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Tucson Electric Power Company

88 East Broadway Blvd., PO Box 711
Tucson, Arizona 85702

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AZ CORP COMMISSION
DOCKET CONTROL

September 14, 2012

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Arizona Corporation Commission

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

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

Pursuant to Decision No. 71788 (July 12, 2010) (“Decision”), Tucson Electric Power Company (“TEP” or “Company”) 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 June 19, 2012, The Industrial Development Authority of the County of Pima (“Authority”) issued and sold in a public offering for the benefit of TEP \$16,465,000 aggregate principal amount of tax-exempt industrial development revenue bonds (“Bonds”). The Bonds were issued under the Indenture of Trust, dated as of June 1, 2012 (the “Indenture”), between the Authority and U.S. Bank Trust National Association, as Trustee (“Trustee”). The Authority has loaned the proceeds of the Bonds to TEP pursuant to a Loan Agreement, dated as of June 1, 2012 (“Loan Agreement”), between TEP and the Authority. 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.

The Bonds bear interest at a fixed rate of 4.50%, payable semi-annually on June 1 and December 1 of each year, commencing December 1, 2012, and mature on June 1, 2030. The Bonds are callable at par on June 1, 2022.

The proceeds of the sale of the Bonds were applied to redeem, on July 13, 2012, three outstanding series of tax-exempt bonds in an aggregate principal amount of \$16,465,000. The bonds that were redeemed had interest rates of 5.85% and 5.875% and had maturity dates ranging from 2026 to 2033.

The business rationale for this financing was to refinance the portion of the 1998 Apache Series A, Series B, and Series C Pollution Control Revenue Bonds that had previously financed local transmission and distribution facilities in Pima and Cochise counties, with a like amount of

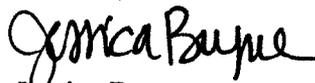
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bonds at a lower rate of interest, in order to reduce the interest expense on these bonds. TEP's annual pre-tax interest savings on these bonds will be approximately \$0.2 million.

TEP believes that the rates and terms obtained by TEP under this financing are fair and reasonable under the prevailing market conditions. TEP obtained an interest rate of 4.50% for 18 year unsecured bonds. TEP's unsecured bond ratings are BBB- by Standard & Poors, Baa3 by Moody's and BBB- by Fitch. Comparable rates for the approximate time period of this financing can be found in Exhibit A attached hereto, which is an excerpt from a "Muni Commentary" publication by Bank of America Merrill Lynch dated June 6, 2012. Table 8 of Exhibit A shows average yields for bonds with maturities of 22 years or greater, issued by various sectors with various credit ratings. The relevant comparable rates for TEP's financing would be those in the "BBB" rating category, for Industrial Development Revenue Bonds. The average yields for Industrial Development Revenue Bonds for BBB credit ratings were 4.46% for 22 years or greater bonds. Although TEP's Bonds were 18 year bonds, slightly less than the 22+ year range, TEP's unsecured credit ratings are BBB-, which is the low end of the "BBB" range. Therefore we believe that TEP's rate of 4.50% is fair and reasonable.

The executed financing documents are attached hereto as Exhibit B. If you have questions, please contact me at (520) 884-3664.

Sincerely,



Jessica Bryne
Regulatory Services

Enclosures: Exhibits A and B

cc: Compliance Section, ACC

EXHIBIT

A

Appendix I: Average yield by sector and rating

Table 5: Avg yield for 7-12yr index, 6/8/12

Sector	AAA	AA	A	BBB	Average by Sector
Airports	-	2.35	2.51	-	2.43
GO Local	1.63	1.84	3.17	3.72	2.58
GO State	1.56	1.79	2.15	-	1.83
Health	-	2.55	2.87	4.45	3.28
Higher Education	1.78	1.74	3.34	-	2.29
Hospital	-	3.05	3.04	3.75	3.28
Industrial Development Revenue	-	-	2.68	3.12	2.90
Leases COPS & Appropriations	0.81	2.00	2.81	4.75	2.58
Multi-Family Housing	3.48	-	-	-	3.48
Pollution Control	-	-	2.98	3.81	3.35
Power	-	-	2.43	3.31	2.87
Single-Family Housing	3.77	3.45	-	4.48	3.90
Tax Revenue	1.86	1.86	2.81	3.88	2.90
Tobacco	-	-	3.29	4.14	3.72
Toll & Turnpikes	-	1.40	2.82	4.35	2.82
Transportation - Other	1.29	1.88	2.43	3.83	2.36
Utilities - Other	-	1.80	3.08	3.91	2.85
Water & Sewer	-	1.88	2.83	4.34	2.88
Average by Rating	2.00	2.08	2.72	3.80	2.70

Source: BofA Merrill Lynch Global Research

Table 6: Yield change, 6/8/12 - 5/31/12, 7-12yr index

Sector	AAA	AA	A	BBB	Average by Sector
Airports	-	4	2	-	3
GO Local	7	4	3	7	5
GO State	5	7	8	-	7
Health	-	3	-	0	1
Higher Education	7	6	1	-	5
Hospital	-	3	-5	-2	-1
Industrial Development Revenue	-	-	5	1	3
Leases COPS & Appropriations	0	5	5	2	3
Multi-Family Housing	-1	-	-	-	-1
Pollution Control	-	-	-4	0	-2
Power	-	-	4	4	4
Single-Family Housing	-	-1	-	0	0
Tax Revenue	6	4	6	3	5
Tobacco	-	-	7	4	5
Toll & Turnpikes	-	3	5	8	5
Transportation - Other	2	19	9	5	9
Utilities - Other	-	-2	2	2	1
Water & Sewer	-	16	3	2	7
Average by Rating	4	5	3	3	4

Source: BofA Merrill Lynch Global Research

Table 7: Yield change, 6/8/12 - 12/31/11, 7-12yr index

Sector	AAA	AA	A	BBB	Average by Sector
Airports	-	-42	-45	-	-44
GO Local	-5	-34	-30	-28	-25
GO State	-8	-8	-11	-	-10
Health	-	-13	-48	-34	-31
Higher Education	-1	-24	-55	-	-27
Hospital	-	-7	1	-75	-27
Industrial Development Revenue	-	-	-38	-48	-52
Leases COPS & Appropriations	-48	-20	-41	-8	-28
Multi-Family Housing	-	-	-	-	-
Pollution Control	-	-	-55	-37	-48
Power	-	-	8	-68	-25
Single-Family Housing	42	-57	-	-73	-28
Tax Revenue	-17	-16	-36	-84	-41
Tobacco	-	-	-20	-42	-41
Toll & Turnpikes	-	-28	-11	-30	-22
Transportation - Other	-31	-14	-31	-40	-29
Utilities - Other	-	-34	-23	-71	-43
Water & Sewer	-	-38	-43	-	-60
Average by Rating	-10	-28	-32	-52	-30

Source: BofA Merrill Lynch Global Research

Table 8: Avg yield for 22+yr index, 6/8/12

Sector	AAA	AA	A	BBB	Average by Sector
Airports	-	3.75	4.81	4.73	4.16
GO Local	2.96	3.88	3.94	4.88	3.87
GO State	2.86	3.22	3.73	-	3.27
Health	-	3.79	4.85	4.85	4.17
Higher Education	2.43	3.88	3.77	4.85	3.48
Hospital	-	3.78	3.99	4.48	4.08
Industrial Development Revenue	3.82	-	4.18	4.46	4.08
Leases COPS & Appropriations	2.77	3.48	4.87	4.88	3.73
Multi-Family Housing	4.18	4.47	4.88	5.13	4.67
Pollution Control	2.63	2.89	3.78	4.48	3.38
Power	-	3.07	3.89	4.83	3.88
Single-Family Housing	-	4.43	4.33	-	4.38
Tax Revenue	3.38	3.71	4.28	4.84	4.08
Tobacco	-	-	-	6.14	6.14
Toll & Turnpikes	-	3.58	3.67	4.95	4.05
Transportation - Other	-	3.48	3.78	4.95	3.94
Utilities - Other	2.78	2.94	4.24	4.98	3.73
Water & Sewer	2.78	3.04	3.85	4.75	3.61
Average by Rating	3.04	3.51	4.02	4.81	3.84

Source: BofA Merrill Lynch Global Research

Table 9: Yield change, 6/8/12 - 5/31/12, 22+yr index

Sector	AAA	AA	A	BBB	Average by Sector
Airports	-	7	7	4	6
GO Local	7	6	-3	9	5
GO State	8	7	8	-	8
Health	-	4	3	2	3
Higher Education	5	6	6	3	5
Hospital	-	-	3	2	3
Industrial Development Revenue	5	-	2	0	2
Leases COPS & Appropriations	10	3	5	6	6
Multi-Family Housing	-	-1	0	3	1
Pollution Control	5	0	6	3	3
Power	-	7	6	4	6
Single-Family Housing	-	0	0	-	0
Tax Revenue	5	8	9	4	6
Tobacco	-	-	-	-1	-1
Toll & Turnpikes	-	7	7	1	5
Transportation - Other	-	5	7	5	6
Utilities - Other	7	6	2	5	5
Water & Sewer	5	4	6	8	6
Average by Rating	6	5	4	4	5

Source: BofA Merrill Lynch Global Research

Table 10: Yield change, 6/8/12 - 12/31/11, 22+yr index

Sector	AAA	AA	A	BBB	Average by Sector
Airports	-	-58	-68	-88	-71
GO Local	-68	-68	-42	-11	-53
GO State	-36	-58	-65	-	-70
Health	-	-82	-88	-82	-87
Higher Education	-74	-85	-60	-78	-74
Hospital	-	-73	-82	-103	-88
Industrial Development Revenue	-	-	-88	-88	-79
Leases COPS & Appropriations	-117	-76	-81	-62	-84
Multi-Family Housing	-	-41	-104	-84	-76
Pollution Control	-77	-103	-48	-67	-74
Power	-	-88	-61	-47	-65
Single-Family Housing	-	-33	-53	-	-43
Tax Revenue	-48	-41	-28	-62	-48
Tobacco	-	-	-	-80	-80
Toll & Turnpikes	-	-81	-77	-81	-73
Transportation - Other	-	-58	-61	-68	-60
Utilities - Other	-68	-68	-51	-17	-51
Water & Sewer	-62	-80	-67	-32	-60
Average by Rating	-75	-68	-67	-68	-68

Source: BofA Merrill Lynch Global Research

EXHIBIT

B

New Issue – Book Entry Only

**THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE COUNTY OF PIMA (ARIZONA)**

\$16,465,000

**4.50% Industrial Development Revenue Bonds,
2012 Series A**

(Tucson Electric Power Company Project)

Due June 1, 2030

Not Subject to AMT

Dated: Date of delivery

Interest Payment Dates: June 1 and December 1, commencing December 1, 2012

The Bonds are limited obligations of the Authority, and, except to the extent payable from certain moneys pledged therefor, will be payable solely from and secured by a pledge of payments to be made under a Loan Agreement between the Authority and

Tucson Electric Power Company

The Bonds may be redeemed at the option of the Company, and under certain circumstances must be redeemed, before maturity in the manner and as described herein. Ownership interests in the Bonds may be purchased in book-entry form only, in authorized denominations, as described herein. The Bonds will be delivered in fully registered form registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company which will act as securities depository for the Bonds. So long as the Bonds remain in book-entry form only, purchasers of beneficial interests in the Bonds will not receive certificates representing such interests.

Information regarding the business, properties, results of operations and financial condition of the Company is contained or incorporated by reference in Appendix A attached hereto. PURCHASE OF THE BONDS INVOLVES INVESTMENT RISK. See RISK FACTORS in Appendix A 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.

Price: 100%

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes and the Bonds and the income therefrom are exempt from all State of Arizona taxation. However, 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 facilities financed or refinanced with the proceeds of the Bonds or by a "related person" within the meaning of Section 103(b)(13) of the Internal Revenue Code of 1954, as amended. In the opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that interest on such Bonds is included in adjusted current earnings when calculating corporate alternative minimum taxable income. 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 and certain other legal matters by Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority. Certain legal matters will be passed upon for the Authority by its counsel, Russo, Russo & Slania, P.C., 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 June 19, 2012.

SunTrust Robinson Humphrey

June 12, 2012

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.

