, and will, and will cause each of its Consolidated Subsidiaries to, obtain and comply with and maintain, and use commercially reasonable efforts to insure that all tenants and subtenants obtain and comply with and maintain, any and all licenses, approvals, registrations or permits required by Environmental Laws, except to the extent that failure to do so could not reasonably be expected to have a Material Adverse Effect.

(b) The Applicant will, and will cause each of its Consolidated Subsidiaries to, conduct and complete all investigations, studies, sampling and testing, and all remedial, removal and other actions required under Environmental Laws, except to the extent that the failure to take such actions could not reasonably be expected to have a Material Adverse Effect, and promptly comply with all lawful orders and directives of all Governmental Authorities respecting

Environmental Laws, except to the extent that the same are being contested in good faith by appropriate proceedings and the pendency of such proceedings could not reasonably be expected to have a Material Adverse Effect.

Section 5.10. Redemption or Defeasance of Bonds. The Applicant shall use commercially reasonable efforts to cause the Trustee, upon redemption or defeasance of all of the Bonds pursuant to the Indenture or other event that causes the Termination Date under the Letter of Credit, to surrender the Letter of Credit to the Issuing Bank for cancellation.

Section 5.11. CUSIP. In connection with any purchase of any Bonds pursuant to the terms of the Indenture or of the other Related Documents with the proceeds of any draw under the Letter of Credit resulting in Pledged Bonds, the Applicant shall cause, instruct and direct the Issuer to cause, instruct and direct the Remarketing Agent to have a CUSIP assigned to any such Bonds within one (1) Business Day of any such purchase (such CUSIP number to be distinct from the CUSIP assigned to the Bonds).

Section 5.12. Further Assurances. The Applicant will, and will cause each of its Consolidated Subsidiaries to, execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), which may be required under any applicable law, or which the Administrative Agent or the Required Banks may reasonably request, to effectuate the transactions contemplated by the Credit Documents or under the Mortgage Indenture or to grant, preserve, protect or perfect the Liens created or intended to be created by the Mortgage Indenture or the validity or priority of any such Lien, all at the expense of the Applicant. The Applicant also agrees to provide to the Administrative Agent, from time to time upon request, evidence reasonably satisfactory to the Administrative Agent as to the perfection and priority of the Liens created or intended to be created under the Mortgage Indenture.

Section 5.13. OFAC, PATRIOT Act Compliance. The Applicant will, and will cause each of its Subsidiaries to, (i) refrain from doing business in a Sanctioned Country or with a Sanctioned Person in violation of the economic sanctions of the United States administered by OFAC, and (ii) provide, to the extent commercially reasonable, such information and take such actions as are reasonably requested by the Administrative Agent or any Bank in order to assist the Administrative Agent and the Banks in maintaining compliance with the PATRIOT Act.

Article VI
Financial and Negative Covenants

Until the Commitments have expired or been terminated, the principal of and interest on each Liquidity Advance and all fees and other amounts payable hereunder have been paid in full, the Letter of Credit has expired or terminated and all LC Disbursements have been reimbursed in full, the Applicant covenants and agrees with the Administrative Agent, the Issuing Banks and the Banks that:

Section 6.1. Liens. The Applicant will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on the Mortgaged Property (as defined in the Mortgage Indenture) now owned or hereafter acquired by the Applicant, or any income therefrom, prior to the Lien of the Mortgage Indenture, except Permitted Encumbrances and Prepaid Liens (as such terms are defined in the Mortgage Indenture) and any other Liens expressly permitted pursuant to Section 5 of Article IV of the Mortgage Indenture.

Section 6.2. Fundamental Changes.

(a) The Applicant will not, and will not permit any of its Consolidated Subsidiaries to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or sell, transfer, lease or otherwise dispose of (in one transaction or in a series of transactions) its assets as an entirety or substantially as an entirety, or all or substantially all of the Capital Stock of any of its Consolidated Subsidiaries (in each case, whether now owned or hereafter acquired), or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default or Event of Default shall have occurred and be continuing (i) any Person may merge into the Applicant in a transaction in which the Applicant is the surviving corporation, (ii) any Consolidated Subsidiary may merge with any other Consolidated Subsidiary, and (iii) the Applicant may merge with or into or consolidate with or transfer its assets as an entirety or substantially as an entirety to any Person, so long as (A) immediately prior to and immediately after giving effect to such merger, consolidation or transfer, the Person with or into which the Applicant shall ultimately merge or consolidate or to whom the Applicant shall ultimately transfer its assets as an entirety or substantially as an entirety is in the Utility Business; (B) the Required Banks shall have determined (so long as such determination is exercised in good faith and after consultation with the Applicant) that the rating of the first mortgage bonds (or bonds otherwise denominated that benefit from a first Lien on such Person's utility assets, or, if such Person has no first mortgage bonds, the rating of the senior unsecured long-term Indebtedness of such Person that is not guaranteed and does not benefit from any other credit enhancement) of the surviving Person of any such merger, consolidation, acquisition or transfer of assets shall be at least BBB- or higher by S&P and Baa3 or higher by Moody's (unless the requirements of this clause (B) shall have been waived by the Required Banks); provided that the requirement of this clause (B) shall be deemed to have been satisfied if, prior to the consummation of any such merger, consolidation or transfer, the Applicant shall have delivered written evidence from each such Rating Agency to the effect that, upon such merger, consolidation or transfer, the applicable rating of such surviving Person would be equal to or higher than the ratings specified in this clause (B); (C) in the case of any merger or consolidation or transfer of assets in which the Applicant is not the surviving corporation, the Person formed by any such consolidation or transfer of assets or into which the Applicant shall be merged or consolidated or to which such assets are transferred shall have executed an agreement in form reasonably satisfactory to the Administrative Agent containing an assumption by the surviving Person of the due and punctual performance of each obligation, agreement, covenant and condition of each of the Credit Documents and the Mortgage Indenture to be performed or complied with by the Applicant; and (D) the Administrative Agent shall have received an opinion of counsel, in form and substance reasonably satisfactory to the Administrative Agent and its counsel, with respect to the due authorization, execution, delivery, validity and enforceability of the assumption agreement referred to in clause (C) of this Section 6.2, of the

enforceability and continuation of the Liens created pursuant under the Mortgage Indenture and such other matters as the Required Banks may reasonably require.

(b) The Applicant will not, and will not permit any of its Consolidated Subsidiaries to, engage to any material extent in any business other than the Utility Business.

Section 6.3. Sale of Assets.

(a) The Applicant will not, and will not permit any of its Consolidated Subsidiaries to, convey, sell, lease, assign, transfer or otherwise dispose of, or enter into any Sale Leaseback with respect to, any of its property, business or assets (including leasehold interests), whether now owned or hereafter acquired, except:

(i) inventory and other property in the ordinary course of business;

(ii) sales of accounts receivable;

(iii) property in connection with any securitization (e.g., stranded costs) or sale of assets required by law;

(iv) the Applicant and its Consolidated Subsidiaries may sell, transfer or otherwise dispose of other assets in transactions not permitted under any of clauses (i), (ii) and (iii) above; provided that the aggregate book value of all assets sold, transferred or otherwise disposed of by the Applicant and its Consolidated Subsidiaries pursuant to this clause (iv) during the term of this Agreement shall at no time exceed in the aggregate 15% of the consolidated assets of the Applicant as set forth in the most recent balance sheet of the Applicant delivered to the Administrative Agent pursuant to Section 5.1(a) or (b) hereof; and

(v) any sale of the Applicant's assets as an entirety or substantially as an entirety in accordance with Section 6.2, provided that any assets of the Applicant not included in such sale shall be deemed to have been disposed of in a transaction subject to the limitations of this Section 6.3, including the percentage limitation set forth in clause (iv) above;

provided, that any Consolidated Subsidiary may convey, sell, lease, assign, transfer or otherwise dispose of any of its property, business or assets to the Applicant or any other Consolidated Subsidiary. Investments by the Applicant and the Consolidated Subsidiaries in, and contributions by the Applicant and the Consolidated Subsidiaries to, Consolidated Subsidiaries shall be deemed not to constitute transfers of assets subject to the limitations of this Section 6.3 to the extent such investments or contributions are made in cash.

(b) Without limitation of subsection (a) above, the Applicant will not, and will not permit any of its Consolidated Subsidiaries to, convey, sell, lease, assign, transfer or otherwise dispose of, or enter into any Sale Leaseback with respect to, all or substantially all of its generating assets (including leasehold interests), whether now owned or hereafter acquired, except as required by applicable law.

Section 6.4. Restricted Payments.

(a) The Applicant will not declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment at any time that any Default or Event of Default has occurred and is continuing or would occur as a result of such action, except that (i) the Applicant may declare and pay dividends with respect to its capital stock payable solely in additional shares of its common stock and (ii) the Applicant may make Restricted Payments pursuant to and in accordance with stock option plans or other benefit plans for management or employees of the Applicant and its Subsidiaries.

(b) The Applicant will not, and will not permit any Consolidated Subsidiary to, directly or indirectly, purchase or acquire any Capital Stock, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make any loans or advances to, Guarantee any obligations of, or make any investment or otherwise acquire any other interest in, any Affiliate of the Applicant (other than a Consolidated Subsidiary) (each of the foregoing, an "Affiliate Investment"), at any time that a Default or Event of Default has occurred and is continuing or, as a result of the making of such Affiliate Investment, would occur or would be deemed to occur pursuant to the next sentence. For purposes of determining whether a Default or Event of Default would be deemed to occur under Section 6.5 as a result of an Affiliate Investment, the applicable computations shall be made as if the Affiliate Investment were a dividend and did not result in the creation of any asset.

Section 6.5. Leverage Ratio. The Applicant will not permit the ratio of (a) Consolidated Total Indebtedness at the end of any fiscal quarter, commencing with the fiscal quarter ended December 31, 2010, to (b) Consolidated Total Capitalization at the end of such fiscal quarter, to be greater than 0.70 to 1.0.

Section 6.6. Amendments to Documents. The Applicant will not, and will not permit any Consolidated Subsidiary to, amend, modify or change, or consent or agree to any amendment, modification or change to, (a) prior to the release of the Collateral Mortgage Bonds pursuant to Section 9.22, the Mortgage Indenture or the Twelfth Supplemental Indenture, or (b) the Indenture, the Loan Agreement, the Bonds or any other Related Document, in each case without the prior written consent of the Required Banks and any Issuing Bank affected thereby; provided, however, that (i) such consent shall not be required in connection with any amendment of the Mortgage Indenture for which the Mortgage Indenture does not require the consent of any bondholder, (ii) such consent shall not be unreasonably withheld with respect to any amendment of the Mortgage Indenture that has been approved by bondholders entitled to vote under the Mortgage Indenture who hold bonds in an aggregate principal amount greater than the principal amount of the Collateral Mortgage Bonds and (c) such consent shall not be required in connection with any amendment of the Indenture, the Loan Agreement or any Bonds to provide for a mandatory tender of the Bonds at any time when the Bonds are, prior to giving effect to such amendment, subject to mandatory redemption at a purchase price which does not exceed the applicable redemption price.

Section 6.7. Release of Collateral under the Mortgage Indenture. Prior to the release of the Collateral Mortgage Bonds pursuant to Section 9.22, the Applicant will not, and will not permit any of its Subsidiaries to, permit any asset (including any cash) to be released from the Lien of the Mortgage Indenture other than in accordance with the terms and provisions of the Mortgage Indenture.

Section 6.8. Transactions with Affiliates. The Applicant will not, and will not permit any of the Consolidated Subsidiaries to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates which are not Consolidated Subsidiaries, except, subject to Section 6.3 and the other terms and conditions contained in this Agreement and the other Credit Documents, (a) at prices and on terms and conditions (i) not less favorable to the Applicant or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties or (ii) as approved by the ACC or the Federal Energy Regulatory Commission, (b) transactions between or among the Applicant and the Consolidated Subsidiaries not involving any other Affiliate, (c) any Restricted Payment permitted by Section 6.4(a), (d) shared corporate or administrative services and staffing with Affiliates, including accounting, legal, human resources and treasury operations, provided on customary terms for similarly situated companies, (e) tax sharing arrangements on customary terms for similarly situated companies, (f) customary fees paid to members of the board of directors of the Applicant and the Consolidated Subsidiaries who are not officers of the Applicant or any Subsidiary and (g) transactions to acquire, either through asset purchases, mergers or purchases of Capital Stock, the business and operations of Southwest Energy Solutions, Inc.

Section 6.9. Official Statement or Other Offering Document. The Applicant will not, and will not permit any of the Consolidated Subsidiaries to, include in any offering document for the Bonds any information concerning the Issuing Bank that is not supplied in writing, or otherwise approved, by the Issuing Bank expressly for inclusion therein.

*Section 6.10. Replacement of the Remarketing Agent.*The Applicant will not cause or consent to the termination or replacement of the Remarketing Agent without the prior written consent of the Administrative Agent, such consent not to be unreasonably withheld or delayed.

Article VII
Events of Default

Section 7.1. Events of Default. The occurrence of one or more of the following events shall constitute an "*Event of Default*":

(a) the Applicant shall fail to pay any principal of any Reimbursement Obligation when due in accordance with the terms hereof; or the Applicant shall fail to pay any fees or interest on any Reimbursement Obligation, or any other amount payable hereunder or under any other Credit Document, within five (5) days after any such interest, fees or other amount becomes due in accordance with the terms hereof; or

(b) any representation or warranty made or deemed made by the Applicant herein, in any other Credit Document or that is contained in any certificate, document or financial or other statement furnished by it at any time under or in connection with this Agreement or any such other Credit Document shall prove to have been inaccurate in any material respect on or as of the date made or deemed made; or

(c) the Applicant shall default in the observance or performance of any agreement contained in Section 5.2, Section 5.3, Section 5.8 or Article VI of this Agreement; or

(d) the Applicant shall default in the observance or performance of any other agreement contained in this Agreement, any other Credit Document (other than as provided in paragraphs (a) through (c) of this Section), and such default shall continue unremedied for a period of thirty (30) days after notice to the Applicant from the Administrative Agent or the Required Banks; or

(e) (i) the Applicant or any Significant Subsidiary shall fail to make any payment of principal (regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable; or (ii) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption (other than pursuant to provisions permitting the tendering of such Indebtedness from time to time for repurchase or redemption without regard to the occurrence or non-occurrence of any event or condition) or defeasance thereof, prior to its scheduled maturity; provided that this clause (ii) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness; or

(f) (x) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of the Applicant or any Significant Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Applicant or any Significant Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for sixty (60) days or an order or decree approving or ordering any of the foregoing shall be entered; or (y) the Applicant or any Significant Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in the foregoing clause (x), (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for the Applicant or any Significant Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing; or (z) the Applicant or any Significant Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due; or

(g) an ERISA Event shall have occurred that, when taken together with all other ERISA Events that have occurred, has resulted or could reasonably be expected to result in a Material Adverse Effect; or

(h) one or more judgments for the payment of money in an aggregate amount in excess of $30,000,000 shall be rendered against the Applicant, any Significant Subsidiary or any combination thereof and the same shall remain undischarged for a period of thirty (30) consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor to attach or levy upon any assets of the Applicant or any Significant Subsidiary to enforce any such judgment; or

(i) any material provision of this Agreement or any other Credit Document to which the Applicant is a party shall for any reason, except to the extent permitted by the express terms hereof or thereof, cease to be valid and binding on or enforceable against the Applicant, or the Applicant shall so assert in writing; or

(j) any Change in Control shall occur; or

(k) the Custodian Agreement shall for any reason, except to the extent permitted by the terms thereof, fail or cease to create valid and perfected Liens (to the extent purported to be granted by the Custodian Agreement and subject to the exceptions permitted thereunder) in any of the collateral purported to be covered thereby, provided, that such failure or cessation relating to any non-material portion of such collateral shall not constitute an Event of Default hereunder unless the same shall not have been corrected within thirty (30) days after the Applicant becomes aware thereof; or

(l) prior to the release of the Collateral Mortgage Bonds pursuant to Section 9.22, (i) any Lien purported to be created under the Mortgage Indenture shall cease to be, or shall be asserted by the Applicant or any Consolidated Subsidiary not to be, a valid and perfected Lien on any collateral subject thereto, with the priority required by the Mortgage Indenture, except as a result of the sale or other disposition of any Mortgaged Property in a transaction permitted under the Credit Documents, or (ii) any Collateral Mortgage Bond shall for any reason (x) cease to be entitled to the benefits of the Mortgage Indenture or to be secured by a valid and perfected, Lien on the Mortgaged Property with the priority required by the Mortgage Indenture, equally and ratably with all other Mortgage Bonds, if any, outstanding under the Mortgage Indenture or (y) cease to be a legal, valid and binding obligation of the Applicant.

Section 7.2. Remedies. Upon the occurrence of any Event of Default, the Administrative Agent may, and at the request of the Required Banks shall, exercise any one or more of the following rights and remedies in addition to any other remedies herein or by law provided:

(a) by written notice to the Applicant require that the Applicant immediately (x) pledge Tax Exempt Obligations (as such term is defined in the Tax Agreement) or zero coupon United States Treasury Securities - State and Local Government Series in an amount equal to the Available Amount to the Administrative Agent for the benefit of the Banks as collateral security for the Obligations or (y) prepay to the Administrative Agent for the account of the Banks in immediately available funds in an amount equal to the Available Amount (such amounts to be held by the Administrative Agent for the benefit of the Banks as collateral security for the Obligations and invested either (I) in Tax Exempt Obligations (as such term is defined in the Tax Agreement) and in accordance with the provisions of the Tax Agreement or (II) in zero

coupon United States Treasury Securities - State and Local Government Series), provided, however, that in the case of an Event of Default described in Section 7.1(f), such prepayment Obligations shall automatically become immediately due and payable without any notice (unless the coming due of such Obligations is waived by the Required Banks in writing);

(b) by notice to the Applicant, declare all Obligations to be, and such amounts shall thereupon become, immediately due and payable without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Applicant, provided that upon the occurrence of an Event of Default under Section 7.1(f) hereof such acceleration shall automatically occur (unless such automatic acceleration is waived by the Required Banks in writing);

(c) give notice of the occurrence of an Event of Default to the Trustee, directing the Trustee to effect a mandatory purchase of the Bonds pursuant to Section 7.04(c) of the Indenture, thereby causing the Letter of Credit to expire five (5) Business Days thereafter;

(d) pursue any rights and remedies it may have under the Mortgage Indenture and any other Related Documents, including, without limitation, delivery of a notice demanding redemption of the Collateral Mortgage Bonds pursuant to clause (h) of Article II of the Twelfth Supplemental Indenture;

(e) pursue all rights and remedies contained in Section 10.1(b) hereto;

(f) in addition to other rights and remedies provided for herein or in the Custodian Agreement or otherwise available to any of them, as holder of the Pledged Bonds or otherwise, exercise all the rights and remedies of a secured party on default under the Uniform Commercial Code in effect in the State of New York at that time; or

(g) pursue any other action available at law or in equity.

Section 7.3. Remedies Cumulative. All remedies contained in this Agreement, any other Credit Document and any Related Document or by law afforded, including any remedies as subrogee, shall be cumulative and all shall be available to the Issuing Bank until the Obligations have been paid in full.

Article VIII
The Administrative Agent

Section 8.1. The Agency. Each of the Banks and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers hereunder as are delegated to the Administrative Agent by the terms hereof, together with such actions and powers as are reasonably incidental thereto, and the Administrative Agent hereby accepts such appointment subject to the terms hereof.

Section 8.2. The Administrative Agent Individually. The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Bank as any other Bank and may exercise the same as though it were not the Administrative Agent,

and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with the Applicant or any of its Subsidiaries or other Affiliates as if it were not the Administrative Agent hereunder.

Section 8.3. Limitation of Liability. The Administrative Agent shall not have any duties or obligations except those expressly set forth herein. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether an Event of Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated herein that the Administrative Agent is required to exercise in writing as directed by the Required Banks (or such other number or percentage of the Banks as shall be necessary under the circumstances as provided in Section 9.9), and (c) except as expressly set forth herein, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Applicant or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Banks (or such other number or percentage of the Banks as shall be necessary under the circumstances as provided in Section 9.9),) or in the absence of its own gross negligence or willful misconduct. The Administrative Agent shall be deemed not to have knowledge of any Event of Default unless and until written notice thereof is given to the Administrative Agent by the Applicant or a Bank, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Related Document, (ii) the contents of any certificate, report or other document delivered hereunder or in connection with any Related Document, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Related Document, (iv) the validity, enforceability, effectiveness or genuineness of any Related Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article III or elsewhere in any Related Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

Section 8.4. Reliance. The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Applicant), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

Section 8.5. Delegation of Duties. The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to

the Related Parties of the Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Section 8.6. Successor Administrative Agent. Subject to the appointment and acceptance of a successor Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Banks and the Applicant. Upon any such resignation, the Required Banks shall have the right, in consultation with the Applicant, to appoint a successor. If no successor shall have been so appointed by the Required Banks and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Banks, appoint a successor Administrative Agent which shall be a commercial bank or an Affiliate of any such commercial bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Applicant to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Applicant and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Sections 9.3, 9.5 and 9.15 shall continue in effect for the benefit of such retiring Administrative Agent, its sub agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Section 8.7. Non-Reliance on Administrative Agent. Each Bank acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Bank and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Bank also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Bank and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement or related agreement or any document furnished hereunder.

Article IX
Miscellaneous

Section 9.1. No Deductions; Increased Costs; Break Funding Payments.

(a) Except as otherwise required by law, each payment by the Applicant to the Administrative Agent or any Bank under this Agreement or any other Related Document shall be made without setoff or counterclaim and without withholding for or on account of any present or future taxes (other than overall net income taxes on the recipient imposed by any jurisdiction having control of such recipient) imposed by or within the jurisdiction in which the Applicant is domiciled, any jurisdiction from which the Applicant makes any payment hereunder, or (in each case) any political subdivision or taxing authority thereof or therein. If any such withholding is so required, the Applicant shall make the withholding, pay the amount withheld to the appropriate Governmental Authority before penalties attach thereto or interest accrues thereon and forthwith pay such additional amount as may be necessary to ensure that the net amount

actually received by the Administrative Agent, the Issuing Bank or such Bank free and clear of such taxes (including such taxes on such additional amount) is equal to the amount which the Administrative Agent, the Issuing Bank or such Bank would have received had such withholding not been made. If the Administrative Agent, the Issuing Bank or any Bank pays any amount in respect of any such taxes, penalties or interest, the Applicant shall reimburse the Administrative Agent, the Issuing Bank or such Bank, as applicable, for that payment on demand in the currency in which such payment was made. If the Applicant pays any such taxes, penalties or interest, it shall deliver official tax receipts evidencing that payment or certified copies thereof to the Administrative Agent on or before the thirtieth day after payment.

(b) (i) If any Change in Law shall:

(1) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Bank (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank;

(2) impose on any Bank or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Advances or ABR Advances made by such Bank or the Letter of Credit or participation therein; or

(3) subject any Recipient to any Taxes (other than (A) Indemnified Taxes and (B) Other Connection Taxes on gross or net income, profits or revenue (including value-added or similar Taxes)) on its loans, loan principal, letters of credit, commitments, or other obligations, or its deposits, reserves, other liabilities or capital attributable thereto;

and the result of any of the foregoing shall be to increase the cost to such Bank or such other Recipient of making or maintaining any Eurodollar Advance or ABR Advance (or of maintaining its obligation to make any such Advance) or to increase the cost to such Bank, the Issuing Bank or such other Recipient of participating in, issuing or maintaining the Letter of Credit or to reduce the amount of any sum received or receivable by such Bank, the Issuing Bank or such other Recipient hereunder (whether of principal, interest or otherwise), then the Applicant will pay to such Bank, the Issuing Bank or such other Recipient, as the case may be, such additional amount or amounts as will compensate such Bank, the Issuing Bank or such other Recipient, as the case may be, for such additional costs incurred or reduction suffered.

(ii) If any Bank or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Bank's or the Issuing Bank's capital or on the capital of such Bank's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in the Letter of Credit held by, such Bank, or the Letter of Credit issued by the Issuing Bank, to a level below that which such Bank or the Issuing Bank or such Bank's or the Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Bank's or the Issuing Bank's policies and the policies of such Bank's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Applicant will

pay to such Bank or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Bank or the Issuing Bank or such Bank's or the Issuing Bank's holding company for any such reduction suffered.

(iii) A certificate of a Bank or the Issuing Bank setting forth the amount or amounts necessary to compensate such Bank or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (i) or (ii) of this subsection (b) shall be delivered to the Applicant and shall be conclusive absent manifest error. The Applicant shall pay such Bank or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(iv) Failure or delay on the part of any Bank or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Bank's or the Issuing Bank's right to demand such compensation; provided, that the Applicant shall not be required to compensate a Bank or the Issuing Bank pursuant to this subsection (b) for any increased costs or reductions incurred more than 90 days prior to the date that such Bank or the Issuing Bank, as the case may be, notifies the Applicant of the Change in Law giving rise to such increased costs or reductions and of such Bank's or the Issuing Bank's intention to claim compensation therefor; provided, further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 90-day period referred to above shall be extended to include the period of retroactive effect thereof.

