

PINNACLE WEST CAPITAL CORP

FORM 10-Q (Quarterly Report)

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549**

FORM 10-Q

(Mark One)

- QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended June 30, 2014

OR

- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Exact Name of Each Registrant as specified in its
charter; State of Incorporation; Address; and
Telephone Number

Commission File Number	Exact Name of Each Registrant as specified in its charter; State of Incorporation; Address; and Telephone Number	IRS Employer Identification No.
1-8962	PINNACLE WEST CAPITAL CORPORATION (an Arizona corporation) 400 North Fifth Street, P.O. Box 53999 Phoenix, Arizona 85072-3999 (602) 250-1000	86-0512431
1-4473	ARIZONA PUBLIC SERVICE COMPANY (an Arizona corporation) 400 North Fifth Street, P.O. Box 53999 Phoenix, Arizona 85072-3999 (602) 250-1000	86-0011170

Indicate by check mark whether each registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

PINNACLE WEST CAPITAL CORPORATION Yes No
ARIZONA PUBLIC SERVICE COMPANY Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

PINNACLE WEST CAPITAL CORPORATION Yes No
ARIZONA PUBLIC SERVICE COMPANY Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

PINNACLE WEST CAPITAL CORPORATION

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

ARIZONA PUBLIC SERVICE COMPANY

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company

Indicate by check mark whether each registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

PINNACLE WEST CAPITAL CORPORATION Yes No
ARIZONA PUBLIC SERVICE COMPANY Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

PINNACLE WEST CAPITAL CORPORATION	Number of shares of common stock, no par value, outstanding as of July 25, 2014: 110,408,854
ARIZONA PUBLIC SERVICE COMPANY	Number of shares of common stock, \$2.50 par value, outstanding as of July 25, 2014: 71,264,947

Arizona Public Service Company meets the conditions set forth in General Instruction H(1)(a) and (b) of Form 10-Q and is therefore filing this form with the reduced disclosure format allowed under that General Instruction.

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This combined Form 10-Q is separately provided by Pinnacle West Capital Corporation (“Pinnacle West”) and Arizona Public Service Company (“APS”). Any use of the words “Company,” “we,” and “our” refer to Pinnacle West. Each registrant is providing on its own behalf all of the information contained in this Form 10-Q that relates to such registrant and, where required, its subsidiaries. Except as stated in the preceding sentence, neither registrant is providing any information that does not relate to such registrant, and therefore makes no representation as to any such information. The information required with respect to each company is set forth within the applicable items. Item 1 of this report includes Condensed Consolidated Financial Statements of Pinnacle West and Condensed Consolidated Financial Statements of APS. Item 1 also includes Notes to Pinnacle West’s Condensed Consolidated Financial Statements, the majority of which also relate to APS, and Supplemental Notes, which only relate to APS’s Condensed Consolidated Financial Statements.

FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements based on current expectations. These forward-looking statements are often identified by words such as "estimate," "predict," "may," "believe," "plan," "expect," "require," "intend," "assume" and similar words. Because actual results may differ materially from expectations, we caution readers not to place undue reliance on these statements. A number of factors could cause future results to differ materially from historical results, or from outcomes currently expected or sought by Pinnacle West or APS. In addition to the Risk Factors described in Part I, Item 1A of the Pinnacle West/APS Annual Report on Form 10-K for the fiscal year ended December 31, 2013 ("2013 Form 10-K"), Part II, Item 1A of this report and in Part I, Item 2 — "Management's Discussion and Analysis of Financial Condition and Results of Operations" of this report, these factors include, but are not limited to:

- our ability to manage capital expenditures and operations and maintenance costs while maintaining reliability and customer service levels;
- variations in demand for electricity, including those due to weather, the general economy, customer and sales growth (or decline), and the effects of energy conservation measures and distributed generation;
- power plant and transmission system performance and outages;
- competition in retail and wholesale power markets;
- regulatory and judicial decisions, developments and proceedings;
- new legislation or regulation, including those relating to environmental requirements, nuclear plant operations and potential deregulation of retail electric markets;
- fuel and water supply availability;
- our ability to achieve timely and adequate rate recovery of our costs, including returns on debt and equity capital;
- our ability to meet renewable energy and energy efficiency mandates and recover related costs;
- risks inherent in the operation of nuclear facilities, including spent fuel disposal uncertainty;
- current and future economic conditions in Arizona, particularly in real estate markets;
- the cost of debt and equity capital and the ability to access capital markets when required;
- environmental and other concerns surrounding coal-fired generation;
- volatile fuel and purchased power costs;
- the investment performance of the assets of our nuclear decommissioning trusts, pension, and other postretirement benefit plans and the resulting impact on future funding requirements;
- the liquidity of wholesale power markets and the use of derivative contracts in our business;
- potential shortfalls in insurance coverage;
- new accounting requirements or new interpretations of existing requirements;
- generation, transmission and distribution facility and system conditions and operating costs;
- the ability to meet the anticipated future need for additional baseload generation and associated transmission facilities in our region;
- the willingness or ability of our counterparties, power plant participants and power plant land owners to meet contractual or other obligations or extend the rights for continued power plant operations;
- technological developments affecting the electric industry; and
- restrictions on dividends or other provisions in our credit agreements and Arizona Corporation Commission ("ACC") orders.

These and other factors are discussed in the Risk Factors described in Part I, Item 1A of our 2013 Form 10-K and in Part II, Item 1A of this report, which readers should review carefully before placing any reliance on our financial statements or disclosures. Neither Pinnacle West nor APS assumes any obligation to update these statements, even if our internal estimates change, except as required by law.

PART I — FINANCIAL INFORMATION**ITEM 1. FINANCIAL STATEMENTS**

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (unaudited)
 (dollars and shares in thousands, except per share amounts)

	Three Months Ended June 30,	
	2014	2013
OPERATING REVENUES	\$ 906,264	\$ 915,822
OPERATING EXPENSES		
Fuel and purchased power	290,854	277,584
Operations and maintenance	211,222	229,300
Depreciation and amortization	105,150	106,292
Taxes other than income taxes	44,004	40,814
Other expenses	921	2,020
Total	652,151	656,010
OPERATING INCOME	254,113	259,812
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction	7,499	6,265
Other income (Note 10)	2,781	469
Other expense (Note 10)	(508)	(2,234)
Total	9,772	4,500
INTEREST EXPENSE		
Interest charges	51,751	51,307
Allowance for borrowed funds used during construction	(3,790)	(3,636)
Total	47,961	47,671
INCOME BEFORE INCOME TAXES	215,924	216,641
INCOME TAXES	74,540	77,043
NET INCOME	141,384	139,598
Less: Net income attributable to noncontrolling interests (Note 6)	8,926	8,391
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 132,458	\$ 131,207
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING — BASIC	110,565	109,962
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING — DILUTED	111,002	110,932
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING		
Net income attributable to common shareholders — basic	\$ 1.20	\$ 1.19
Net income attributable to common shareholders — diluted	\$ 1.19	\$ 1.18
DIVIDENDS DECLARED PER SHARE	\$ 1.14	\$ 1.09

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Three Months Ended June 30,	
	2014	2013
NET INCOME	\$ 141,384	\$ 139,598
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Derivative instruments:		
Net unrealized gain (loss), net of tax benefit (expense) of \$(26) and \$105	40	(160)
Reclassification of net realized loss, net of tax benefit of \$1,261 and \$2,824	1,955	4,322
Pension and other postretirement benefits activity, net of tax benefit of \$845 and \$449	(1,310)	(688)
Total other comprehensive income	685	3,474
COMPREHENSIVE INCOME		
Less: Comprehensive income attributable to noncontrolling interests	8,926	8,391
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 133,143	\$ 134,681