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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 Industrial Development Authority of the County of Pima, Tucson Electric Power Company or 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 Industrial Development Authority of the County of Pima or Tucson Electric Power 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 Authority (other than the applicable information contained under "THE AUTHORITY"). The Authority 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 AUTHORITY").

**THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE COUNTY OF PIMA (ARIZONA)**

\$16,465,000

**4.50% Industrial Development Revenue Bonds,
2012 Series A
(Tucson Electric Power Company Project)
*Not Subject to AMT***

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 Industrial Development Authority of the County of Pima (the "Authority") of \$16,465,000 in aggregate principal amount of The Industrial Development Authority of the County of Pima Industrial Development Revenue Bonds, 2012 Series A (Tucson Electric Power Company Project) (the "Bonds").

The Bonds will be issued under an Indenture of Trust, to be dated as of June 1, 2012 (the "Indenture"), between the Authority 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 funds to redeem the outstanding amounts of (a) The Industrial Development Authority of the County of Apache Pollution Control Revenue Bonds, 1998 Series A (Tucson Electric Power Company Project) (the "1998 Series A Bonds"), \$6,890,000 aggregate principal amount of which is outstanding, (b) The Industrial Development Authority of the County of Apache Pollution Control Revenue Bonds, 1998 Series B (Tucson Electric Power Company Project) (the "1998 Series B Bonds"), \$8,215,000 aggregate principal amount of which is outstanding, and (c) The Industrial Development Authority of the County of Apache Industrial Development Revenue Bonds, 1998 Series C (Tucson Electric Power Company Project) (the "1998 Series C Bonds," and, together with the 1998 Series A Bonds and the 1998 Series B Bonds, the "1998 Bonds"), \$1,360,000 aggregate principal amount of which is outstanding. See USE OF PROCEEDS. The 1998 Bonds refinanced certain facilities, including certain electric transmission and distribution facilities for the furnishing of electric energy in Pima County and Cochise County, Arizona, which are herein referred to as the "Facilities". See THE FACILITIES.

Concurrently with the issuance of the Bonds, the Company and the Authority will enter into a Loan Agreement, to be dated as of June 1, 2012 (the "Loan Agreement"), in which, among other things, the Authority 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 for the payment of the principal of and interest on the Bonds.

Neither Pima County nor the State of Arizona will in any event be liable for the payment of the principal of or interest on the Bonds, and neither the Bonds, nor the interest thereon, will constitute an indebtedness of Pima County or the State of Arizona within the meaning of any constitutional or statutory provisions whatsoever. The Bonds and the interest thereon will be limited obligations of the Authority 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 Authority'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.

Brief descriptions of the Authority, the Facilities, the Bonds, the Loan Agreement and the Indenture are included in this Official Statement. A description of the Company, including certain financial information and risk factors, the form of continuing disclosure agreement and the proposed form of opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority ("Bond Counsel"), are contained or incorporated by reference in the Appendices attached hereto. The descriptions herein of the Loan Agreement and the Indenture 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 form 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 SunTrust Robinson Humphrey, Inc. in Atlanta, Georgia.

THE AUTHORITY

The Authority is organized under Title 35, Chapter 5 of the Arizona Revised Statutes, as amended (the "Act"), and, in accordance with the terms thereof, is a nonprofit corporation designated a political subdivision of the State of Arizona. The Authority has no taxing power and does not have the power to pledge the general credit or taxing powers of Pima County (the "County"), the State of Arizona or any political subdivision thereof. The Authority is empowered to issue its bonds to provide funds for the financing or refinancing of the costs of the acquisition, construction, improvement, rehabilitation or equipping of a "project", as defined in the Act, including the Facilities.

The Authority has all the requisite authority to issue the Bonds, lend the proceeds to the Company, and enter into and perform all of its obligations under the Loan Agreement and the Indenture.

The Authority is governed by a Board of Directors selected by the Board of Supervisors of the County. The Authority does not employ any staff to carry out its limited functions; it contracts with independent third parties to do so. The Authority does not, and will not in the future, monitor the financial condition of the Company, the operation of the Facilities or otherwise monitor payment of the Bonds or compliance with the documents relating thereto. The responsibility for the operation of the Facilities will rest entirely with the Company.

The Bonds are special limited obligations of the Authority. No recourse shall be had for the payment of the principal of, premium, if any, or interest on any 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 Authority, or of any successor to the Authority, 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 Authority 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 Authority and therefore the Authority's financial information and status is irrelevant to any investment decision with respect to the Bonds. As a result, no information regarding the Authority will be provided with respect to any continuing disclosure requirement relating to the Bonds.

Neither the Authority 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 Authority.

THE FACILITIES

The Facilities include certain electric transmission and distribution facilities in Pima County and Cochise County, Arizona. These Facilities were refinanced by a portion of the proceeds of the 1998 Bonds.

USE OF PROCEEDS

The Company intends to apply the proceeds of the Bonds to redeem the outstanding 1998 Bonds. Proceeds of the Bonds will be delivered to the trustee for the 1998 Bonds and will be applied, together with earnings thereon and other funds provided by the Company, to pay the principal of and interest on the 1998 Bonds on their date of redemption.

The Company will pay directly an underwriting commission and expenses of sale. See UNDERWRITING for information regarding underwriting commissions.

THE BONDS

General

The Bonds will be issued as fully registered bonds in the denominations of \$5,000 or integral multiples thereof. Bonds may be transferred or exchanged at the principal office of the Trustee without cost, except for any tax or other governmental charge.

The Trustee will not be obligated to register the transfer of or exchange any Bond during the 5 days next preceding the date of mailing of notice of redemption of Bonds or to register the transfer of or exchange any Bonds called for redemption.

The Bonds will bear interest at the rate, and will mature on the date, set forth on the cover page of this Official Statement, subject to redemption prior to maturity as hereinafter described. Interest on the Bonds will be payable on June 1 and December 1, commencing on December 1, 2012. If the book-entry system described below shall not be in effect, the principal of the Bonds will be payable at the principal corporate trust office of the Trustee, and interest on the Bonds will be payable on each Interest Payment Date set forth on the cover of this Official Statement, by check mailed to the registered owners thereof on the close of business on the fifteenth day (whether or not a business day) of the calendar month preceding each Interest Payment Date.

U.S. Bank Trust National Association has been appointed as Trustee under the Indenture. The Trustee may resign or be removed or replaced by the Authority at the direction of the Company.

Book-Entry System

The Depository Trust Company ("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 Authority 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 Company, the Underwriter, the Trustee or the Authority, 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 Authority 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 Authority, 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 Authority believe to be reliable, but neither the Company, the Underwriter nor the Authority takes responsibility for the accuracy thereof.

The Company, the Underwriter, the Authority 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.

Redemption of Bonds

Optional Redemption

The Bonds will be subject to redemption by the Authority, at the direction of the Company, on any date on or after June 1, 2022, in whole or from time to time in part, at 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

Extraordinary Optional Redemption

The Bonds will be subject to redemption by the Authority, at the direction of the Company, in whole at any time at the principal amount thereof plus accrued interest to the redemption date, if:

- (a) the Company shall have determined that the continued operation of the Facilities is impracticable, uneconomical or undesirable for any reason;
- (b) all or substantially all of the Facilities shall have been condemned or taken by eminent domain; or
- (c) the operation of the Facilities 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.

Mandatory Redemption Upon Taxability of Interest

The Bonds will be subject to mandatory redemption by the Authority, 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 who is a "substantial user" of the Facilities or a "related person" (within the meaning of the Internal Revenue Code of 1954, as amended (the "1954 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 a "related person" (within the meaning of the 1954 Code).

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; and provided, further, that the portion of any Bond to be redeemed will be in the principal amount of \$5,000 or some integral multiple thereof and that, in selecting Bonds for redemption, the

Trustee will treat each bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by \$5,000. 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 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 at the place or places of payment, such Bonds shall be paid and redeemed. Notice of redemption will be given by mail at least thirty (30) 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 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, or if any other condition specified in the redemption notice shall not have been met, such notice will be of no force and effect, the Authority will not redeem such Bonds and the Trustee will give notice, in the manner in which the notice of redemption was given, that such moneys were not so received. 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 so called for redemption at the place or places of payment, such Bonds will be redeemed. Any notice of optional redemption may be revoked by the Company by written notice delivered two (2) business days prior to the redemption date.

Acceleration of Bonds

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

Limited Obligations

Neither Pima County nor the State of Arizona will in any event be liable for the payment of the principal of or interest on the Bonds or for the performance of any pledge, mortgage, obligation or agreement of any kind which may be undertaken by the Authority, and neither the Bonds nor the interest thereon or any of the agreements or obligations of the Authority, will be construed to constitute an indebtedness of Pima County or the State of Arizona within the meaning of any constitutional or statutory provisions whatsoever. The Bonds and the interest thereon shall be limited obligations of the Authority payable solely from the receipts and revenues of the Authority from the Loan Agreement and the other moneys pledged therefor under the Indenture.

THE LOAN AGREEMENT

General

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

Issuance of the Bonds; Application of Proceeds

The Authority is issuing the Bonds to refund \$16,465,000 in aggregate principal amount of the outstanding 1998 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 1998 Bonds and, together with other moneys supplied therefor by the Company, including earnings thereon, will be applied to pay the principal of and interest on the 1998 Bonds upon their redemption.

Loan Payments

The Company will pay, or cause to be paid, to the Trustee for the account of the Authority 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 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 Authority to cause amounts to be deposited in the Bond Fund established under such Indenture for the payment of the principal of 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 Authority under such Indenture.

The Company is also obligated to pay certain expenses of the Authority, including the compensation and reimbursement of expenses and advances of the Trustee.

Maintenance; Remodeling; Operation; Taxes

The Company will cause the Facilities to be maintained, preserved and kept in thorough repair, working order and condition; provided that the Company may 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.

The Company may remodel the Facilities or make 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 Facilities are operated by the Company or for the benefit of the Company, the Facilities will be used for purposes contemplated by the Act.

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 Authority with respect to the Loan Payments.

Insurance; Condemnation

The Company will 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 the Company's interest in the Facilities may be assigned, leased, subleased, sold, transferred or otherwise disposed of as a whole or in part, to any business entity or the United States or any state government or any political subdivision or agency thereof (any of the foregoing being hereinafter called a "Person"), provided, however, that no such assignment, lease, sublease, sale, transfer or other disposition (a) will relieve the Company from its primary liability for its obligations to make the Loan Payments or (b) will be made unless the assignee, lessee, sublessee, purchaser or other transferee, as the case may be, prior to or simultaneously with such assignment, lease, sublease, sale, transfer or other disposition, assumes, by delivery to the Trustee and the Authority of an instrument in writing satisfactory in form to the Trustee and the Authority, all other obligations of the Company under the Loan Agreement to the extent of the interest assigned, leased, subleased, 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 or subleased 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 assigned, sold, transferred or otherwise disposed of as a whole or in undivided part, and (b) if the assignee, lessee, sublessee, purchaser or other transferee assumes the obligations of the Company to make the Loan Payments for the remaining term of the Loan Agreement, to the extent of such assignment, lease, sublease, sale, transfer or other disposition, the Company shall be released from and discharged of all liability in respect of the Loan 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 Authority and the Trustee of a certificate of an Independent Expert (as is defined in the Loan Agreement) (x) describing the interests so assigned, leased, subleased, 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 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, sublessee, purchaser or other transferee will be released from and discharged of all liability in respect of the Loan Payments.

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

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".

Merger

The Company may consolidate with or merge into another Person organized 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, as the case may be, assumes, by delivery to the Trustee and the Authority of an instrument in writing satisfactory in form to the Authority and the Trustee, all the obligations of the Company under the Loan Agreement, including the obligation to make the Loan Payments. Upon such an assumption following any such 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 all of the Company's interests in 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 the transferee will not be required to assume any obligations under the Loan Agreement other than the obligations to make Loan Payments; provided, however, that the transferee will be required to assume all such other obligations unless the Company shall have delivered to the Authority 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 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, which failure shall have resulted in an "Event of Default" described in clause (a) or (b) 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 60 days after written notice given by the Authority or the Trustee, unless such period is extended by the Authority and the Trustee; provided, however, that the Authority 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 corporation 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, 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, as the Authority's assignee, 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 provisions of the Indenture is contained under "THE BONDS".