(c) If any payment of principal of any Eurodollar Advance is made by the Applicant to or for the account of a Bank other than on the last day of the Interest Period applicable thereto, as a result of a payment or a conversion pursuant to Sections 2.3(d), 2.3(e) or 2.15, as a result of an Event of Default or for any other reason, or by an assignee or the Applicant to a Bank other than on the last day of the Interest Period for such Eurodollar Advance upon an assignment of rights and obligations under this Agreement pursuant to Section 9.7 as a result of a demand by the Applicant pursuant to Section 9.7(a), the Applicant shall, upon demand by such Bank (with a copy of such demand to the Administrative Agent), pay to the Administrative Agent for the account of such Bank any amounts required to compensate such Bank for any additional losses, costs or expenses that it may reasonably incur as a result of such payment or conversion, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Bank to fund or maintain such Eurodollar Advance.

Section 9.2. Right of Setoff; Other Collateral

(a) Upon the occurrence and during the continuance of an Event of Default, each Bank is hereby authorized at any time and from time to time without notice to the Applicant (any such notice being expressly waived by the Applicant), and to the fullest extent permitted by law, to setoff, to exercise any banker's lien or any right of attachment and apply any and all balances, credits, deposits (general or special, time or demand, provisional or final), accounts or monies at any time held and other indebtedness at any time owing by such Bank to or for the account of the Applicant (irrespective of the currency in which such accounts, monies or indebtedness may be denominated and such Bank is authorized to convert such accounts, monies and indebtedness into United States dollars) against any and all of the Obligations of the

Applicant, whether or not such Bank shall have made any demand for any amount owing to such Bank by the Applicant.

(b) The rights of the Banks under this Section 9.2 are in addition to, in augmentation of, and, except as specifically provided in this Section 9.2, do not derogate from or impair, other rights and remedies (including, without limitation, other rights of setoff) which the Banks may have.

Section 9.3. Indemnity; Expenses.

(a) The Applicant shall indemnify and hold harmless the Administrative Agent, the Issuing Bank, each Bank, their respective affiliates and correspondents and each of their respective directors, officers, employees, advisors and agents (each such party, an "*Indemnified Person*") from and against any and all claims, suits, judgments, costs, losses, fines, penalties, damages, liabilities, and expenses, including expert witness fees and reasonable legal fees, charges and disbursements of any counsel (including in-house counsel fees and allocated costs) for any Indemnified Person ("*Costs*"), arising out of, in connection with, or as a result of: (i) the Letter of Credit or any pre-advice of its issuance; (ii) any transfer, sale, delivery, surrender, or endorsement of any Drawing Document at any time(s) held by any Indemnified Person in connection with the Letter of Credit; (iii) any action or proceeding arising out of or in connection with the Letter of Credit, this Agreement or any Related Document (whether administrative, judicial or in connection with arbitration), including any action or proceeding to compel or restrain any presentation or payment under the Letter of Credit, or for the wrongful dishonor of or honoring a presentation under the Letter of Credit; (iv) any independent undertakings issued by the beneficiary of the Letter of Credit; (v) any unauthorized communication or instruction (whether oral, telephonic, written, telegraphic, facsimile or electronic) (each an "*Instruction*") (x) received pursuant to the express terms of the Letter of Credit or (y) any other Instruction regarding the Letter of Credit or error in computer transmission that the Indemnified Party reasonably believed to be authorized; (vi) an adviser, confirmer or other nominated person that was not authorized by the Issuing Bank seeking to be reimbursed, indemnified or compensated; (vii) any third party seeking to enforce the rights of an applicant, beneficiary, nominated person, transferee, assignee of proceeds of the Letter of Credit; (viii) the fraud, forgery or illegal action of parties other than the Indemnified Person; (ix) the enforcement against the Applicant of this Agreement or any rights or remedies under or in connection with this Agreement, a Related Document or the Letter of Credit; (x) the Administrative Agent's or the Issuing Bank honoring any presentation upon or during the continuance of any Event of Default or for which the Applicant is unable or unwilling to make any payment to the Administrative Agent, the Issuing Bank or any Bank as required under this Agreement or any Related Document; (xi) the acts or omissions, whether rightful or wrongful, of any present or future de jure or de facto governmental or regulatory authority or cause or event beyond the control of such Indemnified Person; or (xii) the use of the proceeds of any LC Disbursement, in each case, including that resulting from the Administrative Agent's, the Issuing Bank's or such Indemnified Person's own negligence, provided, however, that such indemnity shall not be available to any Person claiming indemnification under (i) through (x) above to the extent that such Costs are found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted directly from the gross negligence or willful misconduct of the Indemnified Person claiming indemnity. If and to the extent that the obligations of Applicant

under this paragraph are unenforceable for any reason, Applicant shall make the maximum contribution to the Costs permissible under applicable law. This Section 9.3(a) shall not apply with respect to Taxes other than any Taxes that represent losses or damages arising from any non-Tax claim.

(b) To the extent that the Applicant fails to pay any amount required to be paid by it to the Administrative Agent or the Issuing Bank under paragraph (a) of this Section 9.3, each Bank severally agrees to pay to the Administrative Agent or the Issuing Bank, as the case may be, such Bank's Applicable Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, penalty, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent or the Issuing Bank in its capacity as such.

(c) The Applicant shall pay (i) all reasonable out-of-pocket expenses incurred by the Administrative Agent and its Affiliates, including the reasonable fees, charges and disbursements of counsel for the Administrative Agent, in connection with the syndication and distribution (including, without limitation, via the internet or through a service such as Intralinks) of the credit facility provided for herein, the preparation, execution, delivery and administration of this Agreement and the other Credit Documents or any amendments, modifications or waivers of the provisions hereof or thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of the Letter of Credit or any demand for payment thereunder and (iii) all out-of-pocket expenses incurred by the Administrative Agent, the Issuing Bank or any Bank, including the fees, charges and disbursements of any counsel for the Administrative Agent, the Issuing Bank or any Bank (which, in the case of the Banks (other than JPMorgan) shall be limited to one counsel and, if reasonably necessary, one regulatory counsel and one local counsel in any relevant jurisdiction and additional counsel if, in the opinion of any Bank, representation by all Banks by one counsel would be inappropriate due to the existence of an actual or potential conflict of interest)), in connection with the enforcement or protection of its rights in connection with this Agreement and any other Credit Document, including its rights under this Section, or in connection with the Liquidity Advances made hereunder or the Letter of Credit, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Liquidity Advances or the Letter of Credit.

Section 9.4. Obligations Absolute. The obligations of the Applicant under this Agreement shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances whatsoever, including, without limitation: (i) any lack of validity, enforceability or legal effect of this Agreement or any Related Document, or any term or provision herein or therein; (ii) payment against presentation of any draft, demand or claim for payment under the Letter of Credit or other document presented for purposes of drawing under the Letter of Credit (a "*Drawing Document*") that does not comply in whole or in part with the terms of the Letter of Credit or which proves to be fraudulent, forged or invalid in any respect or any statement therein being untrue or inaccurate in any respect, or which is signed, issued or presented by a Person (or a transferee of such Person) purporting to be a successor or transferee of the beneficiary of the Letter of Credit; (iii) the

Administrative Agent or any Bank or any of their respective branches or affiliates being the beneficiary of the Letter of Credit; (iv) the Issuing Bank or any correspondent honoring a drawing against a Drawing Document up to the amount available under the Letter of Credit even if such Drawing Document claims an amount in excess of the amount available under the Letter of Credit; (v) the existence of any claim, set-off, defense or other right that the Applicant or any other Person may have at any time against any beneficiary, any assignee of proceeds, the Administrative Agent, any Bank or any other Person; (vi) the Issuing Bank or any correspondent having previously paid against fraudulently signed or presented Drawing Documents (whether or not the Applicant shall have reimbursed the Issuing Bank for such drawing); and (vii) any other event, circumstance or conduct whatsoever, whether or not similar to any of the foregoing, that might, but for this paragraph, constitute a legal or equitable defense to or discharge of, or provide a right of set-off against, the Applicant's obligations hereunder (whether against the Administrative Agent, any Bank, the beneficiary or any other Person); provided, however, that subject to Section 9.5 hereof, the foregoing shall not exculpate the Issuing Bank from such liability to the Applicant as may be finally judicially determined in an independent action or proceeding brought by the Applicant against the Issuing Bank following payment of the Applicant's obligations under this Agreement.

Section 9.5. Liability of the Issuing Bank.

(a) The liability of the Issuing Bank (or any other Indemnified Person) under, in connection with and/or arising out of this Agreement, any Related Document or the Letter of Credit (or any pre-advice), regardless of the form or legal grounds of the action or proceeding, shall be limited to any direct damages suffered by the Applicant that are caused directly by Issuing Bank's gross negligence or willful misconduct in (i) honoring a presentation that does not at least substantially comply with the Letter of Credit, (ii) failing to honor a presentation that strictly complies with the Letter of Credit or (iii) retaining Drawing Documents presented under the Letter of Credit. In no event shall the Issuing Bank be deemed to have failed to act with due diligence or reasonable care if the Issuing Bank's conduct is in accordance with Standard Letter of Credit Practice or in accordance with this Agreement. The Applicant's aggregate remedies against the Issuing Bank (or any other Indemnified Person) for wrongfully honoring a presentation under the Letter of Credit or wrongfully retaining honored Drawing Documents shall in no event exceed the aggregate amount paid by the Applicant to the Issuing Bank in respect of an honored presentation under the Letter of Credit, plus interest. **Notwithstanding anything to the contrary herein, the Issuing Bank and the other Indemnified Persons shall not, under any circumstances whatsoever, be liable for any punitive, consequential, indirect or special damages or losses regardless of whether the Issuing Bank or any Indemnified Person shall have been advised of the possibility thereof or of the form of action in which such damages or losses may be claimed.** The Applicant shall take action to avoid and mitigate the amount of any damages claimed against the Issuing Bank or any Indemnified Person, including by enforcing its rights in the underlying transaction. Any claim by the Applicant for damages under or in connection with this Agreement, any Related Document or the Letter of Credit shall be reduced by an amount equal to the sum of (i) the amount saved by the Applicant as a result of the breach or alleged wrongful conduct and (ii) the amount of the loss that would have been avoided had the Applicant mitigated damages.

(b) [Reserved].

(c) Without limiting any other provision of this Agreement, the Issuing Bank and each other Indemnified Person (if applicable), shall not be responsible to the Applicant for, and the Issuing Bank's rights and remedies against the Applicant and the Applicant's obligation to reimburse the Issuing Bank shall not be impaired by: (i) honor of a presentation under the Letter of Credit which on its face substantially complies with the terms of the Letter of Credit; (ii) honor of a presentation of any Drawing Documents which appear on their face to have been signed, presented or issued (X) by any purported successor or transferee of any beneficiary or other party required to sign, present or issue the Drawing Documents or (Y) under a new name of the beneficiary; (iii) acceptance as a draft of any written or electronic demand or request for payment under the Letter of Credit, even if nonnegotiable or not in the form of a draft, and may disregard any requirement that such draft, demand or request bear any or adequate reference to the Letter of Credit; (iv) the identity or authority of any presenter or signer of any Drawing Document or the form, accuracy, genuineness, or legal effect of any presentation under the Letter of Credit or of any Drawing Documents; (v) disregard of any non-documentary conditions stated in the Letter of Credit; (vi) acting upon any Instruction which it, in Good Faith, believes to have been given by a Person or entity authorized to give such Instruction; (vii) any errors, omissions, interruptions or delays in transmission or delivery of any message, advice or document (regardless of how sent or transmitted) or for errors in interpretation of technical terms or in translation; (viii) any delay in giving or failing to give any notice; (ix) any acts, omissions or fraud by, or the solvency of, any beneficiary, any nominated Person or any other Person (other than the gross negligence or willful misconduct of the Issuing Bank or any other Bank as determined by a final non-appealable judgment by a court of competent jurisdiction); (x) any breach of contract between the beneficiary and the Applicant or any of the parties to the underlying transaction; (xi) assertion or waiver of any provision of the ISP which primarily benefits an issuer of a letter of credit, including, any requirement that any Drawing Document be presented to it at a particular hour or place; (xii) payment to any paying or negotiating bank (designated or permitted by the terms of the Letter of Credit) claiming that it rightfully honored or is entitled to reimbursement or indemnity under Standard Letter of Credit Practice; (xiii) dishonor of any presentation for which the Applicant is unable or unwilling to reimburse or indemnify the Issuing Bank (provided that the Applicant acknowledges that if the Issuing Bank shall later be required to honor the presentation, the Applicant shall be liable therefore in accordance with Article II hereof); and (xiv) acting or failing to act as required or permitted under Standard Letter of Credit Practice. For purposes of this Section 9.5(c), "*Good Faith*" means honesty in fact in the conduct of the transaction concerned.

(d) The Applicant shall notify the Administrative Agent and the Issuing Bank of (i) any noncompliance with any Instruction, any other irregularity with respect to the text of the Letter of Credit or any amendment thereto or any claim of an unauthorized, fraudulent or otherwise improper Instruction, within five (5) Business Days of the Applicant's receipt of a copy of the Letter of Credit or amendment and (ii) any objection the Applicant may have to the Issuing Bank's honor or dishonor of any presentation under the Letter of Credit or any other action or inaction taken or proposed to be taken by the Issuing Bank under or in connection with this Agreement or the Letter of Credit, within five (5) Business Days after the Applicant receives notice of the objectionable action or inaction. The failure to so notify the Issuing Bank within said times shall discharge the Issuing Bank from any loss or liability that the Issuing Bank could have avoided or mitigated had it received such notice, to the extent that the Issuing Bank could be held liable for damages hereunder; provided that the foregoing shall not be construed to

excuse the Issuing Bank from liability to the Applicant to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Applicant to the extent permitted by applicable law) suffered by the Applicant that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under the Letter of Credit comply with the terms thereof; provided, further, that, if the Applicant shall not provide such notice to the Issuing Bank within fifteen (15) Business Days of the date of receipt, the Issuing Bank shall have no liability whatsoever for such noncompliance, irregularity, action or inaction and the Applicant shall be precluded from raising such noncompliance, irregularity or objection as a defense or claim against Issuing Bank.

Section 9.6. Participants. Any Bank may at any time grant to one or more financial institutions (each a "*Participant*") participating interests in the Letter of Credit. In the event of any such grant by any Bank of a participating interest to a Participant, whether or not upon notice to the Applicant, the Issuing Bank and the Administrative Agent, such Bank shall remain responsible for the performance of its obligations hereunder, and the Applicant, the Issuing Bank and the Administrative Agent shall continue to deal solely and directly with such Bank in connection with such Bank's rights and obligations under this Agreement. Any agreement pursuant to which any Bank may grant such a participating interest shall provide that such Bank shall retain the sole right and responsibility to enforce the obligations of the Applicant hereunder including the right to approve any amendment, modification or waiver of any provision of this Agreement.

Section 9.7. Assignment and Assumption.

(a) Subject to the conditions set forth in paragraph (b) below, any Bank may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and participations in the Letter of Credit at the time owned by it) with the prior written consent of:

(i) the Applicant (such consent not to be unreasonably withheld), provided that no consent of the Applicant shall be required either (x) if an Event of Default has occurred and is continuing or (y) for an assignment to a Bank, an Affiliate of a Bank or an Approved Fund;

(ii) the Administrative Agent (such consent not to be unreasonably withheld); and

(iii) the Issuing Bank.

(b) Assignments shall be subject to the following additional conditions:

(i) except in the case of an assignment to a Bank or an Affiliate of a Bank or an assignment of the entire remaining amount of the assigning Bank's Commitment, the amount of the Commitment of the assigning Bank subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than $5,000,000 unless each of the Applicant and the Administrative Agent otherwise consent,

provided that no such consent of the Applicant shall be required if an Event of Default has occurred and is continuing;

(ii) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Bank's rights and obligations under this Agreement;

(iii) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of $3,500; and

(iv) the assignee, if it shall not be a Bank, shall deliver to the Administrative Agent an administrative questionnaire in a form supplied by the Administrative Agent.

For the purposes of this Section 9.7(b), the term "Approved Fund" has the following meaning:

"*Approved Fund*" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Bank, (b) an Affiliate of a Bank or (c) an entity or an Affiliate of an entity that administers or manages a Bank.

(c) Subject to acceptance and recording thereof pursuant to paragraph (d) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Bank under this Agreement, except its obligations under Section 9.20 and 9.21 (and the assigning Bank thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Bank's rights and obligations under this Agreement, such Bank shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 9.1, 9.3 and 9.15 as to any event occurring prior to such assignment). Any assignment or transfer by a Bank of rights or obligations under this Agreement that does not comply with this Section 9.7 shall be treated for purposes of this Agreement as a sale by such Bank of a participation in such rights and obligations in accordance with Section 9.6.

(d) The Administrative Agent, acting for this purpose as an agent of the Applicant, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Banks, and the Commitment of and LC Disbursements owing to, each Bank pursuant to the terms hereof from time to time (the "*Register*"). The entries in the Register shall be conclusive, and the Applicant, the Administrative Agent, the Issuing Bank and the Banks shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Bank hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for

inspection by the Applicant, the Issuing Bank and any Bank, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Bank and an assignee, the assignee's completed administrative questionnaire (unless the assignee shall already be a Bank hereunder), the processing and recordation fee referred to in this Section and any written consent to such assignment required by this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register; provided that if either the assigning Bank or the assignee shall have failed to make any payment required to be made by it pursuant to Section 2.2(b), 2.5 or 9.3(b), the Administrative Agent shall have no obligation to accept such Assignment and Assumption and record the information therein in the Register unless and until such payment shall have been made in full, together with all accrued interest thereon. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(f) Any Bank may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Bank, including without limitation any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Bank from any of its obligations hereunder or substitute any such pledgee or assignee for such Bank as a party hereto.

Section 9.8. Survival of this Agreement. All covenants, agreements, representations and warranties made in this Agreement shall survive the issuance by the Issuing Bank of the Letter of Credit and shall continue in full force and effect so long as the Letter of Credit shall be unexpired or any Obligations, other than any Obligations pursuant to Sections 9.1, 9.3 or 9.15, shall be outstanding and unpaid after the termination of this Agreement. The obligation of the Applicant to reimburse the Administrative Agent and the Banks pursuant to Sections 9.1, 9.3 and 9.15 hereof and the obligations of the parties pursuant to Sections 9.20 and 9.21 hereof shall survive the payment of the Bonds and termination of this Agreement.

Section 9.9. Modification of this Agreement. No amendment, modification or waiver of any provision of this Agreement shall be effective unless the same shall be in writing and signed by the Administrative Agent, the Required Banks and the Applicant and no amendment, modification or waiver of any provision of the Letter of Credit, and no consent to any departure by the Applicant therefrom, shall in any event be effective unless the same shall be in writing and signed by the Issuing Bank. Any such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice to or demand on the Applicant in any case shall entitle the Applicant to any other or further notice or demand in the same, similar or other circumstances. Notwithstanding the foregoing, no such amendment, modification or waiver shall (i) increase the Commitment of any Bank without the written consent of such Bank, (ii) reduce or forgive the principal amount of any LC Disbursement or reduce the rate of interest thereon, or reduce or forgive any interest or fees payable hereunder, without the written consent of each Bank affected thereby, (iii) postpone any scheduled date of payment of the principal amount of any LC Disbursement, or any date for the payment of any interest, fees or other Obligations payable hereunder, or reduce the amount of, waive or excuse

any such payment, or postpone the Stated Expiration Date, without the written consent of each Bank affected thereby, (iv) change Section 2.5(b) in a manner that would alter the manner in which payments are shared, without the written consent of each Bank, or (v) change any of the provisions of this Section or the definition of "Required Banks" required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder, without the written consent of each Bank; provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of the Administrative Agent or the Issuing Bank hereunder without the prior written consent of the Administrative Agent or the Issuing Bank, as the case may be.

Section 9.10. Waiver of Rights by the Banks. No course of dealing or failure or delay on the part of the Administrative Agent or any Bank in exercising any right, power or privilege hereunder or under the Letter of Credit or this Agreement shall operate as a waiver thereof, nor shall a single or partial exercise thereof preclude any other or further exercise or the exercise of any other right or privilege. The rights of the Issuing Bank under the Letter of Credit and the rights of the Administrative Agent, the Issuing Bank and the Banks under this Agreement are cumulative and not exclusive of any rights or remedies that the Administrative Agent, the Issuing Bank or the Banks would otherwise have.

Section 9.11. Severability. In case any one or more of the provisions contained in this Agreement should be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisions contained herein shall not in any way be affected or impaired thereby. The parties shall endeavor in good faith negotiations to replace the invalid, illegal or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the invalid, illegal or unenforceable provisions.

Section 9.12. Governing Law. This Agreement shall be governed by and construed in accordance with the internal laws of the State of New York.

Section 9.13. Notices.

(a) Any communication or notice to be given hereunder will be duly given when delivered in writing or by telecopy to a party at its address as indicated below or such other address as such party may specify in a notice to each other party hereto. A communication or notice given pursuant to this Section 9.13 shall be addressed:

If to JPMorgan, to	JPMorgan Chase Bank, N.A. 10 S Dearborn St. Mail code IL1-0090 Chicago, IL 60603 Facsimile No.: (312) 732-1762 Telephone No.: (312) 732-1838 Email: nancy.r.barwig@jpmorgan.com Attention: Nancy Barwig
With a copy to the	JPMorgan Chase Bank, N.A.

Administrative Agent:	10 S. Dearborn St. Mail Code IL1-0874 Chicago, IL 60603 Facsimile No.: (312) 325-3238 Telephone No.: (312) 325-3150 Email: lisa.tverdek@jpmorgan.com Attention: Lisa Tverdek
With a copy to the Issuing Bank, Standby Letter of Credit Unit:	JPMorgan Chase Bank, N.A. 300 South Riverside Plaza Mail Code IL1-0236 Standby Letter of Credit Unit Chicago, IL 60606-0236 Facsimile No.: (312) 954-6163 Telephone No.: (800) 634-1969, Option 1 Attention: Standby Service Unit
If to the Applicant, to	Tucson Electric Power Company One South Church Avenue Tucson, Arizona 85701 Facsimile No.: (520) 884-3612 Telephone No.: (520) 884-3614 Attention: Treasurer
If to the Trustee, to	U.S. Bank Trust National Association 100 Wall Street, Suite 1600 New York, New York 10005 Facsimile No.: (212) 809-4993 Telephone No.: (212) 361-2505 Attention: Vice President

If to any other Bank, to its address or facsimile number set forth on Schedule 9.13 hereto.

(b) Unless otherwise provided to the contrary herein, any notice which is required to be given in writing pursuant to the terms of this Agreement may be given by telecopy.

(c) Notices and other communications to the Banks hereunder may be delivered or furnished by electronic communications pursuant to procedures mutually agreed upon by the Administrative Agent and the Applicant. The Administrative Agent or the Applicant may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it; provided that approval of such procedures may be limited to particular notices or communications.

(d) Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

Section 9.14. Successors and Assigns. Whenever in this Agreement any Bank is referred to, such reference shall be deemed to include the successors and assigns of such Bank and all covenants, promises and agreements by or on behalf of the Applicant which are contained in this Agreement shall inure to the benefit of such successors and assigns. The rights and duties of the Applicant hereunder, however, may not be assigned or transferred, except as specifically provided in this Agreement or with the prior written consent of the Administrative Agent and each Bank, and all obligations of the Applicant hereunder shall continue in full force and effect notwithstanding any assignment by the Applicant of any of its rights or obligations under any of the Related Documents or any entering into, or consent by the Applicant to, any supplement or amendment to any of the Related Documents.

Section 9.15. Withholding of Taxes; Gross-Up.

(a) Each payment by the Applicant under this Agreement or any Related Document shall be made without withholding for any Taxes, unless such withholding is required by any law. If any Withholding Agent determines, in its sole discretion exercised in good faith, that it is so required to withhold Taxes, then such Withholding Agent may so withhold and shall timely pay the full amount of withheld Taxes to the relevant Governmental Authority in accordance with applicable law. If such Taxes are Indemnified Taxes, then the amount payable by the Applicant shall be increased as necessary so that, net of such withholding (including such withholding applicable to additional amounts payable under this Section), the applicable Recipient receives the amount it would have received had no such withholding had been made.

(b) Payment of Other Taxes by the Applicant. The Applicant shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) Evidence of Payments. As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Applicant to a Governmental Authority, the Applicant shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(d) Indemnification by the Applicant. The Applicant shall indemnify each Recipient for any Indemnified Taxes that are paid or payable by such Recipient in connection with this Agreement and the Related Documents (including amounts paid or payable under this Section 9.15(d)) and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. The indemnity under this Section 9.15(d) shall be paid within 10 days after the Recipient delivers to the Applicant a certificate stating the amount of any Indemnified Taxes so paid or payable by such Recipient and describing the basis for the indemnification claim. Such certificate shall be conclusive of the amount so paid or payable absent manifest error. Such Recipient shall deliver a copy of such certificate to the Administrative Agent.

(e) Indemnification by the Banks. Each Bank shall severally indemnify the Administrative Agent for any Taxes (but, in the case of any Indemnified Taxes, only to the extent that the Applicant has not already indemnified the Administrative Agent for such Indemnified Taxes and without limiting the obligation of the Applicant to do so) attributable to such Bank that are paid or payable by the Administrative Agent in connection with this Agreement or any Related Document and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. The indemnity under this Section 9.15(e) shall be paid within 10 days after the Administrative Agent delivers to the applicable Bank a certificate stating the amount of Taxes so paid or payable by the Administrative Agent. Such certificate shall be conclusive of the amount so paid or payable absent manifest error.