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (unaudited)
 (dollars and shares in thousands, except per share amounts)

	Six Months Ended June 30,	
	2014	2013
OPERATING REVENUES	\$ 1,592,515	\$ 1,602,474
OPERATING EXPENSES		
Fuel and purchased power	540,640	508,263
Operations and maintenance	424,104	452,550
Depreciation and amortization	206,922	210,022
Taxes other than income taxes	89,849	80,835
Other expenses	1,717	4,069
Total	<u>1,263,232</u>	<u>1,255,739</u>
OPERATING INCOME	329,283	346,735
OTHER INCOME (DEDUCTIONS)		
Allowance for equity funds used during construction	14,941	13,129
Other income (Note 10)	5,148	1,227
Other expense (Note 10)	(5,192)	(5,986)
Total	<u>14,897</u>	<u>8,370</u>
INTEREST EXPENSE		
Interest charges	104,720	100,785
Allowance for borrowed funds used during construction	(7,560)	(7,626)
Total	<u>97,160</u>	<u>93,159</u>
INCOME BEFORE INCOME TAXES	247,020	261,946
INCOME TAXES	80,945	89,512
NET INCOME	166,075	172,434
Less: Net income attributable to noncontrolling interests (Note 6)	17,851	16,783
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 148,224	\$ 155,651
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING — BASIC	110,546	109,898
WEIGHTED-AVERAGE COMMON SHARES OUTSTANDING — DILUTED	110,925	110,843
EARNINGS PER WEIGHTED-AVERAGE COMMON SHARE OUTSTANDING		
Net income attributable to common shareholders — basic	\$ 1.34	\$ 1.42
Net income attributable to common shareholders — diluted	\$ 1.34	\$ 1.40
DIVIDENDS DECLARED PER SHARE	\$ 1.14	\$ 1.09

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2014	2013
NET INCOME	\$ 166,075	\$ 172,434
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Derivative instruments:		
Net unrealized loss, net of tax benefit (expense) of \$(624) and \$67	(381)	(102)
Reclassification of net realized loss, net of tax benefit of \$2,584 and \$6,124	5,070	9,375
Pension and other postretirement benefits activity, net of tax benefit (expense) of \$128 and \$(182)	(853)	278
Total other comprehensive income	3,836	9,551
COMPREHENSIVE INCOME		
Less: Comprehensive income attributable to noncontrolling interests	169,911	181,985
	17,851	16,783
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDERS	\$ 152,060	\$ 165,202

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	June 30, 2014	December 31, 2013
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 9,161	\$ 9,526
Customer and other receivables	325,352	299,904
Accrued unbilled revenues	172,444	96,796
Allowance for doubtful accounts	(2,731)	(3,203)
Materials and supplies (at average cost)	230,310	221,682
Fossil fuel (at average cost)	38,835	38,028
Deferred income taxes	83,633	91,152
Income tax receivable (Note 5)	—	135,517
Assets from risk management activities (Note 7)	15,420	17,169
Deferred fuel and purchased power regulatory asset (Note 3)	1,043	20,755
Other regulatory assets (Note 3)	77,148	76,388
Other current assets	48,457	39,895
Total current assets	999,072	1,043,609
INVESTMENTS AND OTHER ASSETS		
Assets from risk management activities (Note 7)	21,581	23,815
Nuclear decommissioning trust (Note 13)	682,359	642,007
Other assets	61,380	60,875
Total investments and other assets	765,320	726,697
PROPERTY, PLANT AND EQUIPMENT		
Plant in service and held for future use	15,448,087	15,200,464
Accumulated depreciation and amortization	(5,388,667)	(5,300,219)
Net	10,059,420	9,900,245
Construction work in progress	584,152	581,369
Palo Verde sale leaseback, net of accumulated depreciation (Note 6)	123,190	125,125
Intangible assets, net of accumulated amortization	137,037	157,689
Nuclear fuel, net of accumulated amortization	125,246	124,557
Total property, plant and equipment	11,029,045	10,888,985
DEFERRED DEBITS		
Regulatory assets (Note 3)	755,174	711,712
Other	141,706	137,683
Total deferred debits	896,880	849,395
TOTAL ASSETS	\$ 13,690,317	\$ 13,508,686