Pledge and Security

Pursuant to the Indenture, the payments to be made under the Loan Agreement will be pledged by the Authority to the Trustee to secure the payment of the principal of and interest on the Bonds. The Authority will also pledge and assign to the Trustee all its rights and interests under the Loan Agreement (other than its rights to indemnification and reimbursement of expenses and certain other rights), and will pledge to the Trustee all moneys and obligations deposited or to be deposited in the funds and accounts established under the Indenture other than the Rebate Fund; 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.

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 Bond Fund. While any Bonds are outstanding, moneys in the Bond Fund will be used solely for the payment of the principal of and interest on the Bonds, subject to the prior claim of the Trustee referred to above in "Pledge and Security".

Investment

The moneys in the Bond Fund will, at the direction of the Company, be invested in securities or obligations specified in the Indenture. All income or other gain from such investments will be credited, and any loss will be charged, to the Bond Fund.

In furtherance of the covenants of the Authority 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.

Defaults

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

- (a) a failure to pay the principal 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 30 days;
- (c) a failure by the Authority to observe and perform any other covenant, condition or agreement (other than as described in clauses (a) or (b) above) contained in the Bonds or the Indenture, which failure shall continue for a period of 60 days after written notice given to the Authority 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 in 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 Authority, or the Company on behalf of the Authority, within such period and is being diligently pursued.

Remedies

Upon the occurrence and continuance of any Event of Default described in clause (a) or (b) of the preceding paragraph, the Trustee may, and at the written request of the owners of not less than a majority in principal amount of Bonds then outstanding shall, by written notice to the Authority 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 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 Authority 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 Authority 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 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.

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 Authority 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.

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 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

All or any principal amount of outstanding Bonds will, prior to the maturity or redemption date thereof, be deemed to have been paid and will cease to be entitled to any lien, benefit or security under the Indenture, except as provided in the second succeeding sentence, if the following conditions are met: (a) in the case of Bonds selected for redemption, the Company has given to the Trustee irrevocable instructions to deliver notice of redemption therefor, (b) there have been deposited with the Trustee in trust either moneys in an amount which are sufficient, or direct

obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, or certificates, depositary receipts, or other instruments which evidence a direct ownership interest in such obligations or in any specific interest or principal payments due in respect thereof, which do not contain provisions permitting the redemption at the option of the issuer, the principal of and the interest on which, when due, and without any regard to reinvestment thereof, will provide moneys which, together with any moneys deposited with or held by the Trustee, will be sufficient, to pay when due the principal of and interest due or to become due on and (c) in the event such Bonds do not mature and are not to be redeemed within the next succeeding 60 days, the Company has given the Trustee irrevocable instructions to give, in the same manner as a notice of redemption is given pursuant to the provisions of the Indenture, a notice to the owners of such Bonds that the above deposit has been made with the Trustee and that such Bonds are deemed to be paid and stating the maturity or redemption date upon which moneys are to be available to pay the principal of and interest on such Bonds. If the payment of less than all of the Bonds is to be provided for, the Trustee will select such Bonds and portions of said Bonds, in such manner as the Trustee in its discretion may deem proper, in the principal amount designated to the Trustee by the Company.

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 Authority 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 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 Authority; (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 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 (i) 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 or interest on any Bond, a reduction of the principal amount or redemption price of any Bond, or a change in the rate of interest thereon 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 Authority 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 Authority 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.

The Authority 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, and an affiliate of U.S. Bank Trust National Association is the trustee under the Company's Indenture (For Unsecured Debt Securities) dated as of November 1, 2011.

OTHER MATTERS

Under the provisions of Section 38-511, Arizona Revised Statutes, as amended, the Authority 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 Authority 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 Authority within three years from the execution thereof, unless a waiver is provided by the Authority. 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 Authority is not an obligated person, and no financial or operating data concerning the Authority is material to any decision to purchase, hold or sell the Bonds and the Authority 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 Authority 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, of the type 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 undertakings under the Rule.

The form of Continuing Disclosure Agreement between the Company and the Trustee is included as Appendix C.

UNDERWRITING

SunTrust Robinson Humphrey, Inc. (the "Underwriter"), has agreed to purchase the Bonds from the Authority under a Bond Purchase Agreement, dated the date of this Official Statement, at a purchase price of \$16,465,000. The purchase price for the Bonds will be an amount equal to 100% of the principal amount thereof, and the Company will separately pay to the Underwriter an underwriting commission of \$107,022.50.

The Underwriter does not have the right under the Bond Purchase Agreement to purchase less than all of the Bonds.

The Company has agreed to indemnify the Authority and the Underwriter against certain liabilities, including certain liabilities under the federal securities laws.

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.

In the ordinary course of business, the Underwriter and its affiliates has from time to time provided commercial and investment banking services to the Company, its subsidiaries or affiliates for which it has received customary compensation and expense reimbursement, and may do so again in the future.

The Underwriter has an affiliate, SunTrust Investment Services, Inc. ("STIS"), which will also participate in the retail distribution of the Bonds. The Underwriter may share a portion of its underwriting compensation with respect to the Bonds with STIS. The Underwriter and STIS are both subsidiaries of SunTrust Banks, Inc.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the Authority, based on an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes, and the Bonds and the income therefrom are exempt from all taxation in the State of Arizona. However, Bond Counsel expresses no opinion as to the status of interest on any Bond during any period that such Bond is held by a "substantial user" of facilities financed or refinanced with the proceeds of the Bonds or by a "related person" within the meaning of Section 103(b)(13) of the 1954 Code. Interest on the Bonds is not a specific preference item for purposes of the federal individual and corporate alternative minimum taxes, although Bond Counsel observes that interest on such Bonds is included in adjusted current earnings when calculating federal corporate alternative minimum taxable income. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix B hereto.

To the extent the issue price of the Bonds is less than the amount to be paid at maturity with respect to the Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes "original issue discount," the accrual of which, to the extent properly allocable to each owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of the Bonds is the first price at which a substantial amount of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to the Bonds accrues daily over the term to maturity of the Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of the Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of the Bonds. Holders of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of purchasers who do not purchase the Bonds in the original offering to the public at the first price at which a substantial amount of the Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity ("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 1954 Code and Title XIII of the Tax Reform Act of 1986 (the "1986 Act") 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 Authority and the Company have covenanted to comply with certain restrictions designed to assure that interest on the Bonds will not be included in federal gross income. Failure to comply with these covenants with respect to the Bonds may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of issuance of the Bonds. The opinion of Bond Counsel assumes 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) after the date of issuance of the Bonds may adversely affect the value of, or the tax status of the interest on, the Bonds. Further, no assurance can be given that pending or future legislation or amendments to the 1954 Code or the 1986 Act if enacted into law, or any proposed legislation or amendments to the 1954 Code or the 1986 Act, will not adversely affect the value of, or the tax status of interest on, the Bonds. Prospective holders are urged to consult their own tax advisors with respect to proposals to restructure the federal income tax.

Certain requirements, agreements and procedures contained or referred to in the Indenture, the Loan Agreement, the Tax Agreement (as such term is defined in each Indenture) and other relevant documents may be changed and certain actions (including, without limitation, defeasance of the Bonds) may be taken under the circumstances and subject to the terms and conditions set forth in such documents. Bond Counsel expresses no opinion as to any Bond or the interest thereon if any such change occurs or action is taken upon the advice or approval of counsel other than Orrick, Herrington & Sutcliffe LLP.

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 the tax liability of the holder of a Bond. The nature and extent of these other tax consequences will depend upon the particular tax status of the holder of the Bond or the holder's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the 1986 Act, the 1954 Code, or court decisions may cause interest on the Bonds to be subject, directly or indirectly, to federal income taxation, 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. As one example, the Obama Administration recently announced a legislative proposal which, for tax years beginning on or after January 1, 2013, generally would limit the exclusion from gross income of interest on obligations like the Bonds to some extent for taxpayers who are individuals and whose income is subject to higher marginal income tax rates. Other proposals have been made that could significantly reduce the benefit of, or otherwise affect, the exclusion from gross income of interest on obligations like the Bonds. The introduction or enactment of any such future legislative proposals or clarification of the 1986 Act or the 1954 Code 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. The opinion is not binding on the Internal Revenue Service (the "IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or the Company, or about the effect of future changes in the 1986 Act, the 1954 Code, or the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority and the Company will covenant, however, to comply with applicable requirements of the 1986 Act and the 1954 Code.

Bond Counsel's engagement with respect to the Bonds will end with the issuance of the Bonds, and, unless separately engaged, Bond Counsel will not be obligated to defend the Authority, 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 Authority, 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 Authority 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 Authority, 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 is contained in Appendix B 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 Authority by its counsel, Russo, Russo & Slania, P.C. Certain legal matters will be passed upon for the Company by Todd C. Hixon, Esq., 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. In giving their opinions, Morgan, Lewis & Bockius LLP and Kutak Rock LLP may rely, as to all matters of Arizona law, upon the opinion of Mr. Hixon.

Except for the information under THE AUTHORITY, the Authority 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 UNS Energy Corporation's ("UNS Energy") largest operating subsidiary. The Company represented approximately 82% of UNS Energy's assets as of March 31, 2012. The Company generates, transmits and distributes electricity to approximately 405,000 retail electric customers as of March 31, 2012 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 88 East Broadway Boulevard, 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.uns.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 document 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, 2011;
- The Company's Quarterly Report on Form 10-Q for the three-month period ended March 31, 2012; and
- The Company's Current Reports on Form 8-K filed with the SEC on March 21, 2012 and June 4, 2012.

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 be 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 88 East Broadway Boulevard, 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 the 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, 2011 and 2010 and for each of the three years in the period ended December 31, 2011, 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.

With respect to the unaudited financial information of the Company for the three month periods ended March 31, 2012 and 2011, incorporated by reference in this Official Statement, PricewaterhouseCoopers LLP reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their report dated April 30, 2012 incorporated by reference herein states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

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 Authority and the Underwriter make no representation as to the accuracy or completeness of such information.

Proposed Form of Opinion of Bond Counsel

[Closing Date]

The Industrial Development Authority
of the County of Pima
Tucson, Arizona

The Industrial Development Authority of the County of Pima
Industrial Development Revenue Bonds, 2012 Series A
(Tucson Electric Power Company Project)
(Final Opinion)

Ladies and Gentlemen:

We have acted as bond counsel to The Industrial Development Authority of the County of Pima (the "Issuer") in connection with the issuance of \$16,465,000 aggregate principal amount of The Industrial Development Authority of the County of Pima Industrial Development Revenue Bonds, 2012 Series A (Tucson Electric Power Company Project) (the "Bonds"), issued pursuant to an Indenture of Trust, dated as of June 1, 2012 (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 stated purpose of making a loan of the proceeds thereof to Tucson Electric Power Company (the "Company"), pursuant to a Loan Agreement, dated as of June 1, 2012 (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 Certificate"), between the Issuer and the Company, opinions of counsel to the Issuer and the Company, 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 letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used 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 letter. 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 Certificate, 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 Certificate 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, arbitration, 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. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement, dated June 12, 2012, 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 Pima, 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 Title XIII of the Tax Reform Act of 1986 and Section 103 of the Internal Revenue Code of 1954, as amended (the "1954 Code"), 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 financed or refinanced with Bond proceeds or by a "related person" within the meaning of Section 103(b)(13) of the 1954 Code. Interest on the Bonds is not a specific preference item for purposes of the federal individual or corporate alternative minimum taxes, although we observe that it is included in adjusted current earnings when calculating corporate alternative minimum taxable income. 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

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 Industrial Development Authority of the County of Pima (the "Authority") proposes to issue \$16,465,000 aggregate principal amount of The Industrial Development Authority of the County of Pima Industrial Development Revenue Bonds, 2012 Series A (Tucson Electric Power Company Project) (the "Bonds") for the purpose of redeeming (a) all outstanding The Industrial Development Authority of the County of Apache Pollution Control Revenue Bonds, 1998 Series A (Tucson Electric Power Company Project), (b) all outstanding The Industrial Development Authority of the County of Apache Pollution Control Revenue Bonds, 1998 Series B (Tucson Electric Power Company Project), and (c) all outstanding The Industrial Development Authority of the County of Apache Industrial Development Revenue Bonds, 1998 Series C (Tucson Electric Power Company Project), which Bonds are being issued pursuant to an Indenture of Trust, dated as of June 1, 2012 (the "Indenture"), between the Authority and the Trustee; and