(f) Status of Banks. (i) Any Bank that is entitled to an exemption from, or reduction of, any applicable withholding Tax with respect to any payments under this Agreement or any Related Document shall deliver to the Applicant and the Administrative Agent, at the time or times reasonably requested by the Applicant or the Administrative Agent, such properly completed and executed documentation reasonably requested by the Applicant or the Administrative Agent as will permit such payments to be made without, or at a reduced rate of, withholding. In addition, any Bank, if requested by the Applicant or the Administrative Agent, shall deliver such other documentation prescribed by law or reasonably requested by the Applicant or the Administrative Agent as will enable the Applicant or the Administrative Agent to determine whether or not such Bank is subject to any withholding (including backup withholding) or information reporting requirements. Notwithstanding anything to the contrary in the preceding two sentences, the completion, execution and submission of such documentation (other than such documentation set forth in Section 9.15(f)(ii)(1) through (5) below) shall not be required if in the Bank's judgment such completion, execution or submission would subject such Bank to any material unreimbursed cost or expense (or, in the case of a Change in Law, any incremental material unreimbursed cost or expense) or would materially prejudice the legal or commercial position of such Bank. Upon the reasonable request of such Applicant or the Administrative Agent, any Bank shall update any form or certification previously delivered pursuant to this Section 9.15(f). If any form or certification previously delivered pursuant to this Section expires or becomes obsolete or inaccurate in any respect with respect to a Bank, such Bank shall promptly (and in any event within 10 days after such expiration, obsolescence or inaccuracy) notify such Applicant and the Administrative Agent in writing of such expiration, obsolescence or inaccuracy and update the form or certification if it is legally eligible to do so.

(ii) Without limiting the generality of the foregoing, if the Applicant is a U.S. Person, any Bank with respect to such Applicant shall, if it is legally eligible to do so, deliver to such Applicant and the Administrative Agent (in such number of copies reasonably requested by such Applicant and the Administrative Agent) on or prior to the date on which such Bank becomes a party hereto, duly completed and executed copies of whichever of the following is applicable:

(1) in the case of a Bank that is a U.S. Person, IRS Form W-9 certifying that such Bank is exempt from U.S. Federal backup withholding tax;

(2) in the case of a Non-U.S. Bank claiming the benefits of an income tax treaty to which the United States is a party (x) with respect to payments of interest under this Agreement or any Related Document, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. Federal withholding Tax pursuant to the "interest" article of such tax treaty and (y) with respect to any other applicable payments under this Agreement or any Related Document, IRS Form W-8BEN establishing an exemption from, or reduction of, U.S. Federal withholding Tax pursuant to the "business profits" or "other income" article of such tax treaty;

(3) in the case of a Non-U.S. Bank for whom payments under this Agreement or any Related Document constitute income that is effectively connected with such Bank's conduct of a trade or business in the United States, IRS Form W-8ECI;

(4) in the case of a Non-U.S. Bank claiming the benefits of the exemption for portfolio interest under Section 881(c) of the Code both (x) IRS Form W-8BEN and (y) a certificate substantially in the form of Exhibit C (a "U.S. Tax Certificate") to the effect that such Bank is not (a) a "bank" within the meaning of Section 881(c)(3)(A) of the Code, (b) a "10 percent shareholder" of the Applicant within the meaning of Section 881(c)(3)(B) of the Code (c) a "controlled foreign corporation" described in Section 881(c)(3)(C) of the Code and (d) conducting a trade or business in the United States with which the relevant interest payments are effectively connected;

(5) in the case of a Non-U.S. Bank that is not the beneficial owner of payments made under this Agreement or any Related Document (including a partnership or a participating Bank) (x) an IRS Form W-8IMY on behalf of itself and (y) the relevant forms prescribed in clauses (A), (B), (C), (D) and (F) of this paragraph (f)(ii) that would be required of each such beneficial owner or partner of such partnership if such beneficial owner or partner were a Bank; provided, however, that if the Bank is a partnership and one or more of its partners are claiming the exemption for portfolio interest under Section 881(c) of the Code, such Bank may provide a U.S. Tax Certificate on behalf of such partners; or

(6) any other form prescribed by law as a basis for claiming exemption from, or a reduction of, U.S. Federal withholding Tax together with such supplementary documentation necessary to enable the Applicant or the Administrative Agent to determine the amount of Tax (if any) required by law to be withheld.

(iii) If a payment made to a Bank under this Agreement or any Related Document would be subject to U.S. Federal withholding Tax imposed by FATCA if such Bank were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Code, as applicable), such Bank shall deliver to the Withholding Agent, at the time or times prescribed by law and at such time or times reasonably requested by the Withholding Agent, such

documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Code) and such additional documentation reasonably requested by the Withholding Agent as may be necessary for the Withholding Agent to comply with its obligations under FATCA, to determine that such Bank has or has not complied with such Bank's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this Section 9.15(f)(iii), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(g) Treatment of Certain Refunds. If any party determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section 9.15 (including additional amounts paid pursuant to this Section 8.15), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made by the Applicant under this Section with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including any Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund. Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid to such indemnified party pursuant to the previous sentence (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this Section 9.15(g), in no event will any indemnified party be required to pay any amount to any indemnifying party pursuant to this Section 9.15(g) if such payment would place such indemnified party in a less favorable position (on a net after-Tax basis) than such indemnified party would have been in if the indemnification payments or additional amounts giving rise to such refund had never been paid. This Section 9.15(g) shall not be construed to require any indemnified party to make available its Tax returns (or any other information relating to its Taxes which it deems confidential) to the indemnifying party or any other Person.

Section 9.16. Headings. The captions in this Agreement are for convenience of reference only and shall not define or limit the provisions hereof.

Section 9.17. Counterparts. This Agreement may be executed in counterparts, each of which shall constitute an original but all taken together to constitute one instrument.

Section 9.18. Entire Agreement. This Agreement constitute the entire understanding of the parties with respect to the subject matter thereof and any prior agreements, whether written or oral, with respect thereto are superseded hereby.

Section 9.19. Government Regulations.

(a) Applicant shall (i) ensure that (1) no Person who owns a controlling interest in or otherwise controls the Applicant and (2) no Subsidiary of the Applicant, in each case, is or shall be listed on the Specially Designated Nationals and Blocked Person List or other similar lists maintained by the OFAC, the Department of the Treasury or included in any Executive Orders, that prohibits or limits the Banks from making any advance or extension of credit to Applicant or from otherwise conducting business with Applicant and (ii) ensure that the Bond proceeds shall not be used to violate any of the foreign asset control regulations of OFAC

or any enabling statute or Executive Order relating thereto. Further, Applicant shall comply, and cause any of its subsidiaries to comply, with all applicable Bank Secrecy Act ("*BSA*") laws and regulations, as amended. Applicant agrees to provide documentary and other evidence of Applicant's identity as may be requested by any Bank at any time to enable such Bank to verify Applicant's identity or to comply with any applicable law or regulation, including, without limitation, Section 326 of the USA Patriot Act of 2001, 31 U.S.C. Section 5318.

(b) ***Submission to Jurisdiction; Waiver of Jury Trial.*** **Each party hereto hereby submits to the nonexclusive jurisdiction of any state or federal court located in the Borough of Manhattan, City of New York, State of New York for purposes of all legal proceedings arising out of or relating to this Agreement, the other Related Documents or the transactions contemplated hereby or thereby. Each party hereto irrevocably waives, to the fullest extent permitted by law, any objection which it may now or hereafter have to the laying of the venue of any such proceeding brought in such a court and any claim that any such proceeding brought in such a court has been brought in an inconvenient forum. Each party hereto hereby irrevocably waive any and all right to trial by jury in any legal proceeding arising out of or relating to any Related Document or the transactions contemplated thereby.**

Section 9.20. Confidentiality. The Administrative Agent and each Bank agree (on behalf of themselves and each of their Affiliates, directors, officers, employees and representatives) to take normal and reasonable precautions and exercise due care to maintain the confidentiality of all non-public information provided to them by the Applicant or any Subsidiary in connection with this Agreement and neither the Administrative Agent, any Bank nor any of their Affiliates, directors, officers, employees and representatives shall use any such information for any purpose or in any manner other than pursuant to the terms contemplated by this Agreement, except to the extent such information (a) was or becomes generally available to the public other than as a result of a disclosure by the Administrative Agent or any Bank, or (b) was or becomes available on a non-confidential basis from a source other than the Applicant, provided that such source is not bound by a confidentiality agreement with the Applicant known to the Administrative Agent or affected Bank; provided that nothing herein shall limit the disclosure of any such information (i) to the extent required by statute, rule, regulation or judicial process; (ii) to counsel for the Administrative Agent or any Bank; (iii) to bank examiners, auditors or accountants; (iv) to the Administrative Agent or any other Bank; (v) by the Administrative Agent or any Bank to an Affiliate thereof who is bound by this Section 9.21; provided that any such information delivered to an Affiliate shall be for the purposes related to the extension of credit represented by this Agreement and the administration and enforcement thereof and for no other purpose; (vi) in connection with any litigation relating to enforcement of the Related Documents or (vii) to any assignee or participant (or prospective assignee or participant) so long as such assignee or participant (or prospective assignee or participant) first enters into a confidentiality agreement with the respective Bank. Each Bank and the Administrative Agent agree, unless specifically prohibited by applicable law or court order, to notify the Applicant of any request for disclosure of any such non-public information (x) by any Governmental Authority or representative thereof (other than any such request in connection with an examination of your financial condition by such Governmental Authority) or (y) pursuant to legal process.

Section 9.21. No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby (including in connection with any amendment, waiver or other modification hereof or of any Related Document or any syndication of the credit facility provided hereunder), the Applicant acknowledges and agrees that: (i) (A) the arranging and other services regarding this Agreement provided by the Administrative Agent are arm's-length commercial transactions between the Applicant and its Affiliates, on the one hand, and the Administrative Agent and its Affiliates, on the other hand, (B) it has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate, and (C) it is capable of evaluating, and understands and accepts, the terms, risks and conditions of the transactions contemplated hereby and by the Related Documents; (ii) (A) the Administrative Agent and the Applicant each is and has been acting solely as a principal and, except as expressly agreed in writing by the relevant parties, has not been, is not, and will not be acting as an advisor, agent or fiduciary for any other party hereto, any Affiliates of any other party hereto, or any other Person and (B) none of the Administrative Agent or the Applicant has any obligation to each other or to their respective Affiliates with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the Related Documents; and (iii) the Administrative Agent and its Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Applicant and its Affiliates, and the Administrative Agent has no obligation to disclose any of such interests to the Applicant or its Affiliates. To the fullest extent permitted by law, the Administrative Agent and the Applicant hereby waive and release any claims that they may have against each other with respect to any breach or alleged breach of agency or fiduciary duty in connection with any aspect of any transaction contemplated hereby. Each of the Administrative Agent and the Banks acknowledge and agree that it has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate.

Section 9.22. Release of Collateral Mortgage Bonds. In the event that (a) the Senior Unsecured Debt is rated BBB or higher by S&P *and* Baa2 or higher by Moody's, or (b) the Administrative Agent has received written confirmation from S&P and Moody's that upon the release and surrender of the Collateral Mortgage Bonds by the Administrative Agent, the Senior Unsecured Debt will be rated BBB or higher by S&P *and* Baa2 or higher by Moody's, then the Administrative Agent shall, upon its receipt of written notice from the Applicant, so long as no Default or Event of Default has occurred and is continuing, promptly release and surrender to or upon the order of the Applicant all Collateral Mortgage Bonds then held by the Administrative Agent.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the undersigned have executed this Agreement as of the date written above.

JPMORGAN CHASE BANK, N.A., as
Administrative Agent and as Issuing Bank

By: Nancy R. Barwig
Name: Nancy R. Barwig
Title: Credit Executive

Commitment
$37,152,465.75

JPMORGAN CHASE BANK, N.A., as a Bank

By: Nancy R. Barwig
Name: Nancy R. Barwig
Title: Credit Executive

TUCSON ELECTRIC POWER COMPANY, as Applicant

By: _____

Name: Kentton C. Grant

Title: Vice President and Treasurer

SCHEDULE 9.13

BANK NOTICE ADDRESSES

JPMorgan Chase Bank, N.A.
10 S Dearborn St.
Mail code IL1-0090
Chicago, IL 60603
Facsimile No.: (312) 732-1762
Telephone No.: (312) 732-1838
Email: nancy.r.barwig@jpmorgan.com
Attention: Nancy Barwig

With a copy to:

JPMorgan Chase Bank, N.A.
10 S. Dearborn St.
Mail Code IL1-0874
Chicago, IL 60603
Facsimile No.: (312) 325-3238
Telephone No.: (312) 325-3150
Email: lisa.tverdek@jpmorgan.com
Attention: Lisa Tverdek

EXHIBIT A

FORM OF LETTER OF CREDIT

[Attached]

IRREVOCABLE TRANSFERABLE DIRECT-PAY LETTER OF CREDIT

December 14, 2010
U.S. $37,152,465.75
No. CPCS-869304

U.S. Bank Trust National Association, as trustee (together with its permitted successors and assigns in such capacity, the "*Trustee*") under the Indenture of Trust dated as of December 1, 2010 (the "*Indenture*"), between Coconino County, Arizona Pollution Control Corporation (the "*Issuer*") and the Trustee
100 Wall Street, Suite 1600
New York, New York 10005
Attention: Vice President

Ladies and Gentlemen:

JPMorgan Chase Bank, N.A. (the "*Issuing Bank*"), hereby establishes in your favor as Trustee for the benefit of the holders of the Bonds (as hereinafter defined), an irrevocable transferable direct-pay Letter of Credit No. CPCS-869304 for the account of Tucson Electric Power Company (the "*Applicant*"), whereby the Issuing Bank hereby irrevocably authorizes you to draw on the Issuing Bank from time to time, from and after the date hereof to and including the earliest to occur of the Issuing Bank's close of business on: (i) December 14, 2014 (as extended from time to time, the "*Stated Expiration Date*"); (ii) the earlier of (A) the date which is fifteen (15) days following the Conversion Date (as defined in the Indenture) of all of the Bonds to bear interest at a rate other than the Daily Rate or the Weekly Rate (as such terms are defined in the Indenture), as such date is specified in a certificate in the form of Annex A hereto (the "*Unsupported Conversion Date*") or (B) the date on which the Issuing Bank honors a drawing (other than an Interest Drawing, as defined below) under the Letter of Credit on or after such Unsupported Conversion Date; (iii) the date of the Issuing Bank's receipt from you of a certificate in the form set forth as Annex B hereto; (iv) the date on which the Available Amount (as defined below) is permanently reduced to zero in accordance with this Letter of Credit or the next Business Day following the date of receipt from you of a certificate in the form set forth as Annex H hereto reducing the Available Amount to zero; (v) the date on which an Acceleration Drawing (as defined below) is honored by the Issuing Bank; (vi) the date on which the Issuing Bank honors a draw for mandatory purchase pursuant to Section 5.01(b)(ii) of the Indenture and (vii) the date which is five (5) Business Days following receipt by you of a written notice from the Issuing Bank specifying the occurrence of an Event of Default under the Reimbursement Agreement dated as of December 14, 2010, by and among the Applicant, the financial institutions from time to time party thereto as Banks and JPMorgan Chase Bank, N.A., in its

capacities as the Issuing Bank and as Administrative Agent (as amended from time to time pursuant to its terms, the "*Reimbursement Agreement*") and directing a mandatory purchase of the Bonds (as to any such event set forth in clauses (i) through (vii), the "*Termination Date*"), a maximum aggregate amount not exceeding Thirty-Seven Million One Hundred Fifty-Two Thousand Four Hundred Sixty-Five and 75/100 U.S. Dollars (U.S. $37,152,465.75) (the "*Original Stated Amount*") to pay principal of and accrued interest on, or the purchase price of, the U.S. $36,700,000 Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project) issued by the Issuer (the "*Bonds*"), in accordance with the terms hereof (said U.S. $37,152,465.75 having been calculated to be equal to U.S. $36,700,000 (Thirty Six Million Seven Hundred Thousand U.S. Dollars), the original principal amount of the Bonds, plus U.S. $452,465.75 (Four Hundred Fifty-Two Thousand Four Hundred Sixty-Five and 75/100 U.S. Dollars), which is 45 days' accrued interest on said principal amount of the Bonds at the rate of ten percent (10%) per annum calculated on a 365-day (or 366-day, as applicable) basis (the "*Cap Interest Rate*")). This credit is available to you against presentation of the following documents (the "*Payment Documents*") presented to the Issuing Bank as described below:

A certificate (with all blanks appropriately completed) (i) in the form attached as Annex C hereto to pay accrued interest on the Bonds pursuant to Section 2.02(c)(ii) or (iii) and payable under Sections 2.02(b) and Section 7.01 of the Indenture (an "*Interest Drawing*"), (ii) in the form attached as Annex D hereto to pay the principal amount of and accrued interest on the Bonds in respect of any redemption or purchase of the Bonds as provided for in Section 3.01(a)(i), 3.01(c) or 3.06 and Section 7.01 of the Indenture (a "*Redemption Drawing*"), provided that in the event the date of redemption or purchase coincides with an Interest Payment Date (as defined in the Indenture) the Redemption Drawing shall not include any accrued interest on the Bonds (which interest is payable pursuant to an Interest Drawing), (iii) in the form attached as Annex E hereto, to allow Trustee, to pay the purchase price of Bonds tendered for purchase as provided for in Section 5.01(a), 5.01(b)(i), 5.01(b)(ii) or 5.01(b)(iii) and Section 7.01 of the Indenture, which Bonds have not been successfully remarketed or for which the purchase price has not been received by the Trustee by 11:45 a.m. New York City time, on the Purchase Date (as defined in the Indenture) (a "*Liquidity Drawing*"), provided that in the event the Purchase Date coincides with an Interest Payment Date, the Liquidity Drawing shall not include any accrued interest on the Bonds (which interest is payable pursuant to an Interest Drawing), (iv) in the form attached as Annex F hereto, to pay the principal of and accrued interest in respect of Bonds the payment of which has been accelerated pursuant to Section 10.01 of the Indenture (an "*Acceleration Drawing*"), or (v) in the form attached as Annex G hereto to pay the principal amount of Bonds maturing on October 1, 2032 (a "*Stated Maturity Drawing*"), each certificate to state therein that it is given by your duly authorized representative and dated the date such certificate is presented hereunder. No drawings shall be made under this Letter of Credit for Pledged Bonds (as defined in the Indenture) or any Bonds registered in the name of the Applicant or actually known by the Trustee to be registered in the name of any affiliate of the Applicant or any nominee of the Applicant or an affiliate of the Applicant or for any Bonds in an Interest Rate Mode (as defined in the Indenture) other than the Daily Rate or Weekly Rate (as such terms are defined in the Indenture). All drawings shall be made by presentation of each Payment Document by facsimile (at facsimile number (312) 954-6163 or alternately to (312) 954-3140), Attention: Standby Service Unit, without further need of documentation, including the original of this Letter of

Credit, it being understood that each Payment Document so submitted is to be the sole operative instrument of drawing. You shall use your best efforts to give telephonic notice of a drawing to the Issuing Bank at its Standby Service Unit, (at: (312) 954-1922 or alternately to 1-800-634-1969, Option 1) on the Business Day (as hereinafter defined) preceding the day of such drawing (but such notice shall not be a condition to drawing hereunder and you shall have no liability for not doing so).

The Issuing Bank agrees to honor and pay the amount of any Interest, Redemption, Liquidity, Acceleration or Stated Maturity Drawing if presented in compliance with all of the terms of this Letter of Credit. If such drawing, other than a Liquidity Drawing, is presented prior to 3:00 p.m. New York City time, on a Business Day, payment shall be made to the account number or address designated by you of the amount specified, in immediately available funds, by 10:00 a.m. New York City time, on the following Business Day. If any such drawing, other than a Liquidity Drawing, is presented at or after 3:00 p.m. New York City time, on a Business Day, payment shall be made to the account number or address designated by you of the amount specified, in immediately available funds, by 1:30 p.m. New York City time, on the following Business Day. If a Liquidity Drawing is presented prior to 12:00 noon New York City time, on a Business Day, payment shall be made to the account number or address designated by you of the amount specified, in immediately available funds, by 2:00 p.m. New York City time, on the same Business Day. If a Liquidity Drawing is presented at or after 12:00 noon New York City time, payment shall be made to the account number and at such bank designated by you of the amount specified, in immediately available funds, by 10:00 a.m. New York City time, on the following Business Day. Payments made hereunder shall be made by wire transfer to you or by deposit into your account with the Issuing Bank in accordance with the instructions specified by the Trustee in the drawing certificate relating to a particular drawing hereunder. "*Business Day*" means any day other than (i) a Saturday or Sunday or legal holiday or a day on which banking institutions located in New York, New York, or in any of the cities in which the principal corporate offices of the Trustee, the Remarketing Agent (as defined in the Indenture), the Applicant or the Issuing Bank are located are authorized by law or executive order to close or (ii) a day on which the New York Stock Exchange is closed.

The Available Amount (as hereinafter defined) will be reduced automatically by the amount of any drawing hereunder; *provided, however,* that the amount of any Interest Drawing hereunder shall be automatically reinstated immediately upon payment by us of such drawing. After payment by us of a Liquidity Drawing, the obligation of the Issuing Bank to honor drawings under this Letter of Credit will be automatically reduced by an amount equal to the Original Purchase Price (as hereinafter defined) of any Bonds (or portions thereof) purchased pursuant to said drawing. In addition, prior to the Termination Date, in the event of the remarketing of the Bonds (or portions thereof) previously purchased with the proceeds of a Liquidity Drawing, the Issuing Bank's obligation to honor drawings hereunder shall be automatically reinstated concurrently upon receipt by the Issuing Bank, or the Trustee on the Issuing Bank's behalf, of an amount equal to the Original Purchase Price of such Bonds (or portion thereof) *plus* accrued interest thereon as required under the Reimbursement Agreement as specified in a certificate in the form of Annex L hereto; the amount of such reinstatement shall be equal to the Original Purchase Price of such Bonds (or portions thereof). "*Original Purchase Price*" shall mean the principal amount of any Bond purchased with the proceeds of a Liquidity Drawing *plus* the

amount of accrued interest on such Bond paid with the proceeds of a Liquidity Drawing (and not pursuant to an Interest Drawing) upon such purchase.

Upon receipt by the Issuing Bank of a certificate of the Trustee in the form of Annex H hereto, the Letter of Credit will automatically and permanently reduce the amount available to be drawn hereunder by the amount specified in such certificate. Such reduction shall be effective as of the next Business Day following the date of delivery of such certificate.

Upon any permanent reduction of the Available Amount to be drawn under this Letter of Credit, following receipt by the Issuing Bank of a certificate of the Trustee in the form of Annex H hereto as provided herein, the Issuing Bank will deliver to you an amendment to this Letter of Credit substantially in the form of Annex I hereto to reflect any such reduction, or may deliver to you, at the Issuing Bank's sole discretion, a substitute Letter of Credit in exchange for this Letter of Credit. If the Issuing Bank delivers to you such a substitute Letter of Credit, you shall simultaneously surrender to us for cancellation the Letter of Credit then in your possession. The "*Available Amount*" shall mean the Original Stated Amount (i) less the amount of all prior reductions pursuant to Interest, Redemption, Liquidity, Acceleration or Stated Maturity Drawings, (ii) less the amount of any reduction thereof pursuant to a certificate in the form of Annex H hereto, (iii) plus the amount of all reinstatements as above provided.

Prior to the Termination Date, the Issuing Bank may extend the Stated Expiration Date from time to time at the request of the Applicant by delivering to you an amendment to this Letter of Credit in the form of Annex K hereto designating the date to which the Stated Expiration Date is being extended. Each such extension of the Stated Expiration Date shall become effective on the Business Day following delivery of such notice to you and thereafter all references in this Letter of Credit to the Stated Expiration Date shall be deemed to be references to the date designated as such in such notice. Any date to which the Stated Expiration Date has been extended as herein provided may be extended in a like manner.

Upon the Termination Date this Letter of Credit shall automatically terminate and be delivered to the Issuing Bank for cancellation. Failure to deliver said Letter of Credit will have no effect on the Termination Date, and this Letter of Credit will still be considered terminated.

This Letter of Credit is transferable to any transferee who has succeeded you as Trustee under the Indenture, and may be successively transferred. Any transfer request must be affected by presenting to the Issuing Bank the attached form of Annex J signed by the transferor and the transferee together with the original Letter of Credit. Transfers to designated foreign nationals and/or specially designated nationals are not permitted as being contrary to the U.S. Treasury Department or Foreign Assets Control Regulations. Upon the Issuing Bank's endorsement of such transfer, the transferee instead of the transferor shall, without necessity of further action, be entitled to all the benefits of and rights under this Letter of Credit in the transferor's place; *provided* that, in such case, any certificates of the Trustee to be provided hereunder shall be signed by one who states therein that he or she is a duly authorized officer or agent of the transferee.

Communications with respect to this Letter of Credit shall be addressed to us at JPMorgan Chase Bank, N.A., 300 South Riverside Plaza, Mail Code IL1-0236, Chicago, Il 60606-0236, Attention: Standby Letter of Credit Unit, specifically referring to the number of this Letter of Credit. For telephone assistance, please contact the Standby Client Service Unit at 1-800-634-1969, select Option 1, and have this Letter of Credit number available.