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	June 30, 2014	December 31, 2013
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 320,779	\$ 284,516
Accrued taxes (Note 5)	161,707	130,998
Accrued interest	52,740	48,351
Common dividends payable	62,656	62,528
Short-term borrowings (Note 2)	176,650	153,125
Current maturities of long-term debt (Note 2)	368,841	540,424
Customer deposits	74,779	76,101
Liabilities from risk management activities (Note 7)	21,502	31,892
Liabilities for asset retirements	35,726	32,896
Regulatory liabilities (Note 3)	114,204	99,273
Other current liabilities	165,123	158,540
Total current liabilities	1,554,707	1,618,644
LONG-TERM DEBT LESS CURRENT MATURITIES (Note 2)	2,999,513	2,796,465
DEFERRED CREDITS AND OTHER		
Deferred income taxes	2,396,026	2,351,882
Regulatory liabilities (Note 3)	809,442	801,297
Liabilities for asset retirements (Note 16)	356,436	313,833
Liabilities for pension and other postretirement benefits (Note 4)	439,490	513,628
Liabilities from risk management activities (Note 7)	23,367	70,315
Customer advances	120,330	114,480
Coal mine reclamation	208,951	207,453
Deferred investment tax credit	181,236	152,361
Unrecognized tax benefits (Note 5)	22,814	42,209
Other	196,143	185,659
Total deferred credits and other	4,754,235	4,753,117
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
EQUITY (Note 8)		
Common stock, no par value; authorized 150,000,000 shares, 110,430,456 and 110,280,703 issued at respective dates	2,500,064	2,491,558
Treasury stock at cost; 23,824 and 98,944 shares at respective dates	(189)	(4,308)
Total common stock	2,499,875	2,487,250
Retained earnings	1,808,232	1,785,273
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(55,848)	(54,995)
Derivative instruments	(18,369)	(23,058)
Total accumulated other comprehensive loss	(74,217)	(78,053)
Total shareholders' equity	4,233,890	4,194,470
Noncontrolling interests (Note 6)	147,972	145,990
Total equity	4,381,862	4,340,460
TOTAL LIABILITIES AND EQUITY	\$ 13,690,317	\$ 13,508,686

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited)
 (dollars in thousands)

	Six Months Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 166,075	\$ 172,434
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization including nuclear fuel	246,371	249,482
Deferred fuel and purchased power	1,315	36,183
Deferred fuel and purchased power amortization	18,399	10,921
Allowance for equity funds used during construction	(14,941)	(13,129)
Deferred income taxes	32,611	68,526
Deferred investment tax credit	28,875	20,159
Change in derivative instruments fair value	49	349
Changes in current assets and liabilities:		
Customer and other receivables	(64,986)	(79,408)
Accrued unbilled revenues	(75,648)	(68,763)
Materials, supplies and fossil fuel	(9,435)	(4,002)
Income tax receivable	135,517	779
Other current assets	(14,038)	(14,439)
Accounts payable	30,725	85,563
Accrued taxes	30,709	4,253
Other current liabilities	19,978	(26,098)
Change in margin and collateral accounts — assets	(2,107)	(1,111)
Change in margin and collateral accounts — liabilities	(22,425)	14,600
Change in other long-term assets	(19,243)	(23,796)
Change in other long-term liabilities	(22,735)	21,753
Net cash flow provided by operating activities	465,066	454,256
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(388,752)	(376,601)
Contributions in aid of construction	12,646	21,236
Allowance for borrowed funds used during construction	(7,560)	(7,626)
Proceeds from nuclear decommissioning trust sales	199,224	253,996
Investment in nuclear decommissioning trust	(207,848)	(262,621)
Other	(678)	(262)
Net cash flow used for investing activities	(392,968)	(371,878)
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	535,975	136,307
Repayment of long-term debt	(503,583)	(40,127)
Short-term borrowings and payments — net	23,525	(62,075)
Dividends paid on common stock	(125,138)	(116,231)
Common stock equity issuance	12,625	9,751
Distributions to noncontrolling interests	(15,869)	(9,197)
Other	2	795
Net cash flow used for financing activities	(72,463)	(80,777)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(365)	1,601
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	9,526	26,202
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 9,161	\$ 27,803