WHEREAS, in connection with the issuance of the Bonds, the Authority and the Company will enter into a Loan Agreement, dated as of June 1, 2012 (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 Authority 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 is 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 Authority, 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 88 East Broadway Boulevard, 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: June , 2012

**INDENTURE OF TRUST
(2012 Series A)**

BETWEEN

**THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE COUNTY OF PIMA**

AND

U.S. BANK TRUST NATIONAL ASSOCIATION

Dated as of June 1, 2012

Authorizing

**Industrial Development Revenue Bonds,
2012 Series A
(Tucson Electric Power Company Project)**

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INDENTURE OF TRUST

THIS INDENTURE OF TRUST (2012 Series A), dated as of June 1, 2012 (this "Indenture"), between THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF PIMA, an Arizona nonprofit corporation designated by law as a political subdivision of the State of Arizona (hereinafter called the "Authority"), and U.S. Bank Trust National Association, a national banking association, as trustee (hereinafter called the "Trustee"),

WITNESSETH:

WHEREAS, the Authority is authorized and empowered under Title 35, Chapter 5, 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 projects consisting of land, any building or other improvement, and all real and personal properties, including machinery and equipment, whether or not now in existence or under construction, whether located within or without the State of Arizona or Pima County, which shall be suitable for, among other things, facilities for the furnishing of electric energy 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 any bonds, or designated issues of bonds, issued by the Authority and any agreements made in connection therewith, whenever the Board of Directors of the Authority finds such loans to further advance the interest of the Authority or the public and in the public interest; and

WHEREAS, there has heretofore been issued and sold on behalf of Tucson Electric Power Company, an Arizona corporation (the "Company") (a) \$83,700,000 aggregate principal amount of The Industrial Development Authority of the County of Apache Pollution Control Revenue Bonds, 1998 Series A (Tucson Electric Power Company Project) \$6,890,000 aggregate principal amount of which remain outstanding (the "1998 Series A Bonds"), (b) \$99,800,000 aggregate principal amount of The Industrial Development Authority of the County of Apache Pollution Control Revenue Bonds, 1998 Series B (Tucson Electric Power Company Project) \$8,215,000 aggregate principal amount of which remain outstanding (the "1998 Series B Bonds"), and (c) \$16,500,000 aggregate principal amount of The Industrial Development Authority of the County of Apache Industrial Development Revenue Bonds, 1998 Series C (Tucson Electric Power Company Project) \$1,360,000 aggregate principal amount of which remain outstanding (the "1998 Series C Bonds," and, together with the 1998 Series A Bonds and the 1998 Series B Bonds, the "1998 Bonds"); and

WHEREAS, the proceeds of the 1998 Bonds were loaned to the Company to refinance a portion of the costs of certain facilities, including certain electric transmission and/or distribution facilities (hereinafter collectively referred to as the "Facilities") located within Pima County and Cochise County, Arizona, as more fully described in Exhibit A to the Loan Agreement, dated as of June 1, 2012 (the "Loan Agreement"), between the Authority and the Company; and

WHEREAS, the Authority proposes to issue and sell \$16,465,000 aggregate principal amount of The Industrial Development Authority of the County of Pima Industrial Development Revenue Bonds, 2012 Series A (Tucson Electric Power Company Project) (the "Bonds") for the purpose of refinancing the above-described Facilities; and

WHEREAS, the proceeds of the Bonds will be applied to redeem the 1998 Bonds.

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 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 Authority of all the covenants and conditions expressed or implied herein and contained in the Bonds, the Authority 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 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 VIII hereof, the principal of and interest on the Bonds shall have been paid to the Owners thereof, or shall have been paid to the Company pursuant to Section 4.06 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 Authority 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 Authority 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 5, Arizona Revised Statutes, and all acts supplemental thereto or amendatory thereof.

Authority:

“Authority” shall mean The Industrial Development Authority of the County of Pima, an Arizona nonprofit corporation designated by law as a political subdivision of the State of Arizona incorporated for and with the approval of Pima County, Arizona, pursuant to the provisions of the Constitution of the State of Arizona and the Act, its successors and their assigns.

Administration Expenses:

“Administration Expenses” shall mean the reasonable expenses incurred by the Authority 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 and a pro rata share of the Authority’s annual operating expenses in accordance with the provisions of Section 4.02(c) of The Industrial Development Authority of the County of Pima Procedural Pamphlet II, as more fully described in the Tax Agreement.

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 Authority 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.

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 Authority.

Bond Fund:

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

Bonds:

“Bond” or “Bonds” shall mean The Industrial Development Authority of the County of Pima Industrial Development Revenue Bonds, 2012 Series A (Tucson Electric Power Company Project) of the Authority issued under this Indenture.

Code:

“Code” shall mean the Internal Revenue Code of 1986, as amended from time to time. Each reference to a section of the 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 Code section shall, in the event of a successor to the Code, be deemed to be a reference to the successor to such Code section.

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.

Depository:

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

Facilities:

“Facilities” shall have the meaning specified in the fifth Whereas clause of this Indenture.

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, depositary 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 June 1, 2012, between the Authority and the Trustee, and any and all modifications, alterations, amendments and supplements thereto.

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.

Loan Agreement:

“Loan Agreement” shall mean the Loan Agreement, dated as of June 1, 2012, between the Authority 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.

1954 Code:

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

1998 Bonds:

“1998 Bonds” shall mean the 1998 Series A Bonds, the 1998 Series B Bonds and the 1998 Series C Bonds.

1998 Series A Bonds:

“1998 Series A Bonds” shall mean the \$83,700,000 aggregate principal amount of The Industrial Development Authority of the County of Apache Pollution Control Revenue Bonds, 1998 Series A (Tucson Electric Power Company Project).

1998 Series B Bonds:

“1998 Series B Bonds” shall mean the \$99,800,000 aggregate principal amount of The Industrial Development Authority of the County of Apache Pollution Control Revenue Bonds, 1998 Series B (Tucson Electric Power Company Project).

1998 Series C Bonds:

“1998 Series C Bonds” shall mean the \$16,500,000 aggregate principal amount of The Industrial Development Authority of the County of Apache Industrial Development Revenue Bonds, 1998 Series C (Tucson Electric Power Company Project).

Notice by Mail or Electronic Means:

“Notice by Mail or Electronic Means” 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 2.08 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) those deemed to be paid in accordance with Article VIII hereof; and
- (c) those paid pursuant to Section 2.07 and 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 2.08 hereof. The Company may be an Owner.

Person:

“Person” means (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.

Rebate Fund:

“Rebate Fund” shall mean the fund created by Section 7.08 hereof.

Receipts and Revenues of the Authority from the Loan Agreement:

“Receipts and Revenues of the Authority from the Loan Agreement” shall mean all moneys paid or payable to the Trustee for the account of the Authority by the Company in respect of the Loan Payments and payments

pursuant to Section 9.01 of the Loan Agreement 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 the close of business on the fifteenth (15th) day of the calendar month immediately preceding each regularly scheduled interest payment date.

Supplemental Indenture:

“Supplemental Indenture” shall mean any indenture of the Authority 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 Authority 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 Authority and the Company, relating to the requirements of the Code, and any and all modifications, alterations, amendments and supplements thereto.

Trust Estate:

“Trust Estate” shall mean at any particular time all right, title and interest of the Authority in and to the Loan Agreement (except its rights under Sections 5.03, 5.04, 6.03 and 8.05 thereof and any rights of the Authority to receive notices, certificates, requests, requisitions and other communications thereunder), including without limitation, the Receipts and Revenues of the Authority 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 7.08 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 VIII hereof or moneys held pursuant to Section 4.06 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 designated 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 13.08 hereof.

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 redeem, or provide for the redemption of the 1998 Bonds, an issue of Bonds, entitled to the benefit, protection and security of this Indenture, in the aggregate principal amount of \$16,465,000.

Each of the Bonds shall be designated by the title "The Industrial Development Authority of the County of Pima Industrial Development Revenue Bond, 2012 Series A (Tucson Electric Power Company Project)". The Bonds shall mature, subject to prior redemption upon the terms and conditions hereinafter set forth, on June 1, 2030 and shall bear interest from the date thereof until payment of the principal or redemption price thereof shall have been made or provided for in accordance with the provisions hereof, whether at maturity, upon redemption or otherwise, at the rate of four and a half per centum (4.50%) per annum, with interest thereon payable semi-annually on each June 1 and December 1, commencing December 1, 2012. Interest shall be calculated on the basis of a 360-day year consisting of twelve 30-day months.

Section 2.02 Form of Bonds. Bonds shall be authenticated and delivered hereunder solely as fully registered bonds without coupons in the denomination of \$5,000 or integral multiples thereof. Bonds shall be numbered as determined by the Trustee. Bonds authenticated prior to the first interest payment date shall be dated their date of original issuance. Bonds authenticated on or subsequent to the first interest payment date shall be dated the interest payment date next preceding the date of authentication thereof, unless such date of authentication shall be an interest payment date to which interest on the Bonds has been paid in full or duly provided for, in which case they shall be dated such date of authentication; provided, however, that if, as shown by the records of the Trustee, interest on the Bonds shall be in default, Bonds issued in exchange for Bonds surrendered for transfer or exchange shall be dated the date to which interest has been paid in full on the Bonds surrendered.

Principal of 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 2.08 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. 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.

Section 2.03 Execution of Bonds. The Bonds shall be executed on behalf of the Authority by the President or a Vice President of the Authority and shall be attested by the Secretary or an Assistant Secretary of the Authority. Each of the foregoing officers may execute or cause to be executed the Bonds with a facsimile signature in lieu of a manual signature on the Bonds.

In case any officer of the Authority 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 Authority by such persons as, at the time of execution of such Bond, shall be the proper officers of the Authority, 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 2.04 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 2.04 is subject to the provisions of Section 10.17 hereof.

Section 2.05 *Bonds Not General Obligations.* Neither Pima 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, and neither the Bonds nor the premium, if any, or the interest thereon, shall be construed to constitute an indebtedness of Pima County, Arizona 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 Authority payable solely from the Receipts and Revenues of the Authority from the Loan Agreement and the other moneys pledged therefor under this Indenture, and such fact shall be plainly stated on each Bond.

Section 2.06 *Prerequisites to Authentication of Bonds.* The Authority 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 2.06.

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 Authority 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) a request and authorization to the Trustee on behalf of the Authority, signed by any duly authorized officer of the Authority, 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 Authority, of a sum specified in such request and authorization; and
- (d) 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 2.07 *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 Authority may execute and the Trustee may authenticate a new Bond of like date 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 Authority, the Trustee and the Company evidence of such loss or destruction. In every case, the applicant for a substitute Bond shall furnish the Authority, 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 shall, if directed in writing by the Authority or the Company, pay the same without surrender thereof if there shall be first furnished to the Authority, 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 Authority 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 2.07.

Every substitute Bond issued pursuant to the provisions of this Section 2.07 by virtue of the fact that any Bond is lost, destroyed or canceled in error shall constitute an additional contractual obligation of the Authority,

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 2.08 *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 Authority 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 Authority shall issue in the name of the transferee, in authorized denominations, a new Bond or Bonds in the same aggregate principal amount as the surrendered Bond or Bonds.

The Authority 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, except as provided in Section 2.02 hereof, interest on, such Bond and for all other purposes, and neither the Authority 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 Authority 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 Authority 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 (a) to make any such exchange or registration of transfer of Bonds during the fifteen (15) days next preceding the date on which notice of any proposed redemption of Bonds is given or (b) 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 Depositary. 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 Depositary, or by the Depositary to another nominee thereof, or by any nominee of the Depositary to any other nominee thereof, or by the Depositary or any nominee thereof to any successor securities depositary 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 Depositary shall have notified the Company and the Trustee that it is unwilling or unable to continue to act as securities depositary 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 10.19 hereof and (3) there shall have been delivered to the Authority, 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 2.09 Other Obligations. The Authority 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 2.10 Temporary Bonds. Pending the preparation of definitive Bonds, the Authority 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 Authority. Temporary Bonds may contain such reference to any provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the Authority 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 Authority 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 2.11 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. The Trustee shall furnish to the Authority and the Company counterparts of certificates evidencing such cancellation and disposition and specifying such Bonds by number.