Except as expressly stated herein, this Letter of Credit is governed by, and construed in accordance with the International Standby Practices, ICC Publication No. 590 (the "*ISP98*"). As to matters not governed by the ISP98, this Letter of Credit shall be governed by and construed in accordance with the laws of the State of New York, including without limitation the Uniform Commercial Code as in effect in the State of New York, without regard to principals of conflict of laws.

All payments made by the Issuing Bank hereunder shall be made from the Issuing Bank's funds and not with the funds of any other Person (as defined in the Reimbursement Agreement).

This Letter of Credit sets forth in full the terms of our undertaking, and such undertaking shall not in any way be modified or amended by reference to any other document whatsoever.

Very truly yours,

JPMORGAN CHASE BANK, N.A.

By: _____
Name:
Title:

ANNEX A
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

NOTICE OF CONVERSION DATE

[Date]

JPMorgan Chase Bank, N.A.
300 South Riverside Plaza
Mail Code IL1-0236
Chicago, IL 60606-0236

Attn: Standby Letter of Credit Unit

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "*Letter of Credit*"), which has been established by you for the account of Tucson Electric Power Company, in favor of U.S. Bank Trust National Association, as trustee (the "*Trustee*"). All defined terms used herein which are not otherwise defined herein shall have the same meaning as in the Letter of Credit.

The undersigned hereby certifies and confirms that the Unsupported Conversion Date of all of the Bonds to bear interest at a rate other than the Daily Rate or the Weekly Rate (as such terms are defined in the Indenture) has occurred on [insert date], and, accordingly, said Letter of Credit shall terminate 15 days after such Unsupported Conversion Date in accordance with its terms.

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By: _____
[Title of Authorized Representative]

ANNEX B
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

NOTICE OF TERMINATION

[Date]

JPMorgan Chase Bank, N.A.
300 South Riverside Plaza
Mail Code IL1-0236
Chicago, IL 60606-0236

Attn: Standby Letter of Credit Unit

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "*Letter of Credit*"), which has been established by you for the account of Tucson Electric Power Company in favor of U.S. Bank Trust National Association, as trustee (the "*Trustee*"). All defined terms used herein which are not otherwise defined shall have the same meaning as in the Letter of Credit.

The undersigned hereby certifies and confirms that (i) no Bonds remain Outstanding within the meaning of the Indenture, (ii) all drawings required to be made under the Indenture and available under the Letter of Credit have been made and honored, or (iii) an Alternate Credit Facility (as defined in the Indenture) has been issued to replace the Letter of Credit pursuant to Section 7.03 of the Indenture and, accordingly, the Letter of Credit shall be terminated in accordance with its terms.

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By _____
[Title of Authorized Representative]

ANNEX C
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

INTEREST DRAWING CERTIFICATE

JPMorgan Chase Bank, N.A.
facsimile number (312) 954-6163
alternately to (312) 954-3140

Attn: Standby Letter of Credit Unit

The undersigned individual, a duly authorized representative of U.S. Bank Trust National Association, as trustee (the "*Beneficiary*"), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Direct-Pay Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "*Letter of Credit*"), issued by JPMorgan Chase Bank, N.A. (the "*Issuing Bank*"), in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee (as defined in the Letter of Credit) under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of U.S. $_____ under the Letter of Credit pursuant to the Indenture with respect to the payment of interest due on all Bonds outstanding on the Interest Payment Date (as defined in the Indenture) occurring on [insert applicable date], other than Pledged Bonds (as defined in the Indenture), any Bonds registered in the name of the Applicant or actually known by the Trustee to be registered in the name of any affiliate of the Applicant or any nominee of the Applicant or any affiliate of the Applicant (as all such terms are defined in the Letter of Credit) and any Bonds in an Interest Rate Mode (as defined in the Indenture) other than the Daily Rate or Weekly Rate (as such terms are defined in the Indenture).

3. The amount of the drawing is equal to the amount required to pay interest accrued pursuant to Section 2.02(c)(ii) or (iii) and payable under Section 2.02(b) and Section 7.01 of the Indenture.

4. The amount of the drawing made by this Certificate was computed in compliance with the terms of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

5. Payment by the Issuing Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

(Signature Page Follows)

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, 20___.

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By _____
[Title of Authorized Representative]

ANNEX D
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

REDEMPTION DRAWING CERTIFICATE

JPMorgan Chase Bank, N.A.
facsimile number (312) 954-6163
alternately to (312) 954-3140

Attn: Standby Letter of Credit Unit

The undersigned individual, a duly authorized representative of U.S. Bank Trust National Association, as trustee (the "*Beneficiary*"), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "*Letter of Credit*"), issued by JPMorgan Chase Bank, N.A. (the "*Issuing Bank*"), in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee (as defined in the Letter of Credit) under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of U.S. $_____ under the Letter of Credit pursuant to Section [3.01(a)(i)][3.01(c)][3.06] and Section 7.01 of the Indenture.

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds to be redeemed by the Issuer (as defined in the Letter of Credit) pursuant to Section [3.01(a)(i)][3.01(c)][3.06] of the Indenture on [insert applicable date] (the "*Redemption Date*") other than Pledged Bonds (as defined in the Indenture), any Bonds registered in the name of the Applicant or actually known by the Trustee to be registered in the name of any affiliate of the Applicant or any nominee of the Applicant or any affiliate of the Applicant (as all such terms are defined in the Letter of Credit) and any Bonds in an Interest Rate Mode (as defined in the Indenture) other than the Daily Rate or Weekly Rate (as such terms are defined in the Indenture), *plus* (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Indenture) to the Redemption Date, provided that in the event the Redemption Date coincides with an Interest Payment Date this drawing does not include any accrued interest on such Bonds.

(b) Of the amount stated in paragraph 2 above:

(i) U.S. $_____ is demanded in respect of the principal amount of the Bonds; and

(ii) U.S. $_____ is demanded in respect of accrued interest on such Bonds.

4. Payment by the Issuing Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

5. The amount of the drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

6. Upon payment of the amount drawn hereunder, the Issuing Bank is hereby directed to permanently reduce the Available Amount by U.S. $[insert amount of reduction] and the Available Amount shall thereupon equal U.S. $[insert new Available Amount]. The Available Amount has been reduced by an amount equal to the principal of Bonds paid with this drawing and an amount equal to 45 days' interest thereon at the Cap Interest Rate (as defined in the Letter of Credit).

7. Of the amount of the reduction stated in paragraph 6 above:

(i) U.S. $_____ is attributable to the principal amount of Bonds redeemed; and

(ii) U.S. $_____ is attributable to interest on such Bonds (*i.e.*, 45 days' interest thereon at the Cap Interest Rate).

8. The amount of the reduction in the Available Amount has been computed in accordance with the provisions of the Letter of Credit.

9. Following the reduction, the Available Amount shall be at least equal to the aggregate principal amount of the Bonds outstanding (to the extent such Bonds are not Pledged Bonds (as defined in the Indenture)) *plus* 45 days' interest thereon at the Cap Interest Rate.

10. In the case of a redemption pursuant to Section 3.01(a) of the Indenture as the result of a conversion or change of the election of an Interest Rate Mode (as defined in the Indenture) to a rate other than the Weekly Rate or Daily Rate (as defined in the Indenture) the Trustee, prior to giving notice of redemption to the owners of the Bonds, received written evidence from the Bank that the Bank has consented to such redemption.

(Signature Page Follows)

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By _____
[Title of Authorized Representative]

ANNEX E
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

LIQUIDITY DRAWING CERTIFICATE

JPMorgan Chase Bank, N.A.
facsimile number (312) 954-6163
alternately to (312) 954-3140

Attn: Standby Letter of Credit Unit

The undersigned individual, a duly authorized representative of U.S. Bank Trust National Association, as trustee (the "*Beneficiary*") hereby certifies as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "*Letter of Credit*"), issued by JPMorgan Chase Bank, N.A. (the "*Issuing Bank*"), in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee (as defined in the Letter of Credit) under the Indenture.

2. The Beneficiary is entitled to make this drawing under the Letter of Credit in the amount of U.S. $_____ with respect to the payment of the purchase price of Bonds tendered for purchase in accordance with Section [5.01(a)][5.01(b)[(i)][(ii)][(iii)]] and Section 7.01 of the Indenture and to be purchased on [insert applicable date] (the "*Purchase Date*") for which Bonds' remarketing proceeds have not been received as provided in the Indenture by 11:45 p.m. New York City time, on said Purchase Date.

3. (a) The amount of the drawing is equal to (i) the principal amount of Bonds to be purchased pursuant to the Indenture on the Purchase Date other than Pledged Bonds (as defined in the Indenture), any Bonds registered in the name of the Applicant or actually known by the Trustee to be registered in the name of any affiliate of the Applicant or any nominee of the Applicant or any affiliate of the Applicant (as all such terms are defined in the Letter of Credit) and any Bonds in an Interest Rate Mode (as defined in the Indenture) other than the Daily Rate or Weekly Rate (as such terms are defined in the Indenture), *plus* (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Indenture) (or if none, the date of issuance of the Bonds) to the Purchase Date, provided that in the event the Purchase Date coincides with an Interest Payment Date this drawing does not include any accrued interest on such Bonds.

(b) Of the amount stated in paragraph (2) above:

(i) U.S. $_____ is demanded in respect of the principal portion of the purchase price of the Bonds; and

(ii) U.S. $_____ is demanded in respect of payment of the interest portion of the purchase price of such Bonds.

4. The amount of the drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

5. The Trustee shall register in its name as the Issuing Bank's designee or such other party designated by the Issuing Bank, upon payment of the amount drawn hereunder, Bonds in the principal amount of the Bonds being purchased with the amounts drawn hereunder and such Bonds will be held in accordance with the Indenture.

6. Payment by the Issuing Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By _____
[Title of Authorized Representative]

ANNEX F
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

ACCELERATION DRAWING CERTIFICATE

JPMorgan Chase Bank, N.A.
facsimile number (312) 954-6163
alternately to (312) 954-3140

Attn: Standby Letter of Credit Unit

The undersigned individual, a duly authorized representative of U.S. Bank Trust National Association (the "*Beneficiary*"), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "*Letter of Credit*"), issued by JPMorgan Chase Bank, N.A. (the "*Issuing Bank*"), in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee (as defined in the Letter of Credit) under the Indenture.

2. An Event of Default has occurred under subsection [insert subsection] of Section 10.01 of the Indenture and the Trustee has declared the principal of and accrued interest on all Bonds then outstanding immediately due and payable. The Beneficiary is entitled to make this drawing in the amount of U.S. $_____ under the Letter of Credit pursuant to Section 7.01 of the Indenture in order to pay the principal of and interest accrued on the Bonds due to an acceleration thereof in accordance with Section 10.01 of the Indenture.

3. (a) The amount of this drawing is equal to (i) the principal amount of Bonds outstanding on [insert date of acceleration] (the "*Acceleration Date*") other than Pledged Bonds (as defined in the Indenture), any Bonds registered in the name of the Applicant or actually known by the Trustee to be registered in the name of any affiliate of the Applicant or any nominee of the Applicant or any affiliate of the Applicant (as all such terms are defined in the Letter of Credit) and any Bonds in an Interest Rate Mode (as defined in the Indenture) other than the Daily Rate or Weekly Rate (as such terms are defined in the Indenture), *plus* (ii) interest on such Bonds accrued from the immediately preceding Interest Payment Date (as defined in the Indenture) to the Acceleration Date.

(b) Of the amount stated in paragraph 2 above:

(i) U.S. $_____ is demanded in respect of the principal portion of the Bonds; and

(ii) U.S. $_____ is demanded in respect of accrued interest on such Bonds.

4. The amount of this drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any drawing

under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit).

5. Payment by the Issuing Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

IN WITNESS WHEREOF, this Certificate has been executed this ____ day of _____, 20___.

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By _____
[Title of Authorized Representative]

ANNEX G
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

STATED MATURITY DRAWING CERTIFICATE

JPMorgan Chase Bank, N.A.
facsimile number (312) 954-6163
alternately to (312) 954-3140

Attn: Standby Letter of Credit Unit

The undersigned individual, a duly authorized representative of U.S. Bank Trust National Association (the "*Beneficiary*"), hereby certifies on behalf of the Beneficiary as follows with respect to (i) that certain Irrevocable Transferable Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "*Letter of Credit*"), issued by JPMorgan Chase Bank, N.A. (the "*Issuing Bank*"), in favor of the Beneficiary; (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee (as defined in the Letter of Credit) under the Indenture.

2. The Beneficiary is entitled to make this drawing in the amount of U.S. $_____ under the Letter of Credit pursuant to Section 4.01(d) and Section 7.01 of the Indenture.

3. The amount of this drawing is equal to the principal amount of Bonds outstanding on October 1, 2032, the maturity date thereof as specified in Section 2.02(a) of the Indenture, other than Pledged Bonds (as defined in the Indenture), any Bonds registered in the name of the Applicant or actually known by the Trustee to be registered in the name of any affiliate of the Applicant or any nominee of the Applicant or any affiliate of the Applicant (as all such terms are defined in the Letter of Credit) and any Bonds in an Interest Rate Mode (as defined in the Indenture) other than the Daily Rate or Weekly Rate (as such terms are defined in the Indenture).

4. The amount of this drawing made by this Certificate was computed in compliance with the terms and conditions of the Indenture and, when added to the amount of any other drawing under the Letter of Credit made simultaneously herewith, does not exceed the Available Amount (as defined in the Letter of Credit) .

5. Payment by the Issuing Bank pursuant to this drawing shall be made to _____, ABA Number _____, Account Number _____, Attention: _____, Re: _____.

(Signature Page Follows)

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, _____.

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By _____
[Title of Authorized Representative]

ANNEX H
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

REDUCTION CERTIFICATE

JPMorgan Chase Bank, N.A.
300 South Riverside Plaza
Mail Code IL1-0236
Chicago, IL 60606-0236

Attn: Standby Letter of Credit Unit

The undersigned hereby certifies with respect to (i) that certain Irrevocable Transferable Direct-Pay Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "*Letter of Credit*"), issued by JPMorgan Chase Bank, N.A. (the "*Issuing Bank*"), in favor of U.S. Bank Trust National Association (the "*Beneficiary*"); (ii) those certain Bonds (as defined in the Letter of Credit); and (iii) that certain Indenture (as defined in the Letter of Credit):

1. The Beneficiary is the Trustee (as defined in the Letter of Credit) under the Indenture.

2. Upon receipt by the Issuing Bank of this Certificate, [the Available Amount (as defined in the Letter of Credit) shall be reduced by U.S.$_____ and the Available Amount shall thereupon equal U.S. $_____. U.S. $_____ of the new Available Amount is attributable to interest.] [the Available Amount (as defined in the Letter of Credit) shall be reduced to zero and the Letter of Credit shall be terminated in accordance with its terms.]

3. The amount of the reduction in the Available Amount has been computed in accordance with the provisions of the Letter of Credit.

4. Following the reduction, the Available Amount shall be at least equal to the aggregate principal amount of the Bonds outstanding (other than Pledged Bonds (as defined in the Indenture), any Bonds registered in the name of the Applicant or actually known by the Trustee to be registered in the name of any affiliate of the Applicant or any nominee of the Applicant or any affiliate of the Applicant (as all such terms are defined in the Letter of Credit) and any Bonds in an Interest Rate Mode (as defined in the Indenture) other than the Daily Rate or Weekly Rate (as such terms are defined in the Indenture)) *plus* 45 days' interest thereon at the Cap Interest Rate (as defined in the Letter of Credit).

(Signature Page Follows)

IN WITNESS WHEREOF, this Certificate has been executed this _____ day of _____, ____.

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By _____
[Title of Authorized Representative]

ANNEX I
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

NOTICE OF REDUCTION AMENDMENT

[Date]

U.S. Bank Trust National Association
100 Wall Street, Suite 1600
New York, New York 10005

Attention: Vice President

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Direct-Pay Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "*Letter of Credit*"), established by us in your favor as Beneficiary. We hereby notify you that, in accordance with the terms of the Letter of Credit and that certain Reimbursement Agreement dated as of December 14, 2010, by and among Tucson Electric Power Company, the financial institutions from time to time party thereto as Banks and JPMorgan Chase Bank, N.A., as the Issuing Bank and as Administrative Agent, the Available Amount (as defined in the Letter of Credit) has been reduced to U.S. $_____, of which U.S. $_____ is attributable to principal and U.S. $_____ is attributable to interest.

This letter shall be attached to the Letter of Credit and made a part thereof.

JPMORGAN CHASE BANK, N.A.

By: _____
Name:
Title:

ANNEX J
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

REQUEST FOR TRANSFER

JPMorgan Chase Bank, N.A.
300 South Riverside Plaza
Mail Code IL1-0236
Chicago, IL 60606-0236

Date: _____

Attn: Standby Letter of Credit Unit

Re: JPMorgan Chase Bank, N.A. Irrevocable Transferable Direct-Pay Letter of Credit No. CPCS-869304 dated December 14, 2010.

We, the undersigned "Transferor", hereby irrevocably transfer all of our rights to draw under the above referenced Letter of Credit ("*Credit*") in its entirety to:

NAME OF TRANSFEREE _____
(Print Name and complete address of the Transferee) "Transferee"

ADDRESS OF TRANSFEREE _____
_____

CITY, STATE/COUNTRY ZIP _____

In accordance with ISP98 (as defined in the Credit), Rule 6, regarding transfer of drawing rights, all rights of the undersigned Transferor in such Credit are transferred to the Transferee, who shall have the sole rights as beneficiary thereof, including sole rights relating to any amendments whether increases or extensions or other amendments and whether now existing or hereafter made. All amendments are to be advised directly to the Transferee without necessity of any consent of or notice to the undersigned Transferor.

The original Credit, including amendments to this date, is attached and the undersigned Transferor requests that you endorse an acknowledgment of this transfer on the reverse thereof. The undersigned Transferor requests that you notify the Transferee of this Credit in such form and manner as you deem appropriate, and the terms and conditions of the Credit as transferred. The undersigned Transferor acknowledges that you incur no obligation hereunder and that the transfer shall not be effective until you have expressly consented to effect the transfer by notice to the Transferee.

If you agree to these instructions, please advise the Transferee of the terms and conditions of this transferred Credit and these instructions.

Payment of transfer fee of U.S.$3,500.00 is for the account of the Applicant (as defined in the Credit) who agrees to pay you on demand any expense or cost you may incur in connection with the transfer. Receipt of such shall not constitute consent by you to effect the transfer.

Transferor represents and warrants to you that (i) our execution, delivery and performance of this request to Transfer are (a) within our powers, (b) have been duly authorized, (c) constitute our legal, valid, binding and enforceable obligation, (d) do not contravene any charter provision, by-

law, resolution, contract or other undertaking binding on or affecting us or any of our properties, (e) do not require any notice, filing or other action to, with, or by any governmental authority, (ii) the enclosed Credit is original and complete, (iii) there is no outstanding demand or request for payment or transfer under the Credit affecting the rights to be transferred, (iv) the Transferee's name and address are correct and complete and (v) the Transferee's use of the Credit as transferred and the transactions underlying the Credit and the requested Transfer do not violate any applicable United States or other law, rule or regulation.

The effective date of the transfer shall be the date hereafter on which you effect the requested transfer by acknowledging this request and giving notice thereof to Transferee.

WE WAIVE ANY RIGHT TO TRIAL BY JURY THAT WE MAY HAVE IN ANY ACTION OR PROCEEDING RELATING TO OR ARISING OUT OF THIS TRANSFER.

This request is made subject to ISP98 and is subject to and shall be governed by the laws of the State of New York, without regard to principles of conflict of laws.

Sincerely yours,

_____
(Print Name of Transferor)

_____
(Transferor's Authorized Signature)

_____
(Print Authorized Signers Name and Title)

_____
(Telephone Number/Fax Number)

SIGNATURE GUARANTEED
Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has been identified by us in compliance with USA PATRIOT Act procedures of our bank.

_____
(Print Name of Bank)

_____
(Address of Bank)

_____
(City, State, Zip Code)

_____
(Print Name and Title of Authorized Signer)

_____
(Authorized Signature)

_____
(Telephone Number)

_____
(Date)

Acknowledged:

_____
(Print Name of Transferee)

_____
(Transferee's Authorized Signature)

_____
(Print Authorized Signers Name and Title)

_____
(Telephone Number/Fax Number)

SIGNATURE GUARANTEED
Signature(s) with title(s) conform(s) with that/those on file with us for this individual, entity or company and signer(s) is/are authorized to execute this agreement. We attest that the individual, company or entity has been identified by us in compliance with USA PATRIOT Act procedures of our bank.

_____
(Print Name of Bank)

_____
(Address of Bank)

_____
(City, State, Zip Code)

_____
(Print Name and Title of Authorized Signer)

_____
(Authorized Signature)

_____
(Telephone Number)

_____
(Date)

Acknowledged as of _____, 20__:

JPMORGAN CHASE BANK, N.A.

By: _____
Name:
Title:

ANNEX K
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

NOTICE OF EXTENSION AMENDMENT

[Date]

U.S. Bank Trust National Association
100 Wall Street, Suite 1600
New York, New York 10005

Attention: Vice President

Ladies and Gentlemen:

Reference is hereby made to that certain Irrevocable Transferable Direct-Pay Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "*Letter of Credit*"), established by us in your favor as Beneficiary. We hereby notify you that, in accordance with the terms of the Letter of Credit and that certain Reimbursement Agreement dated as of December 14, 2010, by and among Tucson Electric Power Company, the financial institutions from time to time party thereto as Banks and JPMorgan Chase Bank, N.A., in its capacities as the Issuing Bank and as Administrative Agent, the Stated Expiration Date (as defined in the Letter of Credit) has been extended to _____, _____.

This letter shall be attached to the Letter of Credit and made a part thereof.

JPMORGAN CHASE BANK, N.A.

By: _____
Name:
Title:

ANNEX L
TO
JPMORGAN CHASE BANK, N.A.
LETTER OF CREDIT
NO. CPCS-869304

REINSTATEMENT CERTIFICATE

JPMORGAN CHASE BANK, N.A.
facsimile number (312) 954-6163
alternately to (312) 954-3140

Attn: Standby Letter of Credit Unit

The undersigned hereby certifies to JPMorgan Chase Bank, N.A. (the "Issuing Bank"), with reference to Irrevocable Letter of Credit No. CPCS-869304 dated December 14, 2010 (the "Letter of Credit") issued by the Issuing Bank in favor of the Trustee, that:

1. The undersigned is the Trustee under the Indenture.

2. The Trustee has previously made a Liquidity Drawing under the Letter of Credit on _____ in the amount of U.S. $_____ (representing U.S. $_____ of principal and U.S. $_____ of interest) with respect to the purchase price of Bonds [which are now held as Pledged Bonds (as defined in the Letter of Credit)] under the Indenture. Any and all interest on the [Pledged] Bonds accrued subsequent to the Liquidity Drawing and prior to the immediately preceding Interest Payment Date (as defined in the Indenture) was paid on [insert date] in accordance with Section 5.05 of the Indenture.

3. The Trustee has received proceeds from the sale of remarketed [Pledged] Bonds originally purchased with the proceeds of the above described Liquidity Drawing and as of the date hereof holds such funds in accordance with the Indenture in the amount of U.S. $_____ (representing U.S. $_____ of principal and U.S. $_____ of interest) with respect to the sale of such [Pledged] Bonds.

4. In accordance with the terms of the Letter of Credit, the Trustee deems that the amount available under the Letter of Credit has been automatically reinstated to the extent of the lesser of (i) the proceeds of remarketed [Pledged] Bonds held by the Trustee as set forth above or (ii) the amount of the Liquidity Drawing described above, all in accordance with the terms of the Letter of Credit and this notice.

(Signature Page Follows)

IN WITNESS WHEREOF, the undersigned has executed and delivered this Certificate this ____ day of _____, _____.

U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee

By _____
[Title of Authorized Representative]

EXHIBIT B

[Reserved].

EXHIBIT C-1

FORM OF U.S. TAX CERTIFICATE

(For Non-U.S. Banks That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Reimbursement Agreement, dated as of December 14, 2010 (as amended, restated, supplemented or otherwise modified from time to time, the "Reimbursement Agreement"), among Tucson Electric Power Company (the "Applicant"), the Banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent").

Pursuant to the provisions of Section 9.15 of the Reimbursement Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the [Letter of Credit(s)] (as well as any [Note(s)] evidencing such [Letter of Credit(s)]) in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code, (iii) it is not a ten percent shareholder of the Applicant within the meaning of Section 871(h)(3)(B) of the Code, (iv) it is not a controlled foreign corporation related to the Applicant as described in Section 881(c)(3)(C) of the Code and (v) the interest payments in question are not effectively connected with the undersigned's conduct of a U.S. trade or business.

The undersigned has furnished the Administrative Agent and the Applicant with a certificate of its non-U.S. person status on IRS Form W-8BEN. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Applicant and the Administrative Agent and (2) the undersigned shall have at all times furnished the Applicant and the Administrative Agent with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Reimbursement Agreement and used herein shall have the meanings given to them in the Reimbursement Agreement.