Section 2.12 Payment of Principal and Interest. For the payment of interest on the Bonds, the Authority shall cause to be deposited in the Bond Fund, on each interest payment date, solely out of the Receipts and Revenues of the Authority 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 Authority 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 Authority 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 Authority from the Loan Agreement and other moneys pledged therefor, an amount sufficient to pay the principal of the Bonds. The obligation of the Authority 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 2.13 Applicability of Book-Entry Provisions. Anything in this Indenture to the contrary notwithstanding, (a) the provisions of the Blanket Issuer Letter of Representations, dated February 17, 1998,

between the Authority and The Depository Trust Company relating to the manner of and procedures for payment and redemption of Bonds and related matters shall apply so long as such Depository shall be the Owner of all Outstanding Bonds and (b) the Authority and the Trustee 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.

ARTICLE III

REDEMPTION OF BONDS

Section 3.01 *Redemption Provisions.* (a) The Bonds shall be subject to redemption by the Authority, at the direction of the Company, on any date on or after June 1, 2022 in whole at any time or in part from time to time, at 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

(b) The Bonds shall be subject to redemption by the Authority, 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 is impracticable, uneconomical or undesirable for any reason;

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

(iii) the operation of the Facilities 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) The Bonds shall be subject to mandatory redemption by the Authority, 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 a "related person" within the meaning of Section 103(b)(13) of the 1954 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 a "related person" within the meaning of Section 103(b)(13) of the 1954 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; and provided, further, that the portion of any Bond to be redeemed shall be in the principal amount of \$5,000 or some integral multiple thereof and that, in selecting Bonds for redemption, the Trustee shall treat each Bond as representing that number of Bonds which is obtained by dividing the principal amount of such Bond by \$5,000. If it is determined that one or more, but not all, of the \$5,000 units of principal amount represented by any such Bond is to be called for

redemption, then, upon notice of intention to redeem such \$5,000 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 \$5,000 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 \$5,000 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 \$5,000 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 Authority, 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 assigned to the Bonds to be redeemed, if any, 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 thirty (30) 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 subsection (a) or (b) of Section 3.01 hereof, unless, upon the giving of such notice, such Bonds shall be deemed to have been paid within the meaning of Article VIII 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 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 Authority 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 specified 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.

(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 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 VIII hereof.

(d) 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 Authority shall cause to be deposited in the Bond Fund, on the redemption date, solely out of the Receipts and Revenues of the Authority from the Loan Agreement, an amount sufficient to pay the principal of and interest to become due on such redemption date. The obligation of the Authority 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 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) or (b) of the first paragraph of Section 9.01 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.

ARTICLE IV

THE BOND FUND

Section 4.01 *Creation of Bond Fund.* There is hereby created and established with the Trustee a trust fund in the name of the Authority to be designated "The Industrial Development Authority of the County of Pima Industrial Development Revenue Bonds, 2012 Series A (Tucson Electric Power Company Project) Bond Fund". The Trustee shall establish and maintain within the Bond Fund such segregated subaccounts as may be requested in writing by an Authorized Company Representative. The Bond Fund, and all moneys and certificated securities therein, shall be kept in the possession of the Trustee.

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

Section 4.03 *Deposits into Bond Fund.* (a) There shall be deposited into the Bond Fund:

- (i) all Loan Payments; and
- (ii) all other moneys received by the Trustee under and pursuant to any provision of the Loan Agreement, other than Sections 5.03, 5.04 and 8.05 thereof, or from any other source when accompanied by directions by the Company that such moneys are to be paid into the Bond Fund.

(b) All income or other gain from the investment of moneys in the Bond Fund shall be retained therein.

Section 4.04 *Use of Moneys in Bond Fund.* Moneys, if any, paid into the Bond Fund pursuant to clause (i) of Section 4.03(a) hereof shall be applied to the payment of interest on the Bonds. Except as otherwise provided in Section 4.06, Section 9.01, and Section 10.04 hereof, all other moneys in the Bond Fund constituting part of the Trust Estate shall be used solely for the payment of the principal of and interest on the Bonds as the same shall become due and payable at maturity, upon redemption or otherwise.

Section 4.05 *Custody of Bond Fund; Withdrawal of Moneys.* The Bond Fund shall be in the custody of the Trustee but in the name of the Authority and the Authority 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 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 4.06 *Bonds Not Presented for Payment.* In the event any Bonds shall not be presented for payment when the principal thereof becomes 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 or interest on any Bond and remaining unclaimed for one (1) year after such principal or interest has become due and

payable shall 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 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 Authority and the Trustee with respect to such moneys shall thereupon cease.

Section 4.07 *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 4.06 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 Authority under this Indenture shall have ceased, terminated and become void and shall have been satisfied and discharged in accordance with Article VIII hereof.

ARTICLE V

DISPOSITION OF PROCEEDS

Section 5.01 *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 VI

INVESTMENTS

Section 6.01 *Investments*. The moneys in the Bond Fund shall, at the written 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. In addition, the Trustee shall, at the written direction of the Company, enter into (i) reverse repurchase agreements and option agreements with respect to any Investment Securities held by it and (ii) transactions for the purchase or sale of financial futures contracts in obligations which constitute Investment Securities or options on financial futures contracts in obligations which constitute Investment Securities. Subject to the further provisions of this Section 6.01, such investments shall be made by the Trustee as specifically 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 (as defined in Section 9.01 hereof) 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 10.05 hereof.

ARTICLE VII

GENERAL COVENANTS

Section 7.01 *No General Obligations*. Each and every covenant herein made, including all covenants made in the various sections of this Article VII, is predicated upon the condition that neither Pima 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 Authority shall be construed to constitute an indebtedness of Pima 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, thereon shall be limited obligations of the Authority payable solely from the Receipts and Revenues of the Authority from the Loan Agreement and the other moneys pledged therefor.

The Authority shall promptly cause to be paid, solely from the sources stated herein, the principal of and premium, if any, and interest on 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 7.02 Performance of Covenants of the Authority; Representations. The Authority 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 Authority 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 Authority.

Section 7.03 Maintenance of Rights and Powers; Compliance with Laws. The Authority 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 7.04 Enforcement of Obligations of the Company; Amendments. Upon receipt of written notification from the Trustee, the Authority 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 Authority shall not enter into any agreement with the Company amending the Loan Agreement without the prior written consent of the Trustee and compliance with Section 12.06 or Section 12.07 of this Indenture (a revision to Exhibit A to the Loan Agreement not being deemed an amendment for purposes of this Section). The Authority shall not enter into any agreement with the Trustee amending this Indenture without the prior written consent of the Company and compliance with Section 12.01 and Section 12.02 or Section 12.03 of this Indenture.

Section 7.05 Further Instruments. The Authority 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, Pima County, the Authority or any other political subdivision of said State.

Section 7.06 No Disposition of Trust Estate. Except as permitted by this Indenture, the Authority 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 7.07 Financing Statements. The Authority 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 Authority from the Loan Agreement and of the other moneys pledged under the Indenture for the payment of the principal of and interest on the Bonds, and as pledgee and assignee of the balance of the Trust Estate, and the Authority 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 7.08 *Tax Covenants; Rebate Fund.* (a) The Authority covenants for the benefit of all 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 Authority, 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 Code or otherwise subject to federal income taxation by reason of failing to qualify 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 that end the Authority 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 "The Industrial Development Authority of the County of Pima Industrial Development Revenue Bonds, 2012 Series A (Tucson Electric Power Company 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 Authority 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 Authority 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 7.08, 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 7.08, 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.

ARTICLE VIII

DEFEASANCE

Section 8.01 *Defeasance.* If the Authority shall pay or cause to be paid to the Owner of any Bond secured hereby the principal of and interest due and payable, and thereafter to become due and payable, upon such Bond or any portion of such Bond in the principal amount of \$5,000 or any integral multiple thereof, such Bond or portion thereof shall cease to be entitled to any lien, benefit or security under this Indenture. If the Authority shall pay or cause to be paid to the Owners of all the Bonds secured hereby the principal of and interest due and payable, and thereafter to become due and payable, thereon, and shall pay or cause to be paid all other sums payable hereunder including, without limitation, amounts payable pursuant to Section 10.04 hereof, then, and in that case, the right, title and interest of the Trustee in and to the Trust Estate shall thereupon cease, terminate and become void. In such event, the Trustee shall assign, transfer and turn over to the Company the Trust Estate, including, without limitation, any surplus in the Bond Fund and any balance remaining in any other fund created under this Indenture.

All or any portion of Outstanding Bonds or portions of Bonds in principal amounts of \$5,000 or any integral multiple thereof, shall prior to the maturity or redemption date thereof be deemed to have been paid within the meaning and with the effect expressed in this Article VIII, and the entire indebtedness of the Authority with respect thereof shall be satisfied and discharged, when

(a) in the event said Bonds or portions thereof have been selected for redemption in accordance with Section 3.02 hereof, the Trustee shall have given, or the Company shall have given to the Trustee in form satisfactory to it irrevocable instructions to give, on a date in accordance with the provisions of Section 3.03 hereof, notice of redemption of such Bonds or portions thereof,

(b) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Government Obligations which shall not contain provisions permitting the redemption thereof at the option of the issuer, the principal of and the interest on which, when due, and without regard to any reinvestment thereof, will provide moneys which, together with the moneys, if any, deposited with or held by the Trustee, shall be sufficient, to pay when due the principal of and interest due and to become due on said Bonds or portions thereof on and prior to the redemption date or maturity date thereof, as the case may be, and

(c) in the event said Bonds or portions thereof do not mature and are not to be redeemed within the next succeeding sixty (60) days, the Company shall have given the Trustee in form satisfactory to it irrevocable instructions to give, as soon as practicable in the same manner as a notice of redemption is given pursuant to Section 3.03 hereof, a notice to the Owners of said Bonds or portions thereof that the deposit required by clause (b) above has been made with the Trustee and that said Bonds or portions thereof are deemed to have been paid in accordance with this Article VIII and stating the maturity or redemption date upon which moneys are to be available for the payment of the principal of and interest on said Bonds or portions thereof.

Neither the Government Obligations nor moneys deposited with the Trustee pursuant to this Article VIII nor principal or interest payments on any such Government Obligations shall be withdrawn or used for any purpose other than, and such Government Obligations, moneys and principal or interest payments shall be held in trust for, the payment of the principal of and interest on said Bonds or portions thereof; provided, that any cash received from such principal or interest payments on such Government Obligations deposited with the Trustee, if not then needed for such purposes, shall, to the extent practicable, be invested in Government Obligations of the type described in clause (b) of the preceding paragraph maturing at times and in amounts sufficient to pay when due the principal of and interest to become due on said Bonds or portions thereof on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Company, as received by the Trustee, free and clear of any trust, lien or pledge hereunder. If payment of less than all the Bonds is to be provided for in the manner and with the effect provided in this Article VIII, the Trustee shall select such Bonds or portions of Bonds in the manner specified by Section 3.02 hereof for selection for redemption of less than all Bonds in the principal amount designated to the Trustee by the Company. At or prior to the time of the deposit of any Government Obligations with the Trustee pursuant to this Section 8.01, the Company shall provide the Trustee with a certificate of an accountant or an accounting firm as to the sufficiency of such Government Obligations to pay when due the principal of and interest due and to become due as set forth in clause (b) of the preceding paragraph.

ARTICLE IX

DEFAULTS AND REMEDIES

Section 9.01 *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 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 thirty (30) days;

(c) a failure by the Authority to observe and perform any covenant, condition, agreement or provision (other than as specified in clauses (a) and (b) of this Section 9.01) contained in the Bonds or in this Indenture on the part of the Authority 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 Authority 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 Authority, or the Company on behalf of the Authority, within such period and is being diligently pursued.

Upon the occurrence and continuance of any Event of Default described in clause (a) or (b) 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 shall, by written notice to the Authority 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.

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 Authority 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 Authority 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.

Section 9.02 *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 Authority 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 9.03 *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 Authority, 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 9.04 *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 9.05 *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 9.06 *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 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 9.07 *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 9.08 *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 9.09 *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 IX 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 9.10 *Application of Moneys.* Any moneys received by the Trustee, by any receiver or by any Owner of a Bond pursuant to any right given or action taken under the provisions of this Article IX, after payment of the costs and expenses of the proceedings resulting in the collection of such moneys and of all amounts due to the Trustee and any predecessor Trustee under Section 10.04 hereof, shall be deposited in the Bond Fund and all moneys so deposited in the Bond Fund during the continuance of an Event of Default (other than moneys for the payment of Bonds which had matured or otherwise become payable prior to such Event of Default or for the payment of interest due prior to such Event of Default) shall be applied as follows:

(a) Unless the principal of all the Bonds shall have become due and payable, all such moneys shall be applied (i) first, to the payment to the persons entitled thereto of all installments of interest then due on the Bonds, with interest on overdue installments, if lawful, at the rate per annum borne by the Bonds, in the order of

maturity of the installments of such interest and, if the amount available shall not be sufficient to pay in full any particular installment of interest, then to the payment ratably, according to the amounts due on such installment, and (ii) second, to the payment to the persons entitled thereto of the unpaid principal of any of the Bonds which shall have become due (other than Bonds called for redemption for the payment of which money is held pursuant to the provisions of this Indenture), with interest on such Bonds at their rate from the respective dates upon which they became due and, if the amount available shall not be sufficient to pay in full Bonds due on any particular date, together with such interest, then to the payment ratably, according to the amount of principal and interest due on such date, in each case to the persons entitled thereto, without any discrimination or privilege.

(b) If the principal of all the Bonds shall have become due and payable, all such moneys shall be applied to the payment of the principal and interest then due and unpaid upon the Bonds, with interest on overdue interest and principal, as aforesaid, without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Bond over any other Bond, ratably, according to the amounts due respectively for principal and interest, to the persons entitled thereto without any discrimination or privilege.

(c) If the principal of all the Bonds shall have become due and payable, and if acceleration of the maturity of the Bonds by reason of such Event of Default shall thereafter have been rescinded and annulled under the provisions of this Article IX, then, subject to the provisions of clause (b) of this Section 9.10 which shall be applicable in the event that the principal of all the Bonds shall later become due and payable, the moneys shall be applied in accordance with the provisions of clause (a) of this Section 9.10.

Section 9.11 *Severability of Remedies.* It is the purpose and intention of this Article IX 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 X

TRUSTEE

Section 10.01 *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 X, to all of which the Authority agrees and the respective Owners agree by their acceptance of delivery of any of the Bonds.

Section 10.02 *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 10.03 *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 willful misconduct.

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 10.04 *Compensation, Expenses and Advances.* The Trustee under this Indenture shall be entitled to reasonable compensation 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 VIII hereof. 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 10.04, 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 VIII hereof.

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

Section 10.05 *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) or (b) of the first paragraph of Section 9.01 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 Authority and the Company full information and advice as to the performance of any of the covenants, conditions and agreements contained herein.

Section 10.06 *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. 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 10.07 *Good Faith Reliance.* The Trustee shall be protected and shall incur no liability in acting or proceeding in good faith upon any resolution, notice, telegram, e-mail, 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 conclusively 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 11.01 hereof.

Section 10.08 *Dealings in Bonds and with the Authority 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 Authority or the Company, and may act as

depository, trustee, or agent for any committee or body of Owners of Bonds secured hereby or other obligations of the Authority as freely as if it did not act in any capacity hereunder.

Section 10.09 *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 10.10 *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 10.11 *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 filing the same with an Authorized Officer of the Authority and with the Company, and by giving notice of such resignation by Mail or Electronic Means to all Owners of Bonds. Such resignation shall take effect immediately upon 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 Authority 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 10.16 hereof, 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 10.13 hereof and such appointment shall be deemed to have been accepted as contemplated in Section 10.16 hereof, all as of such date, and all other provisions of this Article X shall be applicable to such resignation, appointment and acceptance except to the extent inconsistent with this paragraph. The Authority shall deliver any such instrument of appointment at the direction of the Company.

Section 10.12 *Removal of Trustee.* The Trustee may be removed at any time by filing with the Trustee so removed, and with the Authority 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 Authority (at the direction of the Company) of a successor and accompanied by an instrument of appointment by the Authority (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 10.13 *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 Authority 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 Authority 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 Authority, shall appoint a successor Trustee as directed by the Company. After any appointment by the Authority, 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 Authority 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 X shall become effective until the acceptance of appointment by the successor Trustee.

Section 10.14 *Qualifications of Successor Trustee.* Every successor Trustee (a) shall be a bank, national banking association or 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 10.15 *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 X 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, at the expense of the Company, 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 X 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 10.16 *Acceptance of Trusts by Successor Trustee.* Any successor Trustee appointed hereunder shall execute, acknowledge and deliver to the Authority 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 Authority 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 10.04 hereof, such predecessor Trustee shall pay over to the successor Trustee all moneys and other assets at the time held by it hereunder.

Section 10.17 *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 or acquiring all or substantially all of 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; *provided*, however, that the right to adopt the certificate of authentication of any predecessor Trustee shall apply only to its successor or successors by merger, conversion or consolidation.

Section 10.18 *Standard of Care.* Notwithstanding any other provisions of this Article X, 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 person would use and exercise under the circumstances in the conduct of his own affairs.

Section 10.19 *Notice to Owners of Bonds of Event of Default.* If an Event of Default occurs of which the Trustee by Section 10.05 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 10.05 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 9.01 hereof, the Trustee shall give Notice by Mail or Electronic Means to all Owners of Outstanding Bonds.

Section 10.20 *Intervention in Litigation of the Authority.* In any judicial proceeding to which the Authority 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 10.21 *Notices of Trustee*. The Trustee shall give notice to both the Authority and the Company whenever it is required hereby to give notice to either and, additionally, shall furnish to the Authority and the Company copies of any Notice by Mail or Electronic Means given by it pursuant to any provision hereof.

ARTICLE XI

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

Section 11.01 *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 2.08 hereof.

Nothing contained in this Article XI 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 Authority in pursuance of such request or consent.

ARTICLE XII

MODIFICATION OF THIS INDENTURE AND THE LOAN AGREEMENT

Section 12.01 *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 XII and Section 7.04 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 12.02 *Supplemental Indentures without Owner Consent*. The Authority 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 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 Authority in this Indenture other covenants, agreements, limitations and restrictions to be observed by the Authority;

(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 Authority 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 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 12.03(a) hereof; and

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

Before the Authority and the Trustee shall enter into any Supplemental Indenture pursuant to this Section 12.02, 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 Authority 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 12.03 *Supplemental Indentures with Consent of Owners.* (a) Except for any Supplemental Indenture entered into pursuant to Section 12.02 hereof, subject to the terms and provisions contained in this Section 12.03 and Section 12.05 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 Authority and the Trustee of any Supplemental Indenture deemed necessary or desirable by the Authority for the purposes of modifying, altering, 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 interest on 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 any impairment of the right of any Owner to institute suit for the payment of any Bond owned by it, or (ii) the creation of a claim or lien upon, or a pledge of, the Receipts and Revenues of the Authority 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 10.04 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 12.07 hereof, for any modification, alteration, amendment or supplement to the Loan Agreement.

(b) If at any time the Authority shall request the Trustee to enter into any Supplemental Indenture for any of the purposes of this Section 12.03, 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 be prepared by the Company and 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 mailing of such notice, the Authority 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 Authority 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 12.03 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 Authority or the Trustee from executing and delivering the same or from taking any action pursuant to the provisions thereof.

Section 12.04 *Effect of Supplemental Indenture.* Upon the execution and delivery of any Supplemental Indenture pursuant to the provisions of this Article XII, 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 Authority, 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 12.05 *Consent of the Company.* Anything herein to the contrary notwithstanding, any Supplemental Indenture under this Article XII 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.

Section 12.06 *Amendment of Loan Agreement without Consent of Owners.* Without the consent of or notice to the Owners of the Bonds, the Authority 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. A revision of Exhibit A to the Loan Agreement shall not be deemed a Supplemental Loan Agreement for purposes of this Indenture.

Before the Authority shall enter into, and the Trustee shall consent to, any Supplemental Loan Agreement pursuant to this Section 12.06, 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 Authority 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 12.07 *Amendment of Loan Agreement with Consent of Owners.* Except in the case of a Supplemental Loan Agreement referred to in Section 12.06 hereof, the Authority 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 12.03 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 Authority 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 12.03 hereof with respect to Supplemental Indentures. Such notice shall be prepared by the Company and 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 Authority 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 12.03 hereof with respect to Supplemental Indentures.

Section 12.08 *Company as Owner.* Anything herein to the contrary notwithstanding, for so long as the Company holds all of Outstanding Bonds, any action that may be taken by the Owners of the Bonds may be taken by the Company.

ARTICLE XIII

MISCELLANEOUS

Section 13.01 *Successors of the Authority.* In the event of the dissolution of the Authority, all the covenants, stipulations, promises and agreements in this Indenture contained, by or on behalf of, or for the benefit of, the Authority, shall bind or inure to the benefit of the successors of the Authority from time to time and any entity, officer, board, commission, agency or instrumentality to whom or to which any power or duty of the Authority shall be transferred.

Section 13.02 *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 Authority, the Company 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 Authority, the Company and the Trustee and their successors and assigns and the Owners of the Bonds.

Section 13.03 *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 13.04 *No Personal Liability of Authority 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 Authority in his individual capacity, and neither the members of the Board of Directors of the Authority 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 13.05 *Bonds Owned by the Authority 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 Authority 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 Authority, the Company or such person owns all Bonds which are then Outstanding, determined without regard to this Section 13.05) 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. Upon the request of the Trustee, the Company and the Authority 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 Authority 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 13.06 *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 13.07 *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 13.09 hereof and the computation of any period of grace provided herein.

Section 13.08 *Notices*. Except as otherwise provided in this Indenture, all notices, certificates, requests requisitions or other communications by the Authority, the Company or the Trustee 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 Authority, c/o Russo, Russo & Slania, P.C., 6700 N. Oracle Road, Suite 100, Tucson, Arizona, 85704, Attention: Michael Slania; if to the Company, at 88 East Broadway Boulevard, Tucson, Arizona 85702, Attention: Treasurer; and if to the Trustee, at 100 Wall Street, Suite 1600, New York, New York 10005, Attention: Corporate Trust Services. 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 means including, without limitation, email in PDF format.

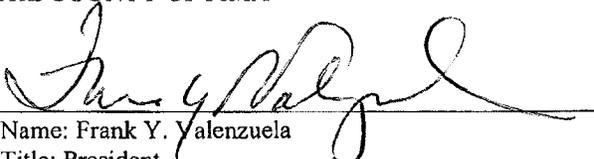
Section 13.09 *Holidays*. If the date for making any payment or the last date for performance of any act or the exercising of any right, as provided in this Indenture, shall be a Saturday, Sunday or a public holiday in the city in which is located the Principal Office of the Trustee, such payment may 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 13.10 *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 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.

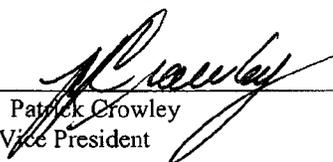
The Trustee covenants and agrees not to employ as an employee, agent or, with respect to the subject matter of this Indenture, a consultant, any person actually known by the Trustee to be significantly involved in initiating, negotiating, securing, drafting or creating such Indenture on behalf of the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

IN WITNESS WHEREOF, The Industrial Development Authority of the County of Pima 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.

THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE COUNTY OF PIMA

By: 
Name: Frank Y. Valenzuela
Title: President

U.S. BANK TRUST NATIONAL ASSOCIATION

By: 
Name: Patrick Crowley
Title: Vice President

(FORM OF BOND)

No.

**The Industrial Development Authority
of the County of Pima
Industrial Development Revenue Bond,
2012 Series A
(Tucson Electric Power Company Project)**

Interest Rate (per annum):**Maturity Date:****Cusip:****Registered Owner:****Principal Amount:****Dated:****Dollars**

The Industrial Development Authority of the County of Pima, an Arizona nonprofit corporation designated by law as a political subdivision of the State of Arizona (the "Authority"), for value received, hereby promises to pay (but only out of the Receipts and Revenues of the Authority from the Loan Agreement, as hereinafter defined, and other moneys pledged therefor) to the Registered Owner identified above or registered assigns, on the Maturity Date set forth above, upon the presentation and surrender hereof, the Principal Amount set forth above and to pay (but only out of the Receipts and Revenues of the Authority from the Loan Agreement and other moneys pledged therefor), interest on said Principal Amount until payment of said Principal Amount has been made or duly provided for, from the date hereof, at the Interest Rate set forth above, semi-annually on the first day of June and December in each year, commencing December 1, 2012. Interest will be calculated on the basis of a 360-day year of twelve 30-day months. All capitalized terms used and not otherwise defined herein shall have the meanings assigned to such terms in the hereinafter defined Indenture.