[NAME OF BANK]

By:_____
Name:
Title:

Date: _____ __, 20[ ]

EXHIBIT C-2

FORM OF U.S. TAX CERTIFICATE

(For Non-U.S. Banks That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Reimbursement Agreement, dated as of December 14, 2010 (as amended, restated, supplemented or otherwise modified from time to time, the "Reimbursement Agreement"), among Tucson Electric Power Company (the "Applicant"), the Banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent").

Pursuant to the provisions of Section 9.15 of the Reimbursement Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the [Letter of Credit(s)] (as well as any [Note(s)] evidencing such [Letter of Credit(s)]) in respect of which it is providing this certificate, (ii) its partners/members are the sole beneficial owners of such [Letter of Credit(s)] (as well as any [Note(s)] evidencing such [Letter of Credit(s)]), (iii) with respect to the extension of credit pursuant to the Reimbursement Agreement, neither the undersigned nor any of its partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(c)(3)(A) of the Code, (iv) none of its partners/members is a ten percent shareholder of the Applicant within the meaning of Section 871(h)(3)(B) of the Code, (v) none of its partners/members is a controlled foreign corporation related to the Applicant as described in Section 881(c)(3)(C) of the Code, and (vi) the interest payments in question are not effectively connected with the undersigned's or its partners/members' conduct of a U.S. trade or business.

The undersigned has furnished the Administrative Agent and the Applicant with IRS Form W-8IMY accompanied by an IRS Form W-8BEN from each of its partners/members claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Applicant and the Administrative Agent and (2) the undersigned shall have at all times furnished the Applicant and the Administrative Agent with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Reimbursement Agreement and used herein shall have the meanings given to them in the Reimbursement Agreement.

[NAME OF BANK]

By:_____
Name:
Title:

Date: _____ __, 20[ ]

EXHIBIT C-3

FORM OF U.S. TAX CERTIFICATE

(For Non-U.S. Participants That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Reimbursement Agreement, dated as of December 14, 2010 (as amended, restated, supplemented or otherwise modified from time to time, the "Reimbursement Agreement"), among Tucson Electric Power Company (the "Applicant"), the Banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent").

Pursuant to the provisions of Section 9.15 of the Reimbursement Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the participation in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881(c)(3)(A) of the Code, (iii) it is not a ten percent shareholder of the Applicant within the meaning of Section 871(h)(3)(B) of the Code, (iv) it is not a controlled foreign corporation related to the Applicant as described in Section 881(c)(3)(C) of the Code, and (v) the interest payments in question are not effectively connected with the undersigned's conduct of a U.S. trade or business.

The undersigned has furnished its participating Bank with a certificate of its non-U.S. person status on IRS Form W-8BEN. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Bank in writing and (2) the undersigned shall have at all times furnished such Bank with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Reimbursement Agreement and used herein shall have the meanings given to them in the Reimbursement Agreement.

[NAME OF BANK]

By:_____
Name:
Title:

Date: _____ __, 20[ ]

EXHIBIT C-4

FORM OF U.S. TAX CERTIFICATE

(For Non-U.S. Participants That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Reimbursement Agreement, dated as of December 14, 2010 (as amended, restated, supplemented or otherwise modified from time to time, the "Reimbursement Agreement"), among Tucson Electric Power Company (the "Applicant"), the Banks party thereto and JPMorgan Chase Bank, N.A., as administrative agent (in such capacity, the "Administrative Agent").

Pursuant to the provisions of Section 9.15 of the Reimbursement Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the participation in respect of which it is providing this certificate, (ii) its partners/members are the sole beneficial owners of such participation, (iii) with respect to such participation, neither the undersigned nor any of its partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(c)(3)(A) of the Code, (iv) none of its partners/members is a ten percent shareholder of the Applicant within the meaning of Section 871(h)(3)(B) of the Code, (v) none of its partners/members is a controlled foreign corporation related to the Applicant as described in Section 881(c)(3)(C) of the Code, and (vi) the interest payments in question are not effectively connected with the undersigned's or its partners/members' conduct of a U.S. trade or business.

The undersigned has furnished its participating Bank with IRS Form W-8IMY accompanied by an IRS Form W-8BEN from each of its partners/members claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Bank and (2) the undersigned shall have at all times furnished such Bank with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Reimbursement Agreement and used herein shall have the meanings given to them in the Reimbursement Agreement.

[NAME OF BANK]

By:_____
Name:
Title:

Date: _____ __, 20[ ]

EXHIBIT D

FORM OF BOND DELIVERY AGREEMENT

Bond Delivery Agreement

TUCSON ELECTRIC POWER COMPANY

to

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

Dated as of December 14, 2010

Relating to
First Mortgage Bonds, Collateral Series J

THIS BOND DELIVERY AGREEMENT, dated as of December 14, 2010, is between TUCSON ELECTRIC POWER COMPANY, an Arizona corporation (the "Company"), and JPMORGAN CHASE BANK, N.A., as administrative agent (in such capacity, together with its successors and assigns in such capacity, the "Administrative Agent") under the Reimbursement Agreement, dated as of December 14, 2010, among the Company, the "Banks" party thereto and JPMorgan Chase Bank, N.A., as the Issuing Bank and as Administrative Agent, as amended, amended and restated, supplemented or otherwise modified from time to time (the "Reimbursement Agreement").

WHEREAS, the Company has entered into the Reimbursement Agreement and has requested the issuance of a irrevocable transferable direct-pay letter of credit (the "Letter of Credit") in accordance with the provisions of the Reimbursement Agreement; and

WHEREAS, the Company has established its First Mortgage Bonds, Collateral Series J, in the aggregate principal amount of up to $37,153,000 (the "Series 11 Bonds"), to be issued under and in accordance with, and secured by, the Indenture of Mortgage and Deed of Trust, dated as of December 1, 1992, between the Company and The Bank of New York Mellon, formerly known as The Bank of New York (successor in trust to Bank of Montreal Trust Company), as trustee (the "Trustee"), as amended and supplemented and as further supplemented by Supplemental Indenture No. 12, dated as of December 1, 2010 (such Indenture, as so amended and supplemented, and such Supplemental Indenture being hereinafter sometimes called the "General First Mortgage" and "Supplemental Indenture No. 12", respectively); and

WHEREAS, the Company proposes to issue and deliver to the Administrative Agent, for its benefit and the benefit of the Banks and the Issuing Bank, the Series 11 Bonds in order to provide collateral security for the obligation of the Company under the Reimbursement Agreement to pay the Obligations (such term and all other capitalized terms used herein without definition having the meanings assigned to them in the Reimbursement Agreement);

NOW, THEREFORE, in consideration of the premises, of the agreements of the Banks and Issuing Bank in the Reimbursement Agreement, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Company and the Administrative Agent hereby agree as follows:

ARTICLE I

SERIES 11 BONDS

SECTION 1.1. Delivery of Series 11 Bonds.

In order to provide collateral security for the obligation of the Company to pay the Obligations, as aforesaid, the Company hereby delivers to the Administrative Agent Series 11 Bonds in the aggregate principal amount of $37,153,000, maturing on June 1, 2015, and bearing interest as provided in Supplemental Indenture No. 12. The obligation of the Company to pay the principal of and interest on the Series 11 Bonds shall be deemed to have been satisfied and discharged in full or in part, as the case may be, to the extent of the payment by the Company of

the Obligations, all as set forth in subdivision (u) of Article II of Supplemental Indenture No. 12 and in the Series 11 Bonds.

The Series 11 Bonds are registered in the name of the Administrative Agent and shall be owned and held by the Administrative Agent, subject to the provisions of this Agreement, for its benefit and the benefit of the Banks and the Issuing Bank, and the Company shall have no interest therein. The Administrative Agent shall be entitled to exercise all rights of bondholders under the General First Mortgage with respect to the Series 11 Bonds.

The Administrative Agent hereby acknowledges receipt of the Series 11 Bonds.

SECTION 1.2. Payments on Series 11 Bonds.

Any payments received by the Administrative Agent on account of the principal of or interest on the Series 11 Bonds shall be distributed by the Administrative Agent in accordance with the applicable provisions of the Reimbursement Agreement, and the Company hereby consents to such distribution.

ARTICLE II

NO TRANSFER OF BONDS; SURRENDER OF BONDS

SECTION 2.1. No Transfer of Bonds.

The Administrative Agent shall not sell, assign or otherwise transfer any Series 11 Bonds delivered to it under this Agreement except to a successor administrative agent under the Reimbursement Agreement. The Company may take such actions as it shall deem necessary, desirable or appropriate to effect compliance with such restrictions on transfer, including the issuance of stop-transfer instructions to the trustee under the General First Mortgage or any other transfer agent thereunder.

SECTION 2.2. Surrender of Bonds.

(a) The Administrative Agent shall forthwith surrender to or upon the order of the Company all Series 11 Bonds held by it at the first time at which the Commitments shall have terminated, the Letter of Credit is not outstanding and all Obligations shall have been paid in full.

(b) Prior to the surrender of the Letter of Credit upon the termination thereof, upon any permanent reduction in the Available Amount of the Letter of Credit, the Administrative Agent shall, unless an Event of Default shall have occurred and be continuing, forthwith surrender to or upon the order of the Company Series 11 Bonds in an aggregate principal amount equal to the excess of the aggregate principal amount of the Series 11 Bonds held by the Administrative Agent over the Available Amount, as so reduced, provided that the Administrative Agent shall have received, in accordance with Section 6 of Article II of the General First Mortgage, replacement Series 11 Bonds in an aggregate principal amount equal to the Available Amount, as so reduced.

This Agreement shall be governed by and construed in accordance with the law of the State of New York.

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IN WITNESS WHEREOF, the Company and the Administrative Agent have caused this Agreement to be executed and delivered as of the date first above written.

TUCSON ELECTRIC POWER COMPANY

By_____
Name: Kentton C. Grant
Title: Vice President

JPMORGAN CHASE BANK, N.A.,
as Administrative Agent

By_____
Vice President

EXHIBIT E

FORM OF CUSTODIAN AGREEMENT

Execution Version

CUSTODIAN AND PLEDGE AGREEMENT

This CUSTODIAN AND PLEDGE AGREEMENT, dated as of December 14, 2010 (this "Agreement"), is made by and among (i) TUCSON ELECTRIC POWER COMPANY, an Arizona corporation (the "Pledgor"), (ii) JPMORGAN CHASE BANK, N.A. ("JPMorgan"), as the Issuing Bank (the "Issuing Bank") under the Reimbursement Agreement, dated as of December 14, 2010, by and among the Pledgor, the Issuing Bank, the other financial institutions parties thereto as lenders (the "Banks") and JPMorgan, as administrative agent for the Issuing Bank and the Banks (in such capacity, the "Administrative Agent") (hereinafter, as the same may from time to time be amended, restated, supplemented or otherwise modified, called the "Reimbursement Agreement"), and (iii) U.S. BANK TRUST NATIONAL ASSOCIATION, as Trustee under the Indenture referred to below, as custodian (in such capacity, together with its successors and assigns in such capacity, the "Custodian").

W I T N E S S E T H:

WHEREAS, the Coconino County, Arizona Pollution Control Corporation (the "Issuer") has issued the Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Bonds, 2010 Series A (Tucson Electric Power Company Navajo Project) (the "Bonds"), under the Indenture of Trust, dated as of December 1, 2010 (as the same may from time to time be amended, supplemented or otherwise modified, the "Indenture"), between the Issuer and U.S. Bank Trust National Association, as Trustee (the "Trustee");

WHEREAS, the Indenture requires the Trustee to purchase Bonds under certain circumstances as set forth in Section 5.01 of the Indenture from the holders thereof;

WHEREAS, the Pledgor has agreed to enter into the Reimbursement Agreement in order to cause the Issuing Bank to issue a letter of credit (the "Letter of Credit") thereunder which may be used, inter alia, to pay the purchase price of the Bonds;

WHEREAS, pursuant to Section 5.05 of the Indenture, to the extent that Bonds are purchased from the proceeds of a drawing on the Letter of Credit pursuant to Section 5.04(a)(ii) of the Indenture for which the Issuing Bank has not been reimbursed with proceeds from remarketing the Bonds, the Bonds purchased with the proceeds of such drawing (such Bonds being referred to herein as "Pledged Bonds") are required to be to registered in the name of the Trustee and held by the Trustee for the account of and subject to the security interest in favor of the Issuing Bank created by this Agreement; and

WHEREAS, it is a condition precedent to the obligations of the Issuing Bank to enter into the Reimbursement Agreement that the Pledgor and the Custodian shall have executed and delivered this Agreement to the Issuing Bank;

NOW, THEREFORE, in consideration of the premises and in order to induce the Issuing Bank to enter into the Reimbursement Agreement and issue the Letter of Credit thereunder, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Pledgor and the Custodian hereby agree with the Issuing Bank as follows:

1. Defined Terms. Unless otherwise defined herein, terms defined in the Reimbursement Agreement shall have such defined meanings when used herein.

2. Pledge. (a) The Pledgor hereby pledges, assigns, hypothecates, transfers, and delivers to the Issuing Bank (on behalf of and for the ratable benefit of the Banks), and hereby grants to the Issuing Bank (on behalf of and for the ratable benefit of the Banks) a first-priority Lien on and security interest in, all of the Pledgor's right, title and interest in and to the Pledged Bonds, the interest thereon, all proceeds thereof and all security entitlements relating thereto, in each case whether now owned or existing or hereafter created, acquired or existing, as collateral security for the prompt and complete payment when due of all amounts payable by the Pledgor to the Administrative Agent, the Issuing Bank and the Banks and the prompt and complete performance of all other obligations of the Pledgor to the Administrative Agent, the Issuing Bank and the Banks, whether now existing or hereafter arising, under or in respect of the Reimbursement Agreement, the Letter of Credit, this Agreement, the other Credit Documents and the Related Documents (all the foregoing being hereinafter called the "Obligations"). The Pledgor hereby agrees that the Custodian shall act as the agent and bailee of the Issuing Bank for the purpose of perfecting the Lien of this Agreement and of holding the Collateral (as hereinafter defined) for the benefit of the Issuing Bank and the Banks pursuant to the Indenture and this Agreement. Subject to subsection (b) below, upon delivery of the Pledged Bonds to the Trustee pursuant to Section 5.04(a)(ii) of the Indenture, the Pledgor shall cause the Trustee to register such Pledged Bonds in the name of the Trustee for the account of and subject to the security interest in favor of the Issuing Bank in accordance with Section 5.05 of the Indenture.

(b) For so long as the Pledged Bonds are registered in the name of The Depository Trust Company ("DTC"), the Custodian shall cause, or shall cause the Remarketing Agent to cause, DTC to have a CUSIP assigned to any such Pledged Bonds within one (1) Business Day of any such purchase (such CUSIP number to be distinct from the CUSIP assigned to the Bonds), and shall identify, by book-entry or otherwise, the Pledged Bonds as belonging to, or subject to a security interest in favor of, the Issuing Bank, and shall send the Issuing Bank a confirmation thereof. The Custodian shall continuously identify the Pledged Bonds on its books as being held for the account of the Issuing Bank and shall take all such action reasonably requested in writing by the Issuing Bank to ensure that the Issuing Bank shall be the "entitlement holder" with respect to the Pledged Bonds having "control" of all "security entitlements" related to the Pledged Bonds within the meaning of Article 8 of the Uniform Commercial Code as in effect from time to time in the State of New York ("UCC Article 8").

3. Payments on the Pledged Bonds. If, while this Agreement is in effect, the Pledgor shall become entitled to receive or shall receive any payment in respect of the Pledged Bonds, the Pledgor agrees to accept the same as the Issuing Bank's agent and to hold the same in trust on behalf of the Issuing Bank and to deliver the same forthwith to the Issuing Bank. The Pledgor instructs and authorizes the Custodian, and the Custodian agrees, to hold and receive on the Issuing Bank's behalf and to deliver forthwith to the Issuing Bank any payment received by it in respect of the Collateral (including, without limitation, the proceeds of any remarketing of the Pledged Bonds). All such payments in respect of the Pledged Bonds that are paid to the Issuing Bank shall be credited against the Obligations as provided in the Reimbursement Agreement.

4. Collateral. All property at any time pledged with the Issuing Bank hereunder (whether described herein or not) and all income therefrom and proceeds thereof, are herein collectively sometimes called the "Collateral".

5. Release of Pledged Bonds. The Pledged Bonds may be released from the Lien of this Agreement only in accordance with Section 5.05 of the Indenture. Upon reinstatement of the Letter of Credit in accordance with the terms thereof for the principal and interest portions of the drawing made to pay the purchase price of the Pledged Bonds, the Issuing Bank shall notify the Trustee in writing (either by hand delivery or facsimile transmission) of such reinstatement. For the avoidance of doubt, it is understood and agreed that the Issuing Bank will not release any Pledged Bond from the Lien of this Agreement (including, without limitation, any such release in connection with the exercise of remedies by the Issuing Bank hereunder or under the Reinstatement Agreement) unless the stated amount of the Letter of Credit shall have been reinstated by an amount not less than the principal amount of such Pledged Bond. For so long as the Pledged Bonds are registered in the name of DTC, the Issuing Bank instructs and authorizes the Custodian, upon receipt of written notice from the Issuing Bank of any such release, (a) to cause DTC to make appropriate entries on its books decreasing the appropriate securities account of the Custodian to exclude such Pledged Bonds and (b) to have a CUSIP assigned to such Pledged Bonds within one (1) Business Day of any such purchase (such CUSIP number to be distinct from the CUSIP assigned to the Bonds), and shall identify, by book-entry or otherwise, the Pledged Bonds as belonging to, or subject to a security interest in favor of, the Issuing Bank, and shall send the Issuing Bank a confirmation thereof.

6. Rights of the Issuing Bank. The Issuing Bank shall not be liable for failure to collect or realize upon the Obligations or any collateral security (including, without limitation, the Collateral) or guarantee therefor, or any part thereof, or for any delay in so doing, nor shall the Issuing Bank be under any obligation to take any action whatsoever with regard thereto. If an Event of Default has occurred and is continuing, the Issuing Bank may thereafter, without notice, exercise all rights, privileges or options pertaining to any Pledged Bonds as if it were the absolute owner thereof, upon such terms and conditions as it may determine, all without liability except to account for property actually received by it, but the Issuing Bank shall have no duty to exercise any of the aforesaid rights, privileges or options and shall not be responsible for any failure to do so or delay in so doing.

7. Remedies. In the event that any portion of the Obligations has been declared due and payable, the Issuing Bank, without demand of performance or other demand, advertisement or notice of any kind (except the notice specified below of the time and place of public or private sale) to or upon the Pledgor or any other Person (all and each of which demands, advertisements and/or notices are hereby expressly waived), may forthwith collect, receive, appropriate and realize upon the Collateral, or any part thereof, and/or may forthwith sell, assign, give option or options to purchase, contract to sell or otherwise dispose of and deliver said Collateral, or any part thereof, in one or more parcels at public or private sale or sales, at any exchange, broker's board or at any of the Issuing Bank's offices or elsewhere upon such terms and conditions as it may deem advisable and at such prices as it may deem best, for cash or on credit or for future delivery without assumption of any credit risk, with the right to the Issuing Bank upon any such sale or sales, public or private, to purchase the whole or any part of said Collateral so sold, free of any right or equity of redemption in the Pledgor, which right or equity is hereby expressly

waived or released. In connection with any sale by the Bank of the Pledged Bonds after an Event of Default, the Bank shall notify the prospective purchasers that no rating on the Pledged Bonds is then in effect as of the date of any such sale. The Bank shall pay over the net proceeds of any such collection, recovery, receipt, appropriation, realization or sale, after deducting all reasonable costs and expenses of every kind incurred in taking any of the foregoing actions or incidental to the care or safekeeping of, or otherwise with respect to, any and all of the Collateral or in any way relating to the rights of the Issuing Bank hereunder (including, without limitation, reasonable attorneys' fees and legal expenses), to the Administrative Agent to apply such net proceeds to the payment in whole or in part of the Obligations in such order as the Administrative Agent may elect, the Pledgor remaining liable for any deficiency remaining unpaid after such application, and only after so paying over such net proceeds and after the payment by the Issuing Bank of any other amount required by any provision of law, including, without limitation, Section 9-615 of the Uniform Commercial Code as in effect in the State of New York at such time, need the Issuing Bank account for the surplus, if any, to the Pledgor. The Pledgor agrees that the Issuing Bank need not give more than ten (10) days' notice of the time and place of any public sale or of the time after which a private sale or other intended disposition is to take place and that such notice is reasonable notification of such matters. No notification need be given to the Pledgor if it has signed after default a statement renouncing or modifying any right to notification of sale or other intended disposition. In addition to the rights and remedies granted to it in this Agreement and in any other instrument or agreement securing, evidencing or relating to any of the Obligations, the Issuing Bank shall have all the rights and remedies of a secured party under the Uniform Commercial Code of the State of New York from time to time in effect. The Pledgor shall be liable for the deficiency if the proceeds of any sale or other disposition of the Collateral are insufficient to pay all Obligations due and payable by the Pledgor and any other amounts to which the Issuing Bank is entitled, and the fees of any attorneys employed by the Issuing Bank to collect such deficiency.

8. Representations, Warranties and Covenants of the Pledgor. The Pledgor represents and warrants that: (a) on the date of delivery to the Issuing Bank (or to the Custodian for the benefit of the Issuing Bank, as the case may be) of any Pledged Bonds described herein, neither the Issuer, the Remarketing Agent (as defined in the Indenture) nor the Trustee will have any right, title or interest in and to the Pledged Bonds; (b) it has, and on the date of delivery to or for the benefit of the Issuing Bank of any Pledged Bonds will have, full power, authority and legal right to pledge all of its right, title and interest in and to the Pledged Bonds pursuant to this Agreement; (c) this Agreement has been duly authorized, executed and delivered by the Pledgor and constitutes the legal, valid and binding obligation of the Pledgor enforceable in accordance with its terms; (d) no consent of any other party (including, without limitation, any shareholders or creditors of the Pledgor) and no consent, license, permit, approval or authorization of, exemption by, notice or report to, or registration, filing or declaration with, any Governmental Authority, domestic or foreign, is required to be obtained by the Pledgor in connection with the execution, delivery or performance of this Agreement; (e) the execution, delivery and performance of this Agreement will not violate any provision of any applicable law, rule or regulation or of any order, judgment, writ, award or decree of any court, arbitrator or other Governmental Authority, domestic or foreign, or of the certificate of incorporation or by-laws of the Pledgor or of any securities issued by the Pledgor or any of its Subsidiaries, or of any mortgage, indenture, lease, contract, or other agreement, instrument or undertaking to which the Pledgor or any of its Subsidiaries is a party or which purports to be binding upon the Pledgor or

any of its Subsidiaries or upon any of their respective assets, and will not result in the creation or imposition of any Lien on any of the assets of the Pledgor or any of its Subsidiaries except as contemplated by this Agreement; and (f) the pledge, assignment and delivery of such Pledged Bonds pursuant to this Agreement will create a valid first Lien on, and a first perfected security interest in, all right, title and interest of the Pledgor in or to such Pledged Bonds and the proceeds thereof, subject to no prior Lien or to any agreement purporting to grant to any third party a Lien in the property or assets of the Pledgor which could include the Pledged Bonds. The Pledgor covenants and agrees that it will defend the Issuing Bank's right, title and Lien in and to the Pledged Bonds and the proceeds thereof against the claims and demands of all Persons whomsoever; and covenants and agrees that it will have like title to and right to pledge any other property at any time hereafter pledged to the Issuing Bank as Collateral hereunder and will likewise defend the Issuing Bank's right thereto and Lien therein.

9. No Disposition, etc. Without the prior written consent of the Issuing Bank, the Pledgor agrees that it will not sell, assign, transfer, exchange, or otherwise dispose of, or grant any option with respect to, the Collateral, nor will it create, incur or permit to exist any Lien with respect to any of the Collateral, or any interest therein, or any proceeds thereof, except for the Lien provided for by this Agreement and sales contemplated or permitted hereby.

10. Sale of Collateral.

(a) The Pledgor recognizes that the Issuing Bank may not deem it desirable to effect a public sale of any or all the Pledged Bonds by reason of certain prohibitions contained in the Securities Act of 1933, as amended (the "Securities Act"), and applicable state securities laws or otherwise, but may deem it desirable to resort to one or more private sales thereof to a restricted group of purchasers who will be obliged to agree, among other things, to acquire such securities for their own account for investment and not with a view to the distribution or resale thereof. The Pledgor acknowledges and agrees that any such private sale may result in prices and other terms less favorable to the seller than if such sale were a public sale and, notwithstanding such circumstances, agrees that any such private sale shall be deemed to have been made in a commercially reasonable manner. The Bank shall be under no obligation to delay a sale of any of the Pledged Bonds for the period of time necessary to permit the issuer of such securities to register such securities for public sale under the Securities Act, or under applicable state securities laws, even if the Issuer would agree to do so.

(b) The Pledgor further agrees to do or cause to be done all such other acts and things as may be necessary to make such sale or sales of any portion or all of the Pledged Bonds valid and binding and in compliance with any and all applicable laws, regulations, orders, writs, injunctions, decrees or awards of any and all courts, arbitrators or other Governmental Authorities, domestic or foreign, having jurisdiction over any such sale or sales, all at the Pledgor's expense. The Pledgor further agrees that a breach of any of the covenants contained in this numbered paragraph 10 will cause irreparable injury to the Issuing Bank and that the Issuing Bank has no adequate remedy at law in respect of such breach and, as a consequence, agrees that each and every covenant contained in this paragraph shall be specifically enforceable against the Pledgor and the Pledgor hereby waives and agrees not to assert any defenses against an action for specific performance of such covenants except for a defense that no Event of Default has occurred under the Reimbursement Agreement. The Pledgor further acknowledges the

impossibility of ascertaining the amount of damages which would be suffered by the Issuing Bank by reason of a breach of any of such covenants and, consequently, agrees that, if the Issuing Bank shall sue for damages for breach, it shall pay, as liquidated damages and not as a penalty, an amount equal to the value of the Pledged Bonds on the date the Issuing Bank shall demand compliance with this paragraph.

11. Further Assurances. The Pledgor agrees that at any time and from time to time upon the written request of the Issuing Bank, the Pledgor will execute and deliver such further documents and do such further acts and things as the Issuing Bank may reasonably request in order to effect the purposes of this Agreement.

12. The Custodian. (a) The Bank hereby appoints the Custodian as agent and bailee for the Issuing Bank on the terms and conditions of this Agreement, and the Custodian hereby accepts such appointment and agrees with the Issuing Bank to act as agent without compensation separate from that provided to the Custodian, in its capacity as Trustee, pursuant to the Indenture.

(b) The duties of the Custodian as agent under this Agreement shall be limited to those duties expressly set forth herein and the following:

(i) the Custodian shall hold (either directly or as a direct participant of DTC) in trust for the Issuing Bank all Pledged Bonds purchased by the Custodian, in its capacity as Trustee, with drawings under the Letter of Credit pursuant to Section 5.03(c)(ii) and 7.01 of the Indenture, all proceeds thereof and all other amounts held by the Custodian and payable to the Issuing Bank by the Trustee pursuant to the Indenture;

(ii) upon the remarketing of Pledged Bonds, the Custodian shall deliver or cause to be delivered to the Issuing Bank the proceeds of such remarketing and all other amounts received by the Custodian and payable to the Issuing Bank by the Trustee pursuant to the Indenture; and

(iii) the Custodian shall comply with any notice, request or instruction of the Issuing Bank with respect to the Pledged Bonds, subject to numbered paragraph 5 hereof, without the further consent of the Pledgor such that the Issuing Bank shall be deemed to have "control" of the Pledged Bonds as "security entitlements" within the meaning of UCC Article 8.

(c) The Custodian shall not pledge, hypothecate, transfer or release all or any part of the Collateral to any other Person or in any manner not in accordance with this Agreement without the prior written consent of the Issuing Bank.

(d) The Custodian shall transfer the benefits or obligations of this Agreement or the Indenture only with the prior written consent of the Issuing Bank and only if any such transferee shall have agreed in writing to be bound by the terms and conditions of this Agreement and the Indenture. Notwithstanding the preceding sentence, any corporation, association or other entity into which the Custodian may be converted or merged, or with which it may be consolidated, or to which it may sell or otherwise transfer all or substantially all of its corporate trust assets and business or any corporation, association or other entity resulting from

any such conversion, sale, merger, consolidation or other transfer to which it is a party, *ipso facto*, shall be and become successor Custodian hereunder, vested with all other matters as was its predecessor, without the execution or filing of any instrument or consent or any further act on the part of the parties hereto.

(e) The Custodian may execute any of the trusts or powers hereunder or perform any duties hereunder either directly or by or through agents, attorneys, custodians or nominees.

(f) The Custodian may resign and be discharged from its duties hereunder at any time by giving thirty (30) calendar days' prior written notice of such resignation to the Pledgor and the Issuing Bank. The Pledgor and the Issuing Bank, acting jointly, may remove the Custodian at any time by giving thirty (30) calendar days' prior written notice to the Custodian. Upon such notice, a successor Custodian shall be jointly appointed by the Pledgor and the Issuing Bank who shall provide written notice of such to the resigning Custodian. Such successor Custodian shall become the Custodian hereunder upon the resignation or removal date specified in such notice. If the Pledgor and the Issuing Bank are unable to agree upon a successor Custodian within thirty (30) days after such notice, the Custodian may, in its sole discretion, deliver any Collateral then held by the Custodian to the Issuing Bank at the address provided herein or may apply to a court of competent jurisdiction for the appointment of a successor Custodian or for other appropriate relief. Upon receipt of the identity of the successor Custodian, the Custodian shall deliver the Collateral then held hereunder to the successor Custodian. Upon its resignation and delivery of the Collateral as set forth in this subsection (f), the Custodian shall be discharged of and from any and all further obligations arising in connection with the Collateral or this Agreement. Notwithstanding the foregoing provisions of this subsection (f), the Custodian may resign or be removed only in conjunction with the resignation or removal of the Trustee pursuant to the Indenture, and any successor Trustee appointed pursuant to the Indenture shall be appointed as Custodian hereunder.

13. Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

14. No Waiver; Cumulative Remedies. The Bank shall not by any act, delay, omission or otherwise be deemed to have waived any of its rights or remedies hereunder and no waiver shall be valid unless in writing, signed by the Issuing Bank, and then only to the extent therein set forth. A waiver by the Issuing Bank of any right or remedy hereunder on any one occasion shall not be construed as a bar to any right or remedy which the Issuing Bank would otherwise have on any future occasion. No failure to exercise nor any delay in exercising on the part of the Issuing Bank any right, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, power or privilege. The rights and remedies herein provided are cumulative and may be exercised singly or concurrently, and are not exclusive of any rights or remedies provided by law.

15. Notices. All notices, requests and other communications to any party hereunder shall be in writing (including telecopier, overnight courier or similar writing) and shall be given to such party, addressed to it, at its address or telecopier number set forth below or such other address or telecopier number as such party may specify by notice to the other parties. Each such notice, request or communication shall be effective (a) if given by telecopy, when sent by telecopier to the telecopier number specified below and receipt thereof has been confirmed by telephone, (b) if given by mail, five days after such communication is deposited in the mails with first-class postage prepaid, addressed as aforesaid, (c) if given by a reputable overnight courier, upon confirmation of delivery by such courier, (d) when delivered personally or (e) if given by any other means, when delivered at the address specified below.

Party	***Address***
Pledgor:	Tucson Electric Power Company One South Church Avenue Tucson, Arizona 85701 Facsimile No.: (520) 884-3612 Telephone No.: (520) 884-3614 Attention: Treasurer
Issuing Bank:	JPMorgan Chase Bank, N.A. 300 South Riverside Plaza Mail Code IL1-0236 Standby Letter of Credit Unit Chicago, IL 60606-0236 Facsimile No.: (312) 954-6163 Telephone No.: (800) 634-1969, Option 1 Attention: Standby Service Unit with a copy to: JPMorgan Chase Bank, N.A. 10 S Dearborn St. Mail code IL1-0090 Chicago, IL 60603 Facsimile No.: (312) 732-1762 Telephone No.: (312) 732-1838 Email: nancy.r.barwig@jpmorgan.com Attention: Nancy Barwig

Party	*Address*
Custodian:	U.S. Bank Trust National Association 100 Wall Street, Suite 1600 New York, New York 10005 Facsimile No.: (212) 809-4993 Telephone No.: (212) 361-2505 Attention: Vice President

16. Waivers; Amendments. None of the terms or provisions of this Agreement may be waived, altered, modified or amended except by an instrument in writing, duly executed by the parties hereto. This Agreement and all obligations of the Pledgor and the Custodian hereunder shall be binding upon the successors and assigns of the Pledgor and the Custodian, respectively, and shall, together with the rights and remedies of the Issuing Bank hereunder, inure to the benefit of the Issuing Bank and the Revenue Bond Lenders and their respective successors and assigns.

17. Governing Law; Submission to Jurisdiction; WAIVER OF JURY TRIAL.

(a) This Agreement shall be governed by, and be construed and interpreted in accordance with, the laws of the State of New York.

(b) Each of the parties hereto hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law.

(c) Each of the parties hereto hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement in any court referred to in subsection (b) of this numbered paragraph 17. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in numbered paragraph 15. Nothing in this Agreement will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

(e) EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS REVENUE BOND PLEDGE AGREEMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (i) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (ii) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS REVENUE BOND PLEDGE AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SUBSECTION.

18. Counterparts. This Agreement may be signed in any number of counterpart copies, and all such copies shall constitute one and the same instrument.

19. Expenses. The Pledgor shall pay to the Issuing Bank all expenses (including, without limitation, reasonable fees and expenses of counsel) of, or incident to, any actual or attempted sale or other disposition of, or any exchange, enforcement, collection, compromise or settlement of or with respect to, all or any of the Collateral, by litigation or otherwise. The Pledgor shall reimburse the Issuing Bank on demand for all reasonable costs and expenses incurred in connection with the negotiation, preparation, execution and administration of this Agreement, including, without limitation, any fees or expenses paid by the Issuing Bank to the Custodian for its services in connection with this Agreement or pursuant to numbered paragraph 12 hereof.

[Signature Pages to Follow]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed and delivered by their duly authorized officers as of the day and year first above written.

TUCSON ELECTRIC POWER COMPANY

By: _____
Name:
Title:

Signature Page to Custodian and Pledge Agreement
Coconino County, Arizona
Pollution Control Corporation Pollution Control Revenue Bonds
(Tucson Electric Power Company Navajo Project)
2010 Series A

JPMORGAN CHASE BANK , N.A.,
as Issuing Bank

By: _____
Name:
Title:

Signature Page to Custodian and Pledge Agreement
Coconino County, Arizona
Pollution Control Corporation Pollution Control Revenue Bonds
(Tucson Electric Power Company Navajo Project)
2010 Series A

U.S. BANK TRUST NATIONAL ASSOCIATION,
as Custodian

By:_____
Name:
Title:

Signature Page to Custodian and Pledge Agreement
Coconino County, Arizona
Pollution Control Corporation Pollution Control Revenue Bonds
(Tucson Electric Power Company Navajo Project)
2010 Series A

EXHIBIT F

FORM OF TWELFTH SUPPLEMENTAL INDENTURE

Supplemental Indenture No. 12

TUCSON ELECTRIC POWER COMPANY

to

THE BANK OF NEW YORK MELLON,

Trustee

Dated as of December 1, 2010

Supplemental to Indenture of Mortgage and Deed of Trust,
dated as of December 1, 1992

Creating A Series of Bonds Designated
First Mortgage Bonds, Collateral Series J

This instrument constitutes a mortgage, a deed of trust and a security agreement.

SUPPLEMENTAL INDENTURE NO. 12, dated as of December 1, 2010, between TUCSON ELECTRIC POWER COMPANY (hereinafter sometimes called the "Company"), a corporation organized and existing under the laws of the State of Arizona, having its principal office at One South Church Avenue, in the City of Tucson, Arizona, as trustor, and THE BANK OF NEW YORK MELLON, formerly known as The Bank of New York (successor in trust to Bank of Montreal Trust Company), a banking corporation organized and existing under the laws of the State of New York and having its principal office at 101 Barclay Street, in the Borough of Manhattan, The City of New York, New York, as trustee (hereinafter sometimes called the "Trustee"), under the Indenture of Mortgage and Deed of Trust, dated as of December 1, 1992, between the Company and the Trustee (hereinafter called the "Original Indenture"), as heretofore amended and supplemented, this Supplemental Indenture No. 12 being supplemental thereto (the Original Indenture as heretofore amended and supplemented, and as supplemented hereby, and as it may from time to time be further supplemented, modified, altered or amended by any supplemental indenture entered into in accordance with and pursuant to the provisions thereof, is hereinafter called the "Indenture").

RECITALS OF THE COMPANY

WHEREAS, the Original Indenture was authorized, executed and delivered by the Company to provide for the issuance from time to time of its Bonds (such term and all other capitalized terms used herein without definition having the meanings assigned to them in the Original Indenture), to be issued in one or more series as therein contemplated, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on the Bonds; and

WHEREAS, the Company proposes to establish a series of Bonds designated "First Mortgage Bonds, Collateral Series J" and to be limited in aggregate principal amount (except as contemplated in *clause (b)* of *Section 2* of *Article II* of the Original Indenture) to $37,153,000, such series of Bonds and such Bonds to be hereinafter sometimes called, respectively, "Series 11" and "Series 11 Bonds"; and

WHEREAS, all acts and proceedings required by law and by the articles of incorporation and by-laws of the Company, including all action requisite on the part of its shareholders, directors and officers, necessary to make the Series 11 Bonds, when executed by the Company, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal obligations of the Company, and to constitute this Supplemental Indenture a valid, binding and legal instrument, in accordance with its and their terms, have been done and taken; and the execution and delivery of this Supplemental Indenture No. 12 have been in all respects duly authorized; and

WHEREAS, effective June 3, 1999, The Bank of New York succeeded to all of the corporate trust business of Bank of Montreal Trust Company, and, as a consequence, The Bank of New York, being otherwise qualified and eligible under *Article XII* of the Original Indenture, became the successor trustee under the Indenture without further act on the part of the parties thereto, as contemplated by *Section 11* of *Article XII* of the Original Indenture; and

WHEREAS, effective July 1, 2008, The Bank of New York changed its name to The Bank of New York Mellon.

GRANTING CLAUSES

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE NO. 12 WITNESSETH, that, in order to secure the payment of the principal of and premium, if any, and interest, if any, on all Bonds at any time Outstanding under the Indenture according to their tenor, purport and effect, and to secure the performance and observance of all the covenants and conditions therein and herein contained (except any covenant of the Company with respect to the refund or reimbursement of taxes, assessments or other governmental charges on account of the ownership of the Bonds of any series or the income derived therefrom, for which the Holders of the Bonds shall look only to the Company and not to the property hereby mortgaged or pledged), and to declare the terms and conditions upon and subject to which the Series 11 Bonds are to be issued, and for and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Holders thereof, and of the sum of $1 duly paid to the Company by the Trustee at or before the ensealing and delivery hereof, and for other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, the Company has executed and delivered this Supplemental Indenture No. 12, and by these presents does grant, bargain, sell, release, convey, assign, transfer, mortgage, pledge, set over and confirm unto the Trustee, and grant to the Trustee a security interest in:

All and singular the premises, property, assets, rights and franchises of the Company (except Excepted Property), whether now or hereafter owned, constructed or acquired, of whatever character and wherever situated including, among other things (but reference to or enumeration of any particular kinds, classes or items of property shall not be deemed to exclude from the operation and effect of this Supplemental Indenture No. 12 any kind, class or item not so referred to or enumerated), all right, title and interest of the Company in and to the property described as granted in "Schedule A" attached to this Supplemental Indenture No. 12 and made part of these Granting Clauses to the same extent as if fully set forth in the same, and all plants for the generation of electricity by water, steam and/or other power; all power houses, substations, transmission lines, and distributing systems; all offices, buildings and structures, and the equipment thereof; all machinery, engines, boilers, dynamos, machines, regulators, meters, transformers, generators and motors; all appliances whether electrical, gas or mechanical, conduits, cables and lines; all pipes, service pipes, fittings, valves and connections, poles, wires, tools, implements, apparatus, furniture, and chattels; all municipal franchises and other franchises; all lines for the transmission and/or distribution of electric current, including towers, poles, wires, cables, pipes, conduits, street lighting systems and all apparatus for use in connection therewith; all real estate, lands, and leaseholds; all easements, servitudes, licenses, permits, rights, powers, franchises, privileges, rights-of-way and other rights in or relating to real estate or the occupancy of the same and all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore described; it being the intention of the parties that all property of every kind, real, personal or mixed (including, but not limited to, all property of the types hereinbefore described), other than Excepted Property, which may be acquired by the Company after the date hereof, shall, immediately upon the acquisition thereof by the Company, to the extent of such acquisition, and without any further conveyance or

assignment, become and be subject to the direct lien of the Indenture as fully and completely as though now owned by the Company and described in said "Schedule A"; it further being the intention of the parties, however, that the lien of and security interest granted by this Supplemental Indenture No. 12 shall not result in the Trustee having greater rights with respect to any property of the Company, real, personal or mixed (including, but not limited to, leasehold interests in property), than the rights of the Company with respect to such property.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any wise appertaining to the aforesaid premises, property, assets, rights and franchises or any part thereof, with the reversion and reversions, remainder and remainders, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, assets, rights and franchises and every part and parcel thereof.

Subject, however, to the reservations, exceptions, limitations and restrictions contained in the several deeds, leases, servitudes, contracts, decrees, judgments, or other instruments through which the Company acquired or claims title to or enjoys the use of the aforesaid properties; and *subject also* to such easements, leases, reservations, servitudes, reversions and other rights and privileges of others and such mortgages, liens and other encumbrances in, on, over, across or through said properties as existed at the time of the acquisition of such properties by the Company or as have been granted by the Company to other persons at or prior to the time of the issuance and delivery of the Bonds of the Initial Series; and *subject also* to Permitted Encumbrances and, as to any property acquired by the Company after the time of the issuance and delivery of the Bonds of the Initial Series, to any easements, leases, reservations, servitudes, reversions and other rights and privileges of others and mortgages, liens or other encumbrances thereon existing, and to any mortgages, liens and other encumbrances for unpaid portions of the purchase money placed thereon, at the time of such acquisition; and *subject also* to the provisions of *Article XI* of the Original Indenture;

TO HAVE AND TO HOLD the Trust Estate and all and singular the lands, properties, estates, rights, franchises, privileges and appurtenances hereby granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over and confirmed, together with all the appurtenances thereunto appertaining, unto the Trustee and its successors and assigns, forever;

BUT IN TRUST, NEVERTHELESS, for the equal and proportionate use, benefit, security and protection of those who from time to time shall hold the Bonds authenticated and delivered hereunder and under the Indenture and duly issued by the Company, without any discrimination, preference or priority of any one Bond over any other by reason of priority in the time of issue, sale or negotiation thereof or otherwise, except as provided in *Section 2* of *Article IV* of the Original Indenture, so that, subject to said provisions, each and all of said Bonds shall have the same right, lien and privilege under the Indenture and shall be equally secured thereby (except as any sinking, amortization, improvement, renewal or other fund, established in accordance with the provisions of the Indenture, may afford additional security for the Bonds of any particular series), and shall have the same proportionate interest and share in the Trust Estate, with the same effect as if all of the Bonds had been issued, sold and negotiated simultaneously on the date of the delivery hereof; and in trust for enforcing payment of the principal of the Bonds, and

premium, if any, and interest, if any, thereon, according to the tenor, purport and effect of the Bonds and of the Indenture, and for enforcing the terms, provisions, covenants and agreements herein, in the Indenture and in the Bonds set forth;

UPON CONDITION that, until the happening of a Default, the Company shall be suffered and permitted to possess, use and enjoy the Trust Estate (except money, securities and other personal property pledged or deposited with or required to be pledged or deposited with the Trustee hereunder or under the Indenture) and to receive and use the rents, issues, income, revenues, earnings and profits therefrom, all as more specifically provided in *Section 1* of *Article VII of* the Original Indenture;

AND UPON THE TRUSTS, USES AND PURPOSES and subject to the covenants, agreements and conditions hereinafter set forth and declared.

ARTICLE I

ADDITIONAL DEFINITIONS

SECTION 1. **Applicability of Article.**

For all purposes of this Supplemental Indenture No. 12, except as otherwise expressly provided or unless the context otherwise requires, the terms defined in this Article shall have the meanings herein specified and include the plural as well as the singular.

SECTION 2. **Additional Definitions.**

"Administrative Agent" means JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent under the Reimbursement Agreement.

"Interest Payment Date" means the last Business Day of each March, June, September and December; provided, however, that the first Interest Payment Date shall be December 31, 2010.

"Maturity" means the date on which the principal of the Series 11 Bonds becomes due and payable, whether at stated maturity, upon redemption or acceleration, or otherwise.

"Reimbursement Agreement" means the Reimbursement Agreement, dated as of December 14, 2010 among the Company, the "Banks" party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and as the Issuing Bank, as amended, amended and restated, supplemented or otherwise modified from time to time.

The following terms shall have the meanings specified in the Reimbursement Agreement: **"Available Amount", "Alternate Base Rate", "Business Day", "Commitment", "Issuing Bank", "Letter of Credit" and "Obligations".**

A copy of the Reimbursement Agreement is filed at the office of the Administrative Agent at 10 S. Dearborn Street, Chicago, Illinois 60603 and at the office of the Company at One South Church Avenue, Tucson, Arizona 85701.

ARTICLE II

SERIES 11 BONDS

There is hereby established a series of Bonds having the following terms and characteristics (the lettered subdivisions set forth below corresponding to the lettered subdivisions of Section 2 of Article II of the Indenture):

(a) the title of the Bonds of such series shall be "First Mortgage Bonds, Collateral Series J" (such Bonds being hereinafter sometimes called the "Series 11 Bonds");

(b) the aggregate principal amount of Series 11 Bonds which may be authenticated and delivered under the Indenture shall be limited to $37,153,000, except as contemplated in subdivision (b) of Section 2 of Article II of the Original Indenture;

(c) not applicable;

(d) the Series 11 Bonds shall mature on June 1, 2015;

(e) during the period from and including the date of the first authentication and delivery of the Series 11 Bonds to and including the day next preceding the first Interest Payment Date, the Series 11 Bonds shall bear interest at the rate of eight per centum (8%) per annum; thereafter, the Series 11 Bonds shall bear interest at a rate equal to the Alternate Base Rate from time to time in effect plus 500 basis points; interest on the Series 11 Bonds shall accrue from and including the date of the first authentication and delivery of the Series 11 Bonds, except as otherwise provided in the form of bond attached hereto as Exhibit A; interest on the Series 11 Bonds shall be payable on each Interest Payment Date and at Maturity, and the Regular Record Date for the interest payable on each Interest Payment Date shall be the day next preceding such Interest Payment Date; interest payable at Maturity shall be paid to the Person to whom principal shall be paid; and interest on the Series 11 Bonds during any period for which payment is made shall be computed in accordance with the Reimbursement Agreement;

(f) the office of the Trustee in New York, New York, shall be the office or agency of the Company in The City of New York where (i) the principal of the Series 11 Bonds and interest payable thereon at Maturity shall be payable upon presentation thereof, (ii) registration of transfer of the Series 11 Bonds may be effected, (iii) exchanges of the Series 11 Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series 11 Bonds or the Indenture may be served; provided, however, that the Company reserves the right to change, by written notice to the Trustee, such office or agency in The City of New York; and provided, further, that the principal office of the Company in Tucson, Arizona shall be an additional financial office or agency where the principal of the Series 11 Bonds and interest payable thereon at Maturity shall be payable upon presentation thereof; interest payable on the Series 11 Bonds prior to Maturity shall be paid by the Company directly to the Holders thereof;

(g) the Series 11 Bonds shall not be redeemable, in whole or in part, at the option of the Company;

(h) upon (i) the occurrence of an Event of Default under the Reimbursement Agreement, and further upon the condition that, in accordance with the terms of the Reimbursement Agreement, the Obligations shall have been declared to be or shall have otherwise become due and payable immediately and the Administrative Agent shall have delivered to the Company a notice demanding redemption of the Series 11 Bonds which notice states that it is being delivered pursuant to Section 7.2 of the Reimbursement Agreement or (ii) the occurrence of an Event of Default under Section 7.1(f) of the Reimbursement Agreement, then all Series 11 Bonds shall be redeemed immediately at the principal amount thereof plus accrued interest to the date of redemption;

(i) the Series 11 Bonds shall be issued in denominations of $1,000 and any amount in excess thereof;

(j) not applicable;

(k) not applicable;

(l) not applicable;

(m) not applicable;

(n) not applicable;

(o) not applicable;

(p) not applicable;

(q) the Series 11 Bonds are to be issued and delivered to the Administrative Agent in order to provide collateral security for the obligation of the Company under the Reimbursement Agreement to pay the Obligations, as described in subdivision (u) below. The Series 11 Bonds are non-transferable, except to a successor Administrative Agent under the Reimbursement Agreement;

(r) not applicable;

(s) no service charge shall be made for the registration of transfer or exchange of Series 11 Bonds;

(t) not applicable;

(u) (i) the Series 11 Bonds are to be issued and delivered to the Administrative Agent in order to provide collateral security for the obligation of the Company under the Reimbursement Agreement to pay the Obligations, to the extent and subject to the limitations set forth in clauses (ii) and (iii) of this subdivision;

(ii) the obligation of the Company to pay interest on the Series 11 Bonds on any Interest Payment Date prior to Maturity (x) shall be deemed to have been satisfied and discharged in full in the event that all amounts then due in respect of the Obligations shall have been paid or (y) shall be deemed to remain unsatisfied in an amount equal to the aggregate amount then due in respect of the Obligations and remaining unpaid (not in excess, however, of the amount otherwise then due in respect of interest on the Series 11 Bonds);

(iii) the obligation of the Company to pay the principal of and accrued interest on the Series 11 Bonds at or after Maturity (x) shall be deemed to have been satisfied and discharged in full in the event that all amounts then due in respect of the Obligations shall have been paid and the Letter of Credit shall not be outstanding or (y) shall be deemed to remain unsatisfied in an amount equal to the aggregate amount then due in respect of the Obligations and remaining unpaid plus, if the Letter of Credit is outstanding, the Available Amount (not in excess, however, of the amount otherwise then due in respect of principal of and accrued interest on the Series 11 Bonds);

(iv) the Trustee shall be entitled to presume that the obligation of the Company to pay the principal of and interest on the Series 11 Bonds as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Administrative Agent, signed by an authorized officer thereof, stating that the principal of and/or interest on the Series 11 Bonds has become due and payable and has not been fully paid, and specifying the amount of funds required to make such payment;

(v) in the event of an application by the Administrative Agent for payment or for a substituted Series 11 Bond pursuant to Section 11 of Article II of the Original Indenture, the Administrative Agent shall not be required to provide any indemnity or pay any expenses or charges as contemplated in said Section 11; and

(vi) the Series 11 Bonds shall have such other terms as are set forth in the form of bond attached hereto as Exhibit A, which form is hereby designated as the form of the Series 11 Bonds.