The principal of this Bond is payable at the principal office of U.S. Bank Trust National Association, as trustee. Interest on this Bond is payable by check drawn upon the Trustee and mailed to the Registered Owner of this Bond as of the close of business on the Record Date at the registered address of such Registered Owner; notwithstanding the foregoing, upon request to the Trustee by a Registered 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 Registered Owner by wire transfer to the account maintained within the continental United States specified by such Registered Owner or, if such Registered Owner maintains an account with the entity acting as Trustee, by deposit into such account. Payment of the principal of and interest on, this Bond shall be in any 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.

This Bond is one of the duly authorized The Industrial Development Authority of the County of Pima Industrial Development Revenue Bonds, 2012 Series A (Tucson Electric Power Company Project) (the "Bonds") of the Authority, aggregating Sixteen Million Four Hundred Sixty Five Thousand Dollars (\$16,465,000) in principal amount, issued under and pursuant to the Constitution and laws of the State of Arizona, particularly Title 35, Chapter 5, Arizona Revised Statutes, as amended (the "Act"), and the Indenture of Trust, dated as of June 1, 2012 (the "Indenture"), between the Authority and U.S. Bank Trust National Association, as trustee (together with any successor thereto, the "Trustee"). Pursuant to the Loan Agreement, dated as of June 1, 2012 (the "Loan Agreement"), between the Authority and Tucson Electric Power Company, a corporation organized and existing under the laws of the State of Arizona (the "Company"), the proceeds of the Bonds will be loaned to the Company and will be applied to refinance a portion of the costs of the acquisition, construction, improvement and equipping of the Facilities.

Neither Pima 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, and neither the Bonds, nor the premium, if any, or the interest thereon, shall be construed to constitute an indebtedness of Pima County, Arizona 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 are limited obligations of the Authority payable solely from the Receipts and Revenues of the Authority from the Loan Agreement and other moneys pledged therefor under the Indenture.

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 Authority 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 Authority by the Company in respect of the loan payments, including all receipts of the Trustee which, under the provisions of the Indenture, reduce the amounts of such payments. The Authority has also pledged and assigned to the Trustee as security for the Bonds all other rights and interests of the Authority under the Loan Agreement (other than its rights to indemnification and its administrative expenses and certain other rights).

The transfer of this Bond shall be registered upon the registration books kept at the principal office of the Trustee, at the written request of the Registered Owner hereof or his attorney duly authorized in writing, upon surrender of this Bond at said office, together with a written instrument of transfer satisfactory to the Trustee duly executed by the Registered Owner or his duly authorized attorney.

In the manner and with the effect provided in the Indenture, each of the Bonds may be redeemed prior to maturity, as follows:

(a) The Bonds shall be subject to redemption by the Authority, at the direction of the Company, on any date on or after June 1, 2022 in whole at any time or in part from time to time, at 100% of the principal amount thereof plus accrued interest, if any, to the redemption date.

(b) The Bonds shall be subject to redemption by the Authority, 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 is impracticable, uneconomical or undesirable for any reason;

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

(iii) the operation of the Facilities 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) The Bonds shall be subject to mandatory redemption by the Authority, 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 of a Bond who is a "substantial user" of the Facilities or a "related person" within the meaning of Section 103(b)(13) of the 1954 Code. No determination by any court or administrative agency shall be considered final for the purposes of this paragraph (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 a "related person" within the meaning of Section 103(b)(13) of the 1954 Code.

If less than all of the Bonds at the time outstanding are to be called for 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 principal amounts designated to the Trustee by the Company or otherwise as required by the Indenture.

In the event any of the Bonds are called for redemption, the Trustee shall give notice, in the name of the Authority, of the redemption of such Bonds. Such notice shall be given by electronic means or by mailing a copy of the redemption notice by first-class mail at least thirty (30) days prior to the date fixed for redemption to the Registered Owners of the Bonds to be redeemed at the addresses shown on the registration books; provided, however, that failure duly to give such notice, or any defect therein, shall not affect the validity of any proceedings for the redemption of the Bonds as to which there shall be no such failure or defect.

With respect to any notice of redemption of Bonds in accordance with the redemption provisions lettered (a) or (b) above, unless, upon the giving of such notice, such Bonds shall be deemed to have been paid within the meaning of the Indenture, such notice shall state that such redemption, shall be conditional upon the receipt, by the Trustee on or prior to the opening of business on the date fixed for such redemption of moneys sufficient to pay the principal of 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 Authority shall not be required to redeem such Bonds. In the event that such notice of redemption contains such a condition and such moneys are not so received, 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. Any notice of such redemption may also contain such other conditions as the Company shall specify and may be rescinded by the Company in accordance with the provisions of the Indenture.

If a notice of 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 so called for redemption at the place or places of payment, such Bonds shall be redeemed.

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 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 and such Bonds shall thereafter cease to be entitled to any lien, benefit or security under the Indenture.

The Registered Owner of this Bond shall have no right to enforce the provisions of the Indenture, or to institute action to enforce the covenants therein, or to take any action with respect to any default under the Indenture, or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the Indenture.

With certain exceptions as provided therein, the Indenture and the Loan Agreement may be modified or amended only with the consent of the Registered Owners of a majority in aggregate principal amount of all Bonds outstanding under the Indenture which would be adversely affected thereby.

Reference is hereby made to the Indenture and the Loan Agreement, copies of which are on file with the Trustee, for the provisions, among others, with respect to the nature and extent of the rights, duties and obligations of the Authority, the Company, the Trustee and the Registered Owners of the Bonds. The Registered Owner of this Bond, by the acceptance hereof, is deemed to have agreed and consented to the terms and provisions of the Indenture and the Loan Agreement.

Among other things, as provided in the Indenture and subject to certain limitations therein set forth, this Bond or any portion of the principal amount hereof will be deemed to have been paid within the meaning and with the effect expressed in the Indenture, and the entire indebtedness of the Authority in respect thereof shall be satisfied and discharged, if there has been irrevocably deposited with the Trustee, in trust, money in an amount which will be sufficient and/or Government Obligations, the principal of and interest on which, when due, without regard to any reinvestment thereof, will provide moneys which, together with moneys deposited with or held by the Trustee, will

be sufficient, to pay when due the principal of and interest on this Bond or such portion of the principal amount hereof when due.

Among other things, the Loan Agreement contains terms, provisions and conditions relating to the consolidation or merger of the Company with or into, and the sale, transfer or other disposition of assets to, another Person, to the assumption by such other Person, in certain circumstances, of all of the obligations of the Company under the Loan Agreement and to the release and discharge of the Company, in certain circumstances, from such obligations.

The Authority and the Trustee may deem and treat the person in whose name this Bond is registered as the absolute owner hereof for all purposes, whether or not this Bond is overdue, and neither the Authority nor the Trustee shall be affected by any notice to the contrary; provided that if the Company is the sole Owner of this Bond, the Authority and the Trustee may deem and treat the Company as the absolute owner for all purposes.

It is hereby certified, recited and declared that all acts, conditions and things required by the Constitution and laws of the State of Arizona to exist, to have happened and to have been performed, precedent to and in the execution and delivery of the Indenture and the issuance of this Bond, do exist, have happened and have been performed in regular and due form as required by law.

No covenant or agreement contained in this Bond or the Indenture shall be deemed to be a covenant or agreement of any official, officer, agent or employee of the Authority in his individual capacity, and neither the members of the Board of Directors of the Authority, nor any official executing this Bond, shall be liable personally on this Bond or be subject to any personal liability or accountability by reason of the issuance or sale of this Bond.

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

IN WITNESS WHEREOF, The Industrial Development Authority of the County of Pima has caused this Bond to be executed in its name and on its behalf by the manual or facsimile signature of its President or Vice President and attested with the manual or facsimile signature of its Secretary or Assistant Secretary set forth below.

THE INDUSTRIAL DEVELOPMENT
AUTHORITY OF THE COUNTY OF PIMA

By _____
Frank Y. Valenzuela, President

ATTEST:

Cecilia Cruz, Secretary

(FORM FOR ORDINARY REGISTRATION OF TRANSFER)

**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 designated 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.

(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 Signatory

Date of Authentication: _____

**LOAN AGREEMENT
(2012 Series A)**

between

**THE INDUSTRIAL DEVELOPMENT AUTHORITY
OF THE COUNTY OF PIMA**

and

TUCSON ELECTRIC POWER COMPANY

—
Dated as of June 1, 2012
—

Relating To

**Industrial Development Revenue Bonds,
2012 Series A
(Tucson Electric Power Company Project)**

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LOAN AGREEMENT

THIS LOAN AGREEMENT (2012 Series A), dated as of June 1, 2012 (this "Agreement"), between THE INDUSTRIAL DEVELOPMENT AUTHORITY OF THE COUNTY OF PIMA, an Arizona nonprofit corporation designated by law as a political subdivision of the State of Arizona (hereinafter called the "Authority"), 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 Authority is authorized and empowered under Title 35, Chapter 5, 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 projects consisting of land, any building or other improvement, and all real and personal properties, including but not limited to machinery and equipment, whether or not now in existence or under construction, whether located within or without Pima County, which shall be suitable for, among other things, facilities for the furnishing of electric energy, 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 any bonds, or designated issues of bonds, issued by the Authority and any agreements made in connection therewith, whenever the Board of Directors of the Authority finds such loans such loans to further advance the interest of the Authority or the public and in the public interest; and

WHEREAS, pursuant to the provisions of the Act, The Industrial Development Authority of the County of Apache (the "Apache Authority") has heretofore issued and sold (a) \$83,700,000 aggregate principal amount of The Industrial Development Authority of the County of Apache Pollution Control Revenue Bonds, 1998 Series A (Tucson Electric Power Company Project) \$6,890,000 aggregate principal amount of which remains outstanding (the "1998 Series A Bonds"), (b) \$99,800,000 aggregate principal amount of The Industrial Development Authority of the County of Apache Pollution Control Revenue Bonds, 1998 Series B (Tucson Electric Power Company Project) \$8,215,000 aggregate principal amount of which remains outstanding (the "1998 Series B Bonds"), and (c) \$16,500,000 aggregate principal amount of The Industrial Development Authority of the County of Apache Industrial Development Revenue Bonds, 1998 Series C (Tucson Electric Power Company Project) \$1,360,000 of which remains outstanding (the "1998 Series C Bonds," and, together with the 1998 Series A Bonds and the 1998 Series B Bonds, the "1998 Bonds"); and

WHEREAS, the Apache Authority loaned proceeds of the 1998 Bonds to Tucson Electric Power Company, an Arizona corporation (the "Company"), to refinance the costs of certain facilities, including certain electric transmission and/or distribution facilities (the "Facilities") as more fully described in Exhibit A hereto; and

WHEREAS, the Authority proposes to issue and sell \$16,465,000 aggregate principal amount of The Industrial Development Authority of the County of Pima Industrial Development Revenue Bonds, 2012 Series A (Tucson Electric Power Company Project) (the "Bonds"),

pursuant to an Indenture of Trust, dated as of June 1, 2012 (the "Indenture"), between the Authority and U.S. Bank Trust National Association, as trustee (the "Trustee"), for the purpose of refinancing the Facilities previously refinanced with the proceeds of the 1998 Bonds.

WHEREAS, the proceeds of the Bonds will be applied to redeem the 1998 Bonds.

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 Authority.* The Authority makes the following representations and warranties as the basis for the undertakings on the part of the Company contained herein:

(a) The Authority is an Arizona nonprofit corporation designated by law as a political subdivision of the State of Arizona created and existing under the Constitution and laws of the State of Arizona;

(b) The Authority 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 Authority do not, and consummation of the transactions contemplated hereby and fulfillment of the terms hereof and thereof by the Authority 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 Authority is now a party or by which it is now bound, or, to the best knowledge of the Authority, any order, rule or regulation applicable to the Authority of any court or of any regulatory body or administrative agency or other governmental body having jurisdiction over the Authority or over any of its properties, or the Constitution or laws of the State of Arizona; and

(d) No consent, approval, authorization or other order of any regulatory body or administrative agency or other governmental body is legally required for the Authority's

participation in the transactions contemplated by this Agreement, except such as may have been obtained or as may be required under the securities laws of any jurisdiction.