ARTICLE III

MISCELLANEOUS PROVISIONS

This Supplemental Indenture No. 12 is a supplement to the Original Indenture. As heretofore supplemented and further supplemented by this Supplemental Indenture No. 12, the Original Indenture is in all respects ratified, approved and confirmed, and the Original Indenture as heretofore supplemented and this Supplemental Indenture No. 12 shall together constitute one and the same instrument.

The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture No. 12. The statements and recitals herein are deemed to be those of the Company and not of the Trustee.

IN WITNESS WHEREOF, Tucson Electric Power Company has caused its corporate name to be hereunto affixed, and this instrument to be signed by one of its Vice Presidents, and its corporate seal to be hereunto affixed and attested by its Secretary or one of its Assistant Secretaries for and on its behalf; and The Bank of New York Mellon, as trustee, in evidence of its acceptance of the trust hereby created, has caused its corporate name to be hereunto affixed, and this instrument to be signed by one of its authorized signatories and its corporate seal to be hereunto affixed and attested by one of its authorized signatories, for and on its behalf, all as of the day and year first above written.

TUCSON ELECTRIC POWER COMPANY

By_____
Vice President

Attest:

_____
Secretary

THE BANK OF NEW YORK MELLON,
Trustee

By_____
Authorized Signatory

Attest:

_____
Authorized Signatory

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

This instrument was acknowledged before me this 7th day of December 2010 by Kentton C. Grant, as Vice President and Treasurer, and Linda H. Kennedy, as Secretary, of TUCSON ELECTRIC POWER COMPANY, an Arizona corporation, known to me to be the individuals who executed this instrument, and known to me to be a Vice President and Treasurer and the Secretary, respectively, of said corporation, and who personally acknowledged before me and stated that they executed said instrument on behalf of said corporation for the purposes and consideration therein expressed.

_____
NOTARY PUBLIC

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

This instrument was acknowledged before me this 6th day of December 2010 by Timothy W. Casey, as Authorized Signatory, and Laurence J. O'Brien, as Authorized Signatory, of THE BANK OF NEW YORK MELLON, a New York banking corporation, known to me to be the individuals who executed this instrument, and known to me to be Authorized Signatories of said corporation, and who personally acknowledged before me and stated that they executed said instrument on behalf of said corporation for the purposes and consideration therein expressed.

_____
NOTARY PUBLIC

Exhibit A

[Form of Bond]
This bond is non-transferable,
except to a successor Administrative Agent under the
Reimbursement Agreement referred to herein.

No. _____ $

TUCSON ELECTRIC POWER COMPANY

FIRST MORTGAGE BOND, COLLATERAL SERIES J

DUE JUNE 1, 2015

TUCSON ELECTRIC POWER COMPANY, a corporation of the State of Arizona (hereinafter sometimes called the "Company"), for value received, promises to pay to

as Administrative Agent under the Reimbursement Agreement hereinafter referred to or registered assigns, the principal sum of

DOLLARS

on June 1, 2015 in coin or currency of the United States of America which at the time of payment shall be legal tender for the payment of public and private debts, at the office or agency of the Company in The City of New York, or in the City of Tucson, Arizona, upon presentation hereof, and quarterly, on the last Business Day (as defined in Supplemental Indenture No. 12 hereinafter referred to) of March, June, September and December in each year, commencing December 31, 2010 (each an "Interest Payment Date"), and at Maturity (as defined in Supplemental Indenture No. 12 hereinafter referred to), to pay interest thereon in like coin or currency at the rate specified below, from the Interest Payment Date next preceding the date of this bond (unless this bond be dated on an Interest Payment Date, in which case from the date hereof; or unless this bond be dated prior to the first Interest Payment Date, in which case from and including the date of the first authentication and delivery of the bonds of this series), until the Company's obligation with respect to such principal sum shall be discharged.

During the period from and including the date of the first authentication and delivery of the bonds of this series to and including the day next preceding the first Interest Payment Date, the bonds of this series shall bear interest at the rate of eight per centum (8%) per annum; thereafter, the bonds of this series shall bear interest at a rate equal to the Alternate Base Rate (as defined in Supplemental Indenture No. 12 hereinafter referred to) from time to time in effect plus 500 basis points. Interest on the bonds of this series during any period for which payment is made shall be computed in accordance with the Reimbursement Agreement.

This bond is one of an issue of bonds of the Company, issued and to be issued in one or more series under and equally and ratably secured (except as any sinking, amortization,

improvement, renewal or other fund, established in accordance with the provisions of the indenture hereinafter mentioned, may afford additional security for the bonds of any particular series) by the Indenture of Mortgage and Deed of Trust, dated as of December 1, 1992 (the "Original Indenture"), from the Company to The Bank of New York Mellon, formerly known as The Bank of New York (successor in trust to Bank of Montreal Trust Company), as trustee (the "Trustee"), as supplemented by twelve supplemental indentures including Supplemental Indenture No. 12, dated as of December 1, 2010 (the Original Indenture, as so supplemented, and such Supplemental Indenture being hereinafter called the "Indenture" and "Supplemental Indenture No. 12", respectively), to which Indenture reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security provided by the Indenture, the rights and limitations of rights of the Company, the Trustee and the holders of said bonds with respect to the security provided by the Indenture, the powers, duties and immunities of the Trustee, the terms and conditions upon which such bonds are and are to be secured, and the circumstances under which additional bonds may be issued. The acceptance of this bond shall be deemed to constitute the consent and agreement by the holder hereof to all of the terms and provisions of the Indenture. This bond is one of a series of bonds designated as the First Mortgage Bonds, Collateral Series J, of the Company.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the holders of not less than sixty per centum (60%) in aggregate principal amount of the bonds of all series then outstanding under the Indenture, considered as one class; provided, however, that if there shall be bonds of more than one series outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the holders of bonds of one or more, but less than all, of such series, then the consent only of the holders of bonds in aggregate principal amount of the outstanding bonds of all series so directly affected, considered as one class, shall be required; and provided, further, that if the bonds of any series shall have been issued in more than one tranche and if the proposed supplemental indenture shall directly affect the rights of the holder of bonds of one or more, but less than all, of such tranches, then the consent only of the holders of bonds in aggregate principal amount of the outstanding bonds of all tranches so directly affected, considered as one class, shall be required; and provided, further, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any holders of bonds. Any such consent by the holder of this bond shall be conclusive and binding upon such holder and upon all future holders of this bond and of any bond issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent is made upon this bond.

The Company has issued and delivered the bonds of this series to JPMorgan Chase Bank, N.A., as Administrative Agent (the "Administrative Agent") under the Reimbursement Agreement, dated as of December 14, 2010, among the Company, the "Banks" party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and as the Issuing Bank, as amended, amended and restated, supplemented or otherwise modified from time to time (the "Reimbursement Agreement"), in order to provide collateral security for the obligation of the Company thereunder to pay the Obligations (as defined in Supplemental Indenture No. 12).

Upon the occurrence of an Event of Default under the Reimbursement Agreement, and further upon such additional applicable conditions as are set forth in subdivision (h) of Article II of Supplemental Indenture No. 12, then all bonds of this series shall be redeemed immediately at the principal amount thereof plus accrued interest to the date of redemption.

The obligation of the Company to pay interest on the bonds of this series on any Interest Payment Date prior to Maturity (a) shall be deemed to have been satisfied and discharged in full in the event that all amounts then due in respect of the Obligations shall have been paid or (b) shall be deemed to remain unsatisfied in an amount equal to the aggregate amount then due in respect of the Obligations and remaining unpaid (not in excess, however, of the amount otherwise then due in respect of interest on the bonds of this series).

The obligation of the Company to pay the principal of and accrued interest on the bonds of this series at or after Maturity (x) shall be deemed to have been satisfied and discharged in full in the event that all amounts then due in respect of the Obligations shall have been paid and the Letter of Credit (as defined in Supplemental Indenture No. 12) shall not be outstanding or (y) shall be deemed to remain unsatisfied in an amount equal to the aggregate amount then due in respect of the Obligations and remaining unpaid plus, if the Letter of Credit is outstanding, the Available Amount (as defined in Supplemental Indenture No. 12) (not in excess, however, of the amount otherwise then due in respect of principal of and accrued interest on the bonds of this series).

The principal of this bond and the interest accrued hereon may become or be declared due and payable before the stated maturity hereof, on the conditions, in the manner and at the times set forth in the Indenture, upon the happening of a default as therein provided.

This bond is non-transferable except as required to effect transfer to any successor administrative agent under the Reimbursement Agreement, any such transfer to be made at the office or agency of the Company in The City of New York, upon surrender and cancellation of this bond, and upon any such transfer a new bond of this series, for the same aggregate principal amount and having the same stated maturity date, will be issued to the transferee in exchange herefor. Prior to due presentment for registration of transfer, the Company and the Trustee may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment and for all other purposes. This bond, alone or with other bonds of this series, may in like manner be exchanged at such office or agency for one or more bonds of this series of the same aggregate principal amount and having the same stated maturity date and interest rate, all as provided in the Indenture.

No recourse shall be had for the payment of the principal of or interest on this bond, or for any claim based hereon or otherwise in respect hereof or of the Indenture, against any incorporator, shareholder, director or officer, as such, past, present or future, of the Company or of any predecessor or successor corporation, either directly or through the Company or any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or by any legal or equitable proceeding or otherwise howsoever (including, without limiting the generality of the foregoing, any proceeding to enforce any claimed liability of shareholders of the Company, based upon any theory of disregarding the corporate entity of the Company or upon any theory that the Company

was acting as the agent or instrumentality of the shareholders); all such liability being, by the acceptance hereof and as a part of the consideration for the issuance hereof, expressly waived and released by every holder hereof, and being likewise waived and released by the terms of the Indenture under which this bond is issued, as more fully provided in said Indenture.

This bond shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed by The Bank of New York Mellon, or its successor, as Trustee under the Indenture.

IN WITNESS WHEREOF, the Company has caused this bond to be signed in its name by the manual or facsimile signature of its President or one of its Vice Presidents, and its corporate seal, or a facsimile thereof, to be impressed or imprinted hereon and attested by the manual or facsimile signature of its Secretary or one of its Assistant Secretaries.

Dated: ___ __, 20__

TUCSON ELECTRIC POWER COMPANY

By:_____

Attest:

_____

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

This is one of the bonds, of the series designated therein, described in the within-mentioned Indenture.

Dated: ____ __, 20__

The Bank of New York Mellon,
Trustee

By:_____

SCHEDULE A

DESCRIPTION OF MORTGAGED PROPERTY

GENERIC DESCRIPTION

All electric generating plants, gas generating plant, gas holders, steam plant, gas regulating stations, substations and other properties of the Company, including all power houses, transmission lines, buildings, pipes, structures and works, and the lands of the Company on which the same are situated, and all the Company's lands, easements, rights, rights-of-way, water rights, rights to the use of water, including all of the Company's right, title and interest in and to any and all decrees therefor, permits, franchises, consents, privileges, licenses, poles, towers, wires, switch racks, insulators, pipes, machinery, engines, boilers, motors, regulators, meters, tools, appliances, equipment, appurtenances and supplies, forming a part of or appertaining to said plants, holders, sites, stations or other properties, or any of them, or used or enjoyed or capable of being used or enjoyed in conjunction or connection therewith; and

All electric substations and substation sites of the Company including all buildings, structures, towers, poles, lines, and all equipment, appliances, and devices for transforming, converting and distributing electric energy, and all the right, title and interest of the Company in and to the land on which the same are situated, and all of the Company's lands, easements, rights-of-way, rights, franchises, privileges, machinery, equipment, fixtures, appliances, devices, appurtenances and supplies forming a part of said substation or any of them, or used or enjoyed, or capable of being used or enjoyed, in conjunction or connection therewith; and

All warehouses, buildings, structures, works and sites and the Company's lands on which the same are situated, and all easements, rights-of-way, permits, franchises, consents, privileges, licenses, machinery, equipment, furniture and fixtures, appurtenances and supplies forming a part of said warehouses, buildings, structures, works and sites, or any of them, or used or enjoyed or capable of being used or enjoyed in connection or conjunction therewith; and

All electric distribution systems of the Company, including towers, poles, wires, insulators, appliances, devices, appurtenances and equipment, and all the Company's other property, real, personal or mixed, forming a part of, or used, occupied or enjoyed in connection with or in any way appertaining to said distribution systems, or any of them, together with all of the Company's rights-of-way, easements, permits, privileges, municipal or other franchises, licenses, consents and rights for or relating to the construction, maintenance or operation thereof through, over, under or upon any public streets or highways, or public or private lands; and also all branches, extensions, improvements and developments of or appertaining to or connected with said electric distribution systems, or any of them, and all other electric distribution systems of the Company and parts thereof wherever situated, and whether now owned or hereafter acquired, as well as all rights-of-way, easements, privileges, permits, municipal or other franchises, consents and rights for or relating to the construction, maintenance or operation thereof, or any part thereof, through, over, under or upon public or private lands, whether now owned or hereafter acquired; and

All electric transmission and/or distribution lines of the Company, including the towers, poles, pole lines, wires, switch racks, insulators, supports, guys, telephone and telegraph lines and other appliances and equipment, and all other property of the Company, real, personal or mixed, forming a part thereof or appertaining thereto, together with all of the Company's rights-of-way, easements, permits, privileges, municipal or other franchises, consents, licenses and rights, for or relating to the construction, maintenance or operation thereof, through, over, under or upon any public streets or highways or other lands, public or private; also all extension, branches, taps, developments and improvements of or to any and all of the above-described transmission and/or distribution lines, telephone and telegraph lines or any of them, as well as all rights-of-way, easements, permits, privileges, rights and municipal or other franchises, licenses and consents, for or relating to the construction, maintenance or operation of said lines or any of them, or any part thereof, through, over, under or upon any public streets or highways or any public or private lands, whether now owned or hereafter acquired;

Excepting, however, any property of the character of "Excepted Property" within the meaning of the Supplemental Indenture to which this Schedule A is attached.

SPECIFIC DESCRIPTION OF ANY ADDITIONAL REAL PROPERTY

Specific descriptions of additional portions of the Mortgaged Property which constitute real property, if any, are contained in Annex 1 to this Schedule A.

Annex 1
to
Schedule A

None

ANNEX I

PRICING GRID

The "Applicable Margin" and the "LC Fee Margin" for any day are the respective annual percentage rates set forth below in the applicable row under the column corresponding to the Status that exists on such day:

	Level 1 ≥A-/A3	**Level 2** BBB+/Baa1	**Level 3** BBB/Baa2	**Level 4** BBB-/Baa3	**Level 5** BB+/Ba1	**Level 6** ≤BB/Ba2
Applicable Margin - Eurodollar Advances	1.25%	1.50%	1.75%	2.00%	2.50%	3.00%
Applicable Margin - ABR Advances	0.25%	0.50%	0.75%	1.00%	1.50%	2.00%
LC Fee Margin	1.25%	1.50%	1.75%	2.00%	2.50%	3.00%

For purposes of this Pricing Grid, the following terms have the following meanings:

"*Level 1 Status*" exists at any date if, at such date, the Index Debt is rated either A- or higher by S&P *or* A3 or higher by Moody's.

"*Level 2 Status*" exists at any date if, at such date (i) the Index Debt is rated either BBB+ or higher by S&P *or* Baa1 or higher by Moody's and (ii) Level 1 Status does not exist.

"*Level 3 Status*" exists at any date if, at such date (i) the Index Debt is rated either BBB or higher by S&P *or* Baa2 or higher by Moody's and (ii) neither Level 1 Status nor Level 2 Status exists.

"*Level 4 Status*" exists at any date if, at such date (i) the Index Debt is rated either BBB- or higher by S&P *or* Baa3 or higher by Moody's and (ii) none of Level 1 Status, Level 2 Status or Level 3 Status exists.

"*Level 5 Status*" exists at any date if, at such date (i) the Index Debt is rated either BB+ or higher by S&P *or* Ba1 or higher by Moody's and (ii) none of Level 1 Status, Level 2 Status, Level 3 Status or Level 4 Status exists.

"*Level 6 Status*" exists at any date if, at such date, no other Status exists.

"*Status*" refers to the determination of which of Level 1 Status, Level 2 Status, Level 3 Status, Level 4 Status, Level 5 Status or Level 6 Status exists at any date.

Notwithstanding the foregoing, if the Index Debt is split-rated and the ratings differential is two or more ratings levels, the Status shall be determined assuming that (a) the higher rating is equal to the midpoint of the two ratings (e.g., for a split rating of BBB+/Baa3, BBB is the midpoint and will be deemed to be the higher rating, and for a split rating of BB/Baa1, Baa3 is the midpoint and will be deemed to be the higher rating) or (b) if there is no exact midpoint, the higher rating is equal to the higher of the two middle intermediate ratings (e.g., for a split rating of BBB+/Ba1, BBB is the higher of the two middle intermediate ratings and will be deemed to be the higher rating, and for a split rating of BB/Baa2, Baa3 is the higher of the two middle intermediate ratings and will be deemed to be the higher rating).

If at any time the Index Debt is unrated by both Moody's and S&P, Level 6 Status shall exist; provided that if the reason that there is no such Moody's rating or S&P rating results from Moody's or S&P, as the case may be, ceasing to issue debt ratings generally, then the Applicant and the Administrative Agent may select another nationally-recognized rating agency to substitute for Moody's or S&P, as applicable, for purposes of this Pricing Schedule (and all references herein to Moody's or S&P, as applicable, shall refer to such substitute rating agency), and until a substitute nationally-recognized rating agency is so selected the Status shall be determined by reference to the rating most recently in effect prior to such cessation; and provided, further, that if the Index Debt is rated by only one of Moody's or S&P, the Status shall be determined by reference to the rating of such Rating Agency.

The Applicable Margin and LC Fee Margin shall be increased or decreased in accordance with the foregoing Pricing Grid upon any change in the applicable ratings of the Index Debt. The ratings of the Index Debt in effect at any date are those in effect at the close of business on such date.

Supplemental Indenture No. 12

TUCSON ELECTRIC POWER COMPANY

to

THE BANK OF NEW YORK MELLON,

Trustee

Dated as of December 1, 2010

Supplemental to Indenture of Mortgage and Deed of Trust,
dated as of December 1, 1992

Creating A Series of Bonds Designated
First Mortgage Bonds, Collateral Series J

This instrument constitutes a mortgage, a deed of trust and a security agreement.

SUPPLEMENTAL INDENTURE NO. 12, dated as of December 1, 2010, between TUCSON ELECTRIC POWER COMPANY (hereinafter sometimes called the "Company"), a corporation organized and existing under the laws of the State of Arizona, having its principal office at One South Church Avenue, in the City of Tucson, Arizona, as trustor, and THE BANK OF NEW YORK MELLON, formerly known as The Bank of New York (successor in trust to Bank of Montreal Trust Company), a banking corporation organized and existing under the laws of the State of New York and having its principal office at 101 Barclay Street, in the Borough of Manhattan, The City of New York, New York, as trustee (hereinafter sometimes called the "Trustee"), under the Indenture of Mortgage and Deed of Trust, dated as of December 1, 1992, between the Company and the Trustee (hereinafter called the "Original Indenture"), as heretofore amended and supplemented, this Supplemental Indenture No. 12 being supplemental thereto (the Original Indenture as heretofore amended and supplemented, and as supplemented hereby, and as it may from time to time be further supplemented, modified, altered or amended by any supplemental indenture entered into in accordance with and pursuant to the provisions thereof, is hereinafter called the "Indenture").

RECITALS OF THE COMPANY

WHEREAS, the Original Indenture was authorized, executed and delivered by the Company to provide for the issuance from time to time of its Bonds (such term and all other capitalized terms used herein without definition having the meanings assigned to them in the Original Indenture), to be issued in one or more series as therein contemplated, and to provide security for the payment of the principal of and premium, if any, and interest, if any, on the Bonds; and

WHEREAS, the Company proposes to establish a series of Bonds designated "First Mortgage Bonds, Collateral Series J" and to be limited in aggregate principal amount (except as contemplated in *clause (b)* of *Section 2* of *Article II* of the Original Indenture) to $37,153,000, such series of Bonds and such Bonds to be hereinafter sometimes called, respectively, "Series 11" and "Series 11 Bonds"; and

WHEREAS, all acts and proceedings required by law and by the articles of incorporation and by-laws of the Company, including all action requisite on the part of its shareholders, directors and officers, necessary to make the Series 11 Bonds, when executed by the Company, authenticated and delivered by the Trustee and duly issued, the valid, binding and legal obligations of the Company, and to constitute this Supplemental Indenture a valid, binding and legal instrument, in accordance with its and their terms, have been done and taken; and the execution and delivery of this Supplemental Indenture No. 12 have been in all respects duly authorized; and

WHEREAS, effective June 3, 1999, The Bank of New York succeeded to all of the corporate trust business of Bank of Montreal Trust Company, and, as a consequence, The Bank of New York, being otherwise qualified and eligible under *Article XII* of the Original Indenture, became the successor trustee under the Indenture without further act on the part of the parties thereto, as contemplated by *Section 11* of *Article XII* of the Original Indenture; and

WHEREAS, effective July 1, 2008, The Bank of New York changed its name to The Bank of New York Mellon.

GRANTING CLAUSES

NOW, THEREFORE, THIS SUPPLEMENTAL INDENTURE NO. 12 WITNESSETH, that, in order to secure the payment of the principal of and premium, if any, and interest, if any, on all Bonds at any time Outstanding under the Indenture according to their tenor, purport and effect, and to secure the performance and observance of all the covenants and conditions therein and herein contained (except any covenant of the Company with respect to the refund or reimbursement of taxes, assessments or other governmental charges on account of the ownership of the Bonds of any series or the income derived therefrom, for which the Holders of the Bonds shall look only to the Company and not to the property hereby mortgaged or pledged), and to declare the terms and conditions upon and subject to which the Series 11 Bonds are to be issued, and for and in consideration of the premises and of the mutual covenants herein contained and of the purchase and acceptance of the Bonds by the Holders thereof, and of the sum of $1 duly paid to the Company by the Trustee at or before the ensealing and delivery hereof, and for other good and valuable consideration, the receipt and sufficiency whereof are hereby acknowledged, the Company has executed and delivered this Supplemental Indenture No. 12, and by these presents does grant, bargain, sell, release, convey, assign, transfer, mortgage, pledge, set over and confirm unto the Trustee, and grant to the Trustee a security interest in:

All and singular the premises, property, assets, rights and franchises of the Company (except Excepted Property), whether now or hereafter owned, constructed or acquired, of whatever character and wherever situated including, among other things (but reference to or enumeration of any particular kinds, classes or items of property shall not be deemed to exclude from the operation and effect of this Supplemental Indenture No. 12 any kind, class or item not so referred to or enumerated), all right, title and interest of the Company in and to the property described as granted in "Schedule A" attached to this Supplemental Indenture No. 12 and made part of these Granting Clauses to the same extent as if fully set forth in the same, and all plants for the generation of electricity by water, steam and/or other power; all power houses, substations, transmission lines, and distributing systems; all offices, buildings and structures, and the equipment thereof; all machinery, engines, boilers, dynamos, machines, regulators, meters, transformers, generators and motors; all appliances whether electrical, gas or mechanical, conduits, cables and lines; all pipes, service pipes, fittings, valves and connections, poles, wires, tools, implements, apparatus, furniture, and chattels; all municipal franchises and other franchises; all lines for the transmission and/or distribution of electric current, including towers, poles, wires, cables, pipes, conduits, street lighting systems and all apparatus for use in connection therewith; all real estate, lands, and leaseholds; all easements, servitudes, licenses, permits, rights, powers, franchises, privileges, rights-of-way and other rights in or relating to real estate or the occupancy of the same and all the right, title and interest of the Company in and to all other property of any kind or nature appertaining to and/or used and/or occupied and/or enjoyed in connection with any property hereinbefore described; it being the intention of the parties that all property of every kind, real, personal or mixed (including, but not limited to, all property of the types hereinbefore described), other than Excepted Property, which may be acquired by the Company after the date hereof, shall, immediately upon the acquisition thereof by the Company, to the extent of such acquisition, and without any further conveyance or

assignment, become and be subject to the direct lien of the Indenture as fully and completely as though now owned by the Company and described in said "Schedule A"; it further being the intention of the parties, however, that the lien of and security interest granted by this Supplemental Indenture No. 12 shall not result in the Trustee having greater rights with respect to any property of the Company, real, personal or mixed (including, but not limited to, leasehold interests in property), than the rights of the Company with respect to such property.

TOGETHER WITH all and singular the tenements, hereditaments and appurtenances belonging or in any wise appertaining to the aforesaid premises, property, assets, rights and franchises or any part thereof, with the reversion and reversions, remainder and remainders, and all the estate, right, title and interest and claim whatsoever, at law as well as in equity, which the Company now has or may hereafter acquire in and to the aforesaid premises, property, assets, rights and franchises and every part and parcel thereof.

Subject, however, to the reservations, exceptions, limitations and restrictions contained in the several deeds, leases, servitudes, contracts, decrees, judgments, or other instruments through which the Company acquired or claims title to or enjoys the use of the aforesaid properties; and *subject also* to such easements, leases, reservations, servitudes, reversions and other rights and privileges of others and such mortgages, liens and other encumbrances in, on, over, across or through said properties as existed at the time of the acquisition of such properties by the Company or as have been granted by the Company to other persons at or prior to the time of the issuance and delivery of the Bonds of the Initial Series; and *subject also* to Permitted Encumbrances and, as to any property acquired by the Company after the time of the issuance and delivery of the Bonds of the Initial Series, to any easements, leases, reservations, servitudes, reversions and other rights and privileges of others and mortgages, liens or other encumbrances thereon existing, and to any mortgages, liens and other encumbrances for unpaid portions of the purchase money placed thereon, at the time of such acquisition; and *subject also* to the provisions of *Article XI* of the Original Indenture;

TO HAVE AND TO HOLD the Trust Estate and all and singular the lands, properties, estates, rights, franchises, privileges and appurtenances hereby granted, bargained, sold, released, conveyed, assigned, transferred, mortgaged, pledged, set over and confirmed, together with all the appurtenances thereunto appertaining, unto the Trustee and its successors and assigns, forever;

BUT IN TRUST, NEVERTHELESS, for the equal and proportionate use, benefit, security and protection of those who from time to time shall hold the Bonds authenticated and delivered hereunder and under the Indenture and duly issued by the Company, without any discrimination, preference or priority of any one Bond over any other by reason of priority in the time of issue, sale or negotiation thereof or otherwise, except as provided in *Section 2* of *Article IV* of the Original Indenture, so that, subject to said provisions, each and all of said Bonds shall have the same right, lien and privilege under the Indenture and shall be equally secured thereby (except as any sinking, amortization, improvement, renewal or other fund, established in accordance with the provisions of the Indenture, may afford additional security for the Bonds of any particular series), and shall have the same proportionate interest and share in the Trust Estate, with the same effect as if all of the Bonds had been issued, sold and negotiated simultaneously on the date of the delivery hereof; and in trust for enforcing payment of the principal of the Bonds, and

premium, if any, and interest, if any, thereon, according to the tenor, purport and effect of the Bonds and of the Indenture, and for enforcing the terms, provisions, covenants and agreements herein, in the Indenture and in the Bonds set forth;

UPON CONDITION that, until the happening of a Default, the Company shall be suffered and permitted to possess, use and enjoy the Trust Estate (except money, securities and other personal property pledged or deposited with or required to be pledged or deposited with the Trustee hereunder or under the Indenture) and to receive and use the rents, issues, income, revenues, earnings and profits therefrom, all as more specifically provided in *Section 1* of *Article VII of* the Original Indenture;

AND UPON THE TRUSTS, USES AND PURPOSES and subject to the covenants, agreements and conditions hereinafter set forth and declared.

ARTICLE I

ADDITIONAL DEFINITIONS

SECTION 1. **Applicability of Article.**

For all purposes of this Supplemental Indenture No. 12, except as otherwise expressly provided or unless the context otherwise requires, the terms defined in this Article shall have the meanings herein specified and include the plural as well as the singular.

SECTION 2. **Additional Definitions.**

"Administrative Agent" means JPMorgan Chase Bank, N.A., in its capacity as Administrative Agent under the Reimbursement Agreement.

"Interest Payment Date" means the last Business Day of each March, June, September and December; provided, however, that the first Interest Payment Date shall be December 31, 2010.

"Maturity" means the date on which the principal of the Series 11 Bonds becomes due and payable, whether at stated maturity, upon redemption or acceleration, or otherwise.

"Reimbursement Agreement" means the Reimbursement Agreement, dated as of December 14, 2010 among the Company, the "Banks" party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and as the Issuing Bank, as amended, amended and restated, supplemented or otherwise modified from time to time.

The following terms shall have the meanings specified in the Reimbursement Agreement: **"Available Amount", "Alternate Base Rate", "Business Day", "Commitment", "Issuing Bank", "Letter of Credit" and "Obligations".**

A copy of the Reimbursement Agreement is filed at the office of the Administrative Agent at 10 S. Dearborn Street, Chicago, Illinois 60603 and at the office of the Company at One South Church Avenue, Tucson, Arizona 85701.

ARTICLE II

SERIES 11 BONDS

There is hereby established a series of Bonds having the following terms and characteristics (the lettered subdivisions set forth below corresponding to the lettered subdivisions of Section 2 of Article II of the Indenture):

(a) the title of the Bonds of such series shall be "First Mortgage Bonds, Collateral Series J" (such Bonds being hereinafter sometimes called the "Series 11 Bonds");

(b) the aggregate principal amount of Series 11 Bonds which may be authenticated and delivered under the Indenture shall be limited to $37,153,000, except as contemplated in subdivision (b) of Section 2 of Article II of the Original Indenture;

(c) not applicable;

(d) the Series 11 Bonds shall mature on June 1, 2015;

(e) during the period from and including the date of the first authentication and delivery of the Series 11 Bonds to and including the day next preceding the first Interest Payment Date, the Series 11 Bonds shall bear interest at the rate of eight per centum (8%) per annum; thereafter, the Series 11 Bonds shall bear interest at a rate equal to the Alternate Base Rate from time to time in effect plus 500 basis points; interest on the Series 11 Bonds shall accrue from and including the date of the first authentication and delivery of the Series 11 Bonds, except as otherwise provided in the form of bond attached hereto as Exhibit A; interest on the Series 11 Bonds shall be payable on each Interest Payment Date and at Maturity, and the Regular Record Date for the interest payable on each Interest Payment Date shall be the day next preceding such Interest Payment Date; interest payable at Maturity shall be paid to the Person to whom principal shall be paid; and interest on the Series 11 Bonds during any period for which payment is made shall be computed in accordance with the Reimbursement Agreement;

(f) the office of the Trustee in New York, New York, shall be the office or agency of the Company in The City of New York where (i) the principal of the Series 11 Bonds and interest payable thereon at Maturity shall be payable upon presentation thereof, (ii) registration of transfer of the Series 11 Bonds may be effected, (iii) exchanges of the Series 11 Bonds may be effected and (iv) notices and demands to or upon the Company in respect of the Series 11 Bonds or the Indenture may be served; provided, however, that the Company reserves the right to change, by written notice to the Trustee, such office or agency in The City of New York; and provided, further, that the principal office of the Company in Tucson, Arizona shall be an additional financial office or agency where the principal of the Series 11 Bonds and interest payable thereon at Maturity shall be payable upon presentation thereof; interest payable on the Series 11 Bonds prior to Maturity shall be paid by the Company directly to the Holders thereof;

(g) the Series 11 Bonds shall not be redeemable, in whole or in part, at the option of the Company;

(h) upon (i) the occurrence of an Event of Default under the Reimbursement Agreement, and further upon the condition that, in accordance with the terms of the Reimbursement Agreement, the Obligations shall have been declared to be or shall have otherwise become due and payable immediately and the Administrative Agent shall have delivered to the Company a notice demanding redemption of the Series 11 Bonds which notice states that it is being delivered pursuant to Section 7.2 of the Reimbursement Agreement or (ii) the occurrence of an Event of Default under Section 7.1(f) of the Reimbursement Agreement, then all Series 11 Bonds shall be redeemed immediately at the principal amount thereof plus accrued interest to the date of redemption;

(i) the Series 11 Bonds shall be issued in denominations of $1,000 and any amount in excess thereof;

(j) not applicable;

(k) not applicable;

(l) not applicable;

(m) not applicable;

(n) not applicable;

(o) not applicable;

(p) not applicable;

(q) the Series 11 Bonds are to be issued and delivered to the Administrative Agent in order to provide collateral security for the obligation of the Company under the Reimbursement Agreement to pay the Obligations, as described in subdivision (u) below. The Series 11 Bonds are non-transferable, except to a successor Administrative Agent under the Reimbursement Agreement;

(r) not applicable;

(s) no service charge shall be made for the registration of transfer or exchange of Series 11 Bonds;

(t) not applicable;

(u) (i) the Series 11 Bonds are to be issued and delivered to the Administrative Agent in order to provide collateral security for the obligation of the Company under the Reimbursement Agreement to pay the Obligations, to the extent and subject to the limitations set forth in clauses (ii) and (iii) of this subdivision;

(ii) the obligation of the Company to pay interest on the Series 11 Bonds on any Interest Payment Date prior to Maturity (x) shall be deemed to have been satisfied and discharged in full in the event that all amounts then due in respect of the Obligations shall have been paid or (y) shall be deemed to remain unsatisfied in an amount equal to the aggregate amount then due in respect of the Obligations and remaining unpaid (not in excess, however, of the amount otherwise then due in respect of interest on the Series 11 Bonds);

(iii) the obligation of the Company to pay the principal of and accrued interest on the Series 11 Bonds at or after Maturity (x) shall be deemed to have been satisfied and discharged in full in the event that all amounts then due in respect of the Obligations shall have been paid and the Letter of Credit shall not be outstanding or (y) shall be deemed to remain unsatisfied in an amount equal to the aggregate amount then due in respect of the Obligations and remaining unpaid plus, if the Letter of Credit is outstanding, the Available Amount (not in excess, however, of the amount otherwise then due in respect of principal of and accrued interest on the Series 11 Bonds);

(iv) the Trustee shall be entitled to presume that the obligation of the Company to pay the principal of and interest on the Series 11 Bonds as the same shall become due and payable shall have been fully satisfied and discharged unless and until it shall have received a written notice from the Administrative Agent, signed by an authorized officer thereof, stating that the principal of and/or interest on the Series 11 Bonds has become due and payable and has not been fully paid, and specifying the amount of funds required to make such payment;

(v) in the event of an application by the Administrative Agent for payment or for a substituted Series 11 Bond pursuant to Section 11 of Article II of the Original Indenture, the Administrative Agent shall not be required to provide any indemnity or pay any expenses or charges as contemplated in said Section 11; and

(vi) the Series 11 Bonds shall have such other terms as are set forth in the form of bond attached hereto as Exhibit A, which form is hereby designated as the form of the Series 11 Bonds.

ARTICLE III

MISCELLANEOUS PROVISIONS

This Supplemental Indenture No. 12 is a supplement to the Original Indenture. As heretofore supplemented and further supplemented by this Supplemental Indenture No. 12, the Original Indenture is in all respects ratified, approved and confirmed, and the Original Indenture as heretofore supplemented and this Supplemental Indenture No. 12 shall together constitute one and the same instrument.

The Trustee makes no representation as to the validity or sufficiency of this Supplemental Indenture No. 12. The statements and recitals herein are deemed to be those of the Company and not of the Trustee.

IN WITNESS WHEREOF, Tucson Electric Power Company has caused its corporate name to be hereunto affixed, and this instrument to be signed by one of its Vice Presidents, and its corporate seal to be hereunto affixed and attested by its Secretary or one of its Assistant Secretaries for and on its behalf; and The Bank of New York Mellon, as trustee, in evidence of its acceptance of the trust hereby created, has caused its corporate name to be hereunto affixed, and this instrument to be signed by one of its authorized signatories and its corporate seal to be hereunto affixed and attested by one of its authorized signatories, for and on its behalf, all as of the day and year first above written.

TUCSON ELECTRIC POWER COMPANY

By_____
Vice President

Attest:

_____
Secretary

THE BANK OF NEW YORK MELLON,
Trustee

By_____
Authorized Signatory

Attest:

_____
Authorized Signatory

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

This instrument was acknowledged before me this 7th day of December 2010 by Kentton C. Grant, as Vice President and Treasurer, and Linda H. Kennedy, as Secretary, of TUCSON ELECTRIC POWER COMPANY, an Arizona corporation, known to me to be the individuals who executed this instrument, and known to me to be a Vice President and Treasurer and the Secretary, respectively, of said corporation, and who personally acknowledged before me and stated that they executed said instrument on behalf of said corporation for the purposes and consideration therein expressed.

_____
NOTARY PUBLIC

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

This instrument was acknowledged before me this 6th day of December 2010 by Timothy W. Casey, as Authorized Signatory, and Laurence J. O'Brien, as Authorized Signatory, of THE BANK OF NEW YORK MELLON, a New York banking corporation, known to me to be the individuals who executed this instrument, and known to me to be Authorized Signatories of said corporation, and who personally acknowledged before me and stated that they executed said instrument on behalf of said corporation for the purposes and consideration therein expressed.

_____
NOTARY PUBLIC

Exhibit A

[Form of Bond]
This bond is non-transferable,
except to a successor Administrative Agent under the
Reimbursement Agreement referred to herein.

No. _____ $

TUCSON ELECTRIC POWER COMPANY

FIRST MORTGAGE BOND, COLLATERAL SERIES J

DUE JUNE 1, 2015

TUCSON ELECTRIC POWER COMPANY, a corporation of the State of Arizona (hereinafter sometimes called the "Company"), for value received, promises to pay to

as Administrative Agent under the Reimbursement Agreement hereinafter referred to or registered assigns, the principal sum of

DOLLARS

on June 1, 2015 in coin or currency of the United States of America which at the time of payment shall be legal tender for the payment of public and private debts, at the office or agency of the Company in The City of New York, or in the City of Tucson, Arizona, upon presentation hereof, and quarterly, on the last Business Day (as defined in Supplemental Indenture No. 12 hereinafter referred to) of March, June, September and December in each year, commencing December 31, 2010 (each an "Interest Payment Date"), and at Maturity (as defined in Supplemental Indenture No. 12 hereinafter referred to), to pay interest thereon in like coin or currency at the rate specified below, from the Interest Payment Date next preceding the date of this bond (unless this bond be dated on an Interest Payment Date, in which case from the date hereof; or unless this bond be dated prior to the first Interest Payment Date, in which case from and including the date of the first authentication and delivery of the bonds of this series), until the Company's obligation with respect to such principal sum shall be discharged.

During the period from and including the date of the first authentication and delivery of the bonds of this series to and including the day next preceding the first Interest Payment Date, the bonds of this series shall bear interest at the rate of eight per centum (8%) per annum; thereafter, the bonds of this series shall bear interest at a rate equal to the Alternate Base Rate (as defined in Supplemental Indenture No. 12 hereinafter referred to) from time to time in effect plus 500 basis points. Interest on the bonds of this series during any period for which payment is made shall be computed in accordance with the Reimbursement Agreement.

This bond is one of an issue of bonds of the Company, issued and to be issued in one or more series under and equally and ratably secured (except as any sinking, amortization,

improvement, renewal or other fund, established in accordance with the provisions of the indenture hereinafter mentioned, may afford additional security for the bonds of any particular series) by the Indenture of Mortgage and Deed of Trust, dated as of December 1, 1992 (the "Original Indenture"), from the Company to The Bank of New York Mellon, formerly known as The Bank of New York (successor in trust to Bank of Montreal Trust Company), as trustee (the "Trustee"), as supplemented by twelve supplemental indentures including Supplemental Indenture No. 12, dated as of December 1, 2010 (the Original Indenture, as so supplemented, and such Supplemental Indenture being hereinafter called the "Indenture" and "Supplemental Indenture No. 12", respectively), to which Indenture reference is hereby made for a description of the property mortgaged and pledged, the nature and extent of the security provided by the Indenture, the rights and limitations of rights of the Company, the Trustee and the holders of said bonds with respect to the security provided by the Indenture, the powers, duties and immunities of the Trustee, the terms and conditions upon which such bonds are and are to be secured, and the circumstances under which additional bonds may be issued. The acceptance of this bond shall be deemed to constitute the consent and agreement by the holder hereof to all of the terms and provisions of the Indenture. This bond is one of a series of bonds designated as the First Mortgage Bonds, Collateral Series J, of the Company.

The Indenture permits, with certain exceptions as therein provided, the Trustee to enter into one or more supplemental indentures for the purpose of adding any provisions to, or changing in any manner or eliminating any of the provisions of, the Indenture with the consent of the holders of not less than sixty per centum (60%) in aggregate principal amount of the bonds of all series then outstanding under the Indenture, considered as one class; provided, however, that if there shall be bonds of more than one series outstanding under the Indenture and if a proposed supplemental indenture shall directly affect the rights of the holders of bonds of one or more, but less than all, of such series, then the consent only of the holders of bonds in aggregate principal amount of the outstanding bonds of all series so directly affected, considered as one class, shall be required; and provided, further, that if the bonds of any series shall have been issued in more than one tranche and if the proposed supplemental indenture shall directly affect the rights of the holder of bonds of one or more, but less than all, of such tranches, then the consent only of the holders of bonds in aggregate principal amount of the outstanding bonds of all tranches so directly affected, considered as one class, shall be required; and provided, further, that the Indenture permits the Trustee to enter into one or more supplemental indentures for limited purposes without the consent of any holders of bonds. Any such consent by the holder of this bond shall be conclusive and binding upon such holder and upon all future holders of this bond and of any bond issued upon the registration of transfer hereof or in exchange therefor or in lieu hereof, whether or not notation of such consent is made upon this bond.

The Company has issued and delivered the bonds of this series to JPMorgan Chase Bank, N.A., as Administrative Agent (the "Administrative Agent") under the Reimbursement Agreement, dated as of December 14, 2010, among the Company, the "Banks" party thereto, and JPMorgan Chase Bank, N.A., as Administrative Agent and as the Issuing Bank, as amended, amended and restated, supplemented or otherwise modified from time to time (the "Reimbursement Agreement"), in order to provide collateral security for the obligation of the Company thereunder to pay the Obligations (as defined in Supplemental Indenture No. 12).

Upon the occurrence of an Event of Default under the Reimbursement Agreement, and further upon such additional applicable conditions as are set forth in subdivision (h) of Article II of Supplemental Indenture No. 12, then all bonds of this series shall be redeemed immediately at the principal amount thereof plus accrued interest to the date of redemption.

The obligation of the Company to pay interest on the bonds of this series on any Interest Payment Date prior to Maturity (a) shall be deemed to have been satisfied and discharged in full in the event that all amounts then due in respect of the Obligations shall have been paid or (b) shall be deemed to remain unsatisfied in an amount equal to the aggregate amount then due in respect of the Obligations and remaining unpaid (not in excess, however, of the amount otherwise then due in respect of interest on the bonds of this series).

The obligation of the Company to pay the principal of and accrued interest on the bonds of this series at or after Maturity (x) shall be deemed to have been satisfied and discharged in full in the event that all amounts then due in respect of the Obligations shall have been paid and the Letter of Credit (as defined in Supplemental Indenture No. 12) shall not be outstanding or (y) shall be deemed to remain unsatisfied in an amount equal to the aggregate amount then due in respect of the Obligations and remaining unpaid plus, if the Letter of Credit is outstanding, the Available Amount (as defined in Supplemental Indenture No. 12) (not in excess, however, of the amount otherwise then due in respect of principal of and accrued interest on the bonds of this series).

The principal of this bond and the interest accrued hereon may become or be declared due and payable before the stated maturity hereof, on the conditions, in the manner and at the times set forth in the Indenture, upon the happening of a default as therein provided.

This bond is non-transferable except as required to effect transfer to any successor administrative agent under the Reimbursement Agreement, any such transfer to be made at the office or agency of the Company in The City of New York, upon surrender and cancellation of this bond, and upon any such transfer a new bond of this series, for the same aggregate principal amount and having the same stated maturity date, will be issued to the transferee in exchange herefor. Prior to due presentment for registration of transfer, the Company and the Trustee may deem and treat the person in whose name this bond is registered as the absolute owner hereof for the purpose of receiving payment and for all other purposes. This bond, alone or with other bonds of this series, may in like manner be exchanged at such office or agency for one or more bonds of this series of the same aggregate principal amount and having the same stated maturity date and interest rate, all as provided in the Indenture.

No recourse shall be had for the payment of the principal of or interest on this bond, or for any claim based hereon or otherwise in respect hereof or of the Indenture, against any incorporator, shareholder, director or officer, as such, past, present or future, of the Company or of any predecessor or successor corporation, either directly or through the Company or any predecessor or successor corporation, whether by virtue of any constitution, statute or rule of law, or by the enforcement of any assessment or penalty or by any legal or equitable proceeding or otherwise howsoever (including, without limiting the generality of the foregoing, any proceeding to enforce any claimed liability of shareholders of the Company, based upon any theory of disregarding the corporate entity of the Company or upon any theory that the Company

was acting as the agent or instrumentality of the shareholders); all such liability being, by the acceptance hereof and as a part of the consideration for the issuance hereof, expressly waived and released by every holder hereof, and being likewise waived and released by the terms of the Indenture under which this bond is issued, as more fully provided in said Indenture.

This bond shall not be valid or become obligatory for any purpose until the certificate of authentication hereon shall have been signed by The Bank of New York Mellon, or its successor, as Trustee under the Indenture.

IN WITNESS WHEREOF, the Company has caused this bond to be signed in its name by the manual or facsimile signature of its President or one of its Vice Presidents, and its corporate seal, or a facsimile thereof, to be impressed or imprinted hereon and attested by the manual or facsimile signature of its Secretary or one of its Assistant Secretaries.

Dated: ___ __, 20__

TUCSON ELECTRIC POWER COMPANY

By:_____

Attest:

_____

[FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION]

This is one of the bonds, of the series designated therein, described in the within-mentioned Indenture.

Dated: ___ __, 20__

The Bank of New York Mellon,
Trustee

By:_____

SCHEDULE A

DESCRIPTION OF MORTGAGED PROPERTY

GENERIC DESCRIPTION

All electric generating plants, gas generating plant, gas holders, steam plant, gas regulating stations, substations and other properties of the Company, including all power houses, transmission lines, buildings, pipes, structures and works, and the lands of the Company on which the same are situated, and all the Company's lands, easements, rights, rights-of-way, water rights, rights to the use of water, including all of the Company's right, title and interest in and to any and all decrees therefor, permits, franchises, consents, privileges, licenses, poles, towers, wires, switch racks, insulators, pipes, machinery, engines, boilers, motors, regulators, meters, tools, appliances, equipment, appurtenances and supplies, forming a part of or appertaining to said plants, holders, sites, stations or other properties, or any of them, or used or enjoyed or capable of being used or enjoyed in conjunction or connection therewith; and

All electric substations and substation sites of the Company including all buildings, structures, towers, poles, lines, and all equipment, appliances, and devices for transforming, converting and distributing electric energy, and all the right, title and interest of the Company in and to the land on which the same are situated, and all of the Company's lands, easements, rights-of-way, rights, franchises, privileges, machinery, equipment, fixtures, appliances, devices, appurtenances and supplies forming a part of said substation or any of them, or used or enjoyed, or capable of being used or enjoyed, in conjunction or connection therewith; and

All warehouses, buildings, structures, works and sites and the Company's lands on which the same are situated, and all easements, rights-of-way, permits, franchises, consents, privileges, licenses, machinery, equipment, furniture and fixtures, appurtenances and supplies forming a part of said warehouses, buildings, structures, works and sites, or any of them, or used or enjoyed or capable of being used or enjoyed in connection or conjunction therewith; and

All electric distribution systems of the Company, including towers, poles, wires, insulators, appliances, devices, appurtenances and equipment, and all the Company's other property, real, personal or mixed, forming a part of, or used, occupied or enjoyed in connection with or in any way appertaining to said distribution systems, or any of them, together with all of the Company's rights-of-way, easements, permits, privileges, municipal or other franchises, licenses, consents and rights for or relating to the construction, maintenance or operation thereof through, over, under or upon any public streets or highways, or public or private lands; and also all branches, extensions, improvements and developments of or appertaining to or connected with said electric distribution systems, or any of them, and all other electric distribution systems of the Company and parts thereof wherever situated, and whether now owned or hereafter acquired, as well as all rights-of-way, easements, privileges, permits, municipal or other franchises, consents and rights for or relating to the construction, maintenance or operation thereof, or any part thereof, through, over, under or upon public or private lands, whether now owned or hereafter acquired; and

All electric transmission and/or distribution lines of the Company, including the towers, poles, pole lines, wires, switch racks, insulators, supports, guys, telephone and telegraph lines and other appliances and equipment, and all other property of the Company, real, personal or mixed, forming a part thereof or appertaining thereto, together with all of the Company's rights-of-way, easements, permits, privileges, municipal or other franchises, consents, licenses and rights, for or relating to the construction, maintenance or operation thereof, through, over, under or upon any public streets or highways or other lands, public or private; also all extension, branches, taps, developments and improvements of or to any and all of the above-described transmission and/or distribution lines, telephone and telegraph lines or any of them, as well as all rights-of-way, easements, permits, privileges, rights and municipal or other franchises, licenses and consents, for or relating to the construction, maintenance or operation of said lines or any of them, or any part thereof, through, over, under or upon any public streets or highways or any public or private lands, whether now owned or hereafter acquired;

Excepting, however, any property of the character of "Excepted Property" within the meaning of the Supplemental Indenture to which this Schedule A is attached.

SPECIFIC DESCRIPTION OF ANY ADDITIONAL REAL PROPERTY

Specific descriptions of additional portions of the Mortgaged Property which constitute real property, if any, are contained in Annex 1 to this Schedule A.

Annex 1
to
Schedule A

None