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 Authority 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 are to be used solely for purposes contemplated by the Act and are located or to be located within the State of Arizona; and

(f) All of the proceeds of the Bonds will be expended to refinance a portion of the Facilities through the redemption of the 1998 Bonds.

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 Authority shall have no right, title or interest in the Facilities.

SECTION 3.02. *Maintenance of Facilities; Remodeling.* The Company shall at all times 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 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 remodel the Facilities or make 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 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 Authority shall issue the Bonds under and in accordance with the Indenture, subject to the provisions of the bond purchase agreement among the Authority, 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 Authority 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 Authority, 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 Authority shall cause the proceeds of the Bonds to be deposited with the trustee for the 1998 Bonds to be applied to the payment of the 1998 Bonds upon the redemption thereof.

The Authority 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 Authority 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; 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 Authority 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 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 Authority to cause amounts to be deposited in the Bond Fund for the payment of the principal of 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 Authority thereunder.

SECTION 5.02. *Payments Assigned; Obligation Absolute.* It is understood and agreed that all Loan Payments are, by the Indenture, to be pledged by the Authority to the Trustee, and that all rights and interest of the Authority hereunder (except for the Authority's rights under Section 5.03, Section 5.04, Section 6.03 and Section 8.05 hereof and any rights of the Authority 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 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 Authority 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 Authority, the Trustee or any other party, and, further, that the Loan 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 5.03. *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 VIII 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 such entity.

SECTION 5.04. *Indemnification.* The Company releases the Authority, the Trustee, the County of Pima, Arizona and their directors, officers, employees and agents from, agrees that the Authority, the Trustee and the County of Pima, Arizona, shall not be liable for, and agrees to indemnify and hold the Authority, the Trustee, the County of Pima, Arizona 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 (i) in the case of the Trustee, as a result of the negligence or willful misconduct of the Trustee or its directors, officers, employees and agents; and (ii) in the case of the Authority and the County of Pima, Arizona, as a result of the gross negligence or willful misconduct of the Authority or the County of Pima, Arizona or their respective directors, officers, employees and agents.

The Company will indemnify and hold the Authority, the Trustee and the County of Pima, Arizona, 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 (i) in the case the Trustee, as a result of the negligence or willful misconduct of the Trustee; and (ii) in the case of the Authority and the County of Pima, Arizona, as a result of the gross negligence or willful misconduct of the Authority or the County of Pima, Arizona.

The Company will indemnify and hold the Authority and the County of Pima, Arizona and their 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 5.05. *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 Authority with respect to the Loan 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 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 Authority 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 Authority 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 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 Authority 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 hereof. Upon such an assumption following any such 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 all of the Company's interests in the Facilities, the Company shall remain liable in respect of all obligations under this Agreement to the extent of the interests retained other than the obligations under Section 5.01 hereof, and the transferee shall not be required to assume any obligations hereunder to such extent other than the obligations under Section 5.01 hereof; provided, however, that the transferee shall be required to assume all such other obligations unless the Company shall have delivered to the Authority 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 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 Authority 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 Authority, the Company and the Authority each shall, upon the request of either, execute such application or applications.

SECTION 6.03. *Authority's Access to Facilities.* The Authority 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 tax-exempt, and to that end the covenants and agreements of the Authority and the Company in this Section 6.04 and the Tax Agreement are for the benefit of the Owners from time to time of the Bonds.

(b) Each of the Company and the Authority covenants and agrees for the benefit of the 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 Code or otherwise subject to federal income taxation by reason of failing to qualify 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 Authority 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 Authority 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 Authority or the Company shall so notify the Trustee in writing.

Without limiting the generality of the foregoing, the Company and the Authority 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 Authority certifies and represents that it has not taken, and the Authority 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 Owners of the Bonds for federal tax purposes by failing to qualify 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 Authority 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 a "related person" within the meaning of Section 103(b)(13) of the 1954 Code and provided, further, that none of the covenants and agreements herein contained shall require either the Company or the Authority 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 7.08 of the Indenture and agrees to perform all duties imposed on it by such Section 7.08, by this Section and by the Tax Agreement. Insofar as Section 7.08 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 7.08 of the Indenture or the Tax Agreement, if the Company shall provide to the Authority and the Trustee an opinion of Bond Counsel to the effect that any specified action required under this Section 6.04 and Section 7.08 of the Indenture is no longer required or that some further or different action is required to maintain the tax status of interest on the Bonds, the Company, the Trustee and the Authority 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 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 7.07 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 assigned, leased, subleased, sold, transferred or otherwise disposed of 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, sublease, sale, transfer or other disposition (a) shall relieve the Company from its primary liability for its obligations under Section 5.01 hereof or (b) shall be made unless the assignee, lessee, sublessee, purchaser or other transferee, as the case may be, prior to or simultaneously with such assignment, lease, sublease, sale, transfer or other disposition, assumes, by delivery of an instrument in writing satisfactory in form to the Trustee and the Authority, all other obligations of the Company hereunder to the extent of the interest assigned, leased, subleased, 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 or subleased, as a whole or in undivided part and the term of such leasehold or subleasehold 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 assigned, sold, transferred or otherwise disposed of as a whole or in undivided part, and (b) in the event that the assignee, lessee, sublessee, purchaser or other transferee shall assume the obligations of the Company under Section 5.01 hereof for the remaining term of this Agreement, to the extent of such assignment, lease, sublease, 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 Authority and the Trustee of a certificate of an Independent Expert (as hereinafter defined) describing the interests so assigned, leased, subleased, sold, transferred or otherwise disposed of, together with all other rights, interests, assets and/or properties assigned, leased, subleased, 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, sublessee, 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, sublease or sale as provided in the immediately preceding paragraph unless it shall have furnished to the Authority 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 assignment, lease, sublease, 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 Authority 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, subleased, sold, transferred or otherwise disposed of (but, in the case of a lease or sublease, only to the extent of such lease) as may be determined by reference to (i) except in the case of a lease or sublease, 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 or sublease, 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, sublessee 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 Authority and Trustee.* The Company shall, within fifteen (15) days after the delivery thereof, furnish to the Authority and the Trustee a true and complete copy of the agreements or other documents effectuating any such assignment, lease, sublease, sale, transfer or other disposition.

SECTION 7.03. *Limitation.* This Agreement shall not be assigned nor shall the Company's interest in the Facilities be assigned, leased, subleased, sold, transferred or otherwise disposed of, in whole or in part, except as provided in this Article VII or in Section 6.01 or Section 5.02 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, which failure shall have resulted in an "Event of Default" under clause (a) or (b) of Section 9.01 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 Authority or the Trustee, unless the Authority and the Trustee shall agree in writing to an extension of such period prior to its expiration; provided, however, that the Authority 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 5.03, Section 5.05 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.*

(a) 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.

(b) Upon the occurrence and continuance of any Event of Default, the Authority, or the Trustee with respect to the rights of the Authority 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.

(c) 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 Authority 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 Authority 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 Authority 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 Authority 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 Authority's rights and interest hereunder to the Trustee, the Authority 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 such rights of the Authority hereunder.

ARTICLE IX

REDEMPTION OF BONDS

SECTION 9.01. *Redemption of Bonds.* The Authority 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 Authority 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-five (35) 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 VIII of the Indenture. The Company shall furnish any moneys or

Government Obligations (as defined in the Indenture) required by the Indenture to be deposited with the Trustee or otherwise paid by the Authority in connection with any of the foregoing purposes.

SECTION 9.02. *Compliance with the Indenture.* Anything in this Agreement to the contrary notwithstanding, the Authority 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 (as defined in the Indenture) shall have ceased, terminated and become void in accordance with Article VIII of the Indenture and until all payments required under this Agreement shall have been made. Notwithstanding the foregoing, the covenants contained in Sections 5.03, 5.04, 6.04 and 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 Authority, c/o Russo, Russo & Slania, P.C., 6700 N. Oracle Road, Suite 100, Tucson, Arizona, 85704, Attention: Michael Slania; if to the Company, at 88 East Broadway Boulevard, Tucson, Arizona 85702, 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 Authority, the Company, or the Trustee shall also be given to the others. The Authority, 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 means including, without limitation, email in PDF format.

SECTION 10.03. *Parties in Interest.* This Agreement shall inure to the benefit of and shall be binding upon the Authority, 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 lien and security interest granted to the Trustee in Section 4.03 hereof, as well as the rights and remedies granted to the Authority in Article VIII hereof, shall inure to the benefit of the Trustee, on behalf of the 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 Authority; and provided, further, that neither Pima 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 Agreement or the issuance of the Bonds, and further that neither the Bonds nor

any such obligation or agreement of the Authority shall be construed to constitute an indebtedness of Pima County, Arizona or the State of Arizona within the meaning of any constitutional or statutory provisions whatsoever, but shall be limited obligations of the Authority 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 Authority or the Company, as the case may be, to the full extent permitted by law.

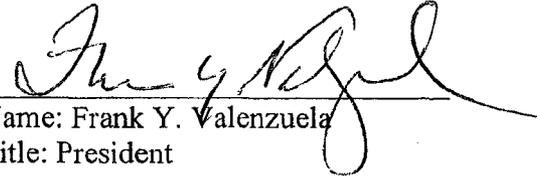
SECTION 10.07. *Governing Law.* The laws of the State of Arizona shall govern the construction and enforcement of this Agreement, except that the provisions of Section 13.09 of the Indenture, construed as provided in Section 13.07 of the Indenture, shall apply to this Agreement as if contained herein.

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 Authority within three (3) years from the execution hereof, unless a waiver is provided by the Authority.

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

THE INDUSTRIAL DEVELOPMENT
AUTHORITY OF THE COUNTY OF PIMA

By: 
Name: Frank Y. Valenzuela
Title: President

TUCSON ELECTRIC POWER COMPANY

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

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

THE INDUSTRIAL DEVELOPMENT
AUTHORITY OF THE COUNTY OF PIMA

By: _____
Name: Frank Y. Valenzuela
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TUCSON ELECTRIC POWER COMPANY

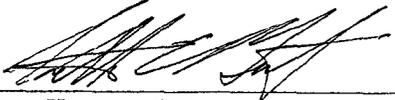
By: 
Name: Kentton C. Grant
Title: Vice President and Treasurer

EXHIBIT A

Exhibit A to the Loan Agreement, dated as of March 1, 1998 (the "1998 Series A Loan Agreement"), between the Authority* and the Company, entered into in connection with the 1998 Series A Bonds, states that proceeds of the 1998 Series A Bonds were to be used to refinance costs of Unit No. 1 Environmental Facilities located in Apache County. Exhibit A to the Loan Agreement, dated as of March 1, 1998 (the "1998 Series B Loan Agreement"), between the Authority and the Company, entered into in connection with the 1998 Series B Bonds, states that proceeds of the 1998 Series B Bonds were to be used to refinance costs of Unit No. 2 Environmental Facilities located in Apache County. Exhibit A to the Loan Agreement, dated as of March 1, 1998 (the "1998 Series C Loan Agreement"), between the Authority and the Company, entered into in connection with the 1998 Series C Bonds, states that proceeds of the 1998 Series C Bonds were to be used to refinance costs of transmission and distribution facilities and related properties located in Pima and Cochise Counties.

The Bonds are being issued to refinance facilities which, for federal income tax purposes, are Local Furnishing Facilities (as such term is defined in the Tax Agreement) located in Pima County, Arizona and in Cochise County, Arizona, as described in Article III of the Tax Agreement. As described in Section 3.4 of the Tax Agreement, this includes a pro rata share of the 1998 Series A Bonds, a pro rata share of the 1998 Series B Bonds, and a pro rata share of the 1998 Series C Bonds.

* All capitalized terms used and not otherwise defined in this Exhibit A shall have the meanings assigned to such terms in the Agreement to which this Exhibit A is attached or in the Indenture referred to in the Agreement or in the Tax Agreement as such term is defined in the Indenture.