See Notes to Pinnacle West's Condensed Consolidated Financial Statements.

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. Consolidation and Nature of Operations

The unaudited condensed consolidated financial statements include the accounts of Pinnacle West and our subsidiaries: APS and El Dorado Investment Company (“El Dorado”). Intercompany accounts and transactions between the consolidated companies have been eliminated. The unaudited condensed consolidated financial statements for APS include the accounts of APS and the Palo Verde Nuclear Generating Station (“Palo Verde”) sale leaseback variable interest entities (“VIEs”) (see Note 6 for further discussion). Our accounting records are maintained in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The preparation of financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Weather conditions cause significant seasonal fluctuations in our revenues; therefore, results for interim periods do not necessarily represent results expected for the year.

Our condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the United States Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in conformity with GAAP have been condensed or omitted pursuant to such regulations, although we believe that the disclosures provided are adequate to make the interim information presented not misleading.

The following table shows more detail of previously reported amounts for the changes in accrued taxes and income tax receivable. Previously reported amounts were netted in the Statement of Cash Flows (dollars in thousands):

Statement of Cash Flows for the Six Months Ended June 30, 2013	As previously reported	Changes to conform to current year presentation	Amount reported after changes to conform to current year presentation
Cash Flows from Operating Activities			
Accrued taxes and income tax receivable	\$ 5,032	\$ (5,032)	\$ —
Income tax receivable - net	—	779	779
Accrued taxes	—	4,253	4,253

PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Supplemental Cash Flow Information

The following table summarizes supplemental Pinnacle West cash flow information (dollars in thousands):

	Six Months Ended June 30,	
	2014	2013
Cash paid (received) during the period for:		
Income taxes, net of refunds	\$ (131,154)	\$ (9)
Interest, net of amounts capitalized	90,707	91,346
Significant non-cash investing and financing activities:		
Accrued capital expenditures	\$ 19,668	\$ 8,904
Dividends accrued but not yet paid	62,656	59,946

2. Long-Term Debt and Liquidity Matters

Pinnacle West and APS maintain committed revolving credit facilities in order to enhance liquidity and provide credit support for their commercial paper programs.

Pinnacle West

On May 9, 2014, Pinnacle West replaced its \$200 million revolving credit facility that would have matured in November 2016, with a new \$200 million facility that matures in May 2019. At June 30, 2014, the facility was available to refinance indebtedness of the Company and for other general corporate purposes, including credit support for its \$200 million commercial paper program. Pinnacle West has the option to increase the amount of the facility up to a maximum of \$300 million upon the satisfaction of certain conditions and with the consent of the lenders. At June 30, 2014, Pinnacle West had commercial paper borrowings of \$4 million, no outstanding borrowings under its credit facility and no letters of credit outstanding.

APS

On July 12, 2013, APS purchased all \$33 million of the Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds, 1994 Series A, due 2029. On October 11, 2013, APS purchased all \$32 million of the City of Farmington, New Mexico Pollution Control Revenue Bonds, 1994 Series C, due 2024. On January 15, 2014, both of these series of bonds were canceled and refinanced as described below.

On January 10, 2014, APS issued \$250 million of 4.70% unsecured senior notes that mature on January 15, 2044. The proceeds from the sale were used to repay commercial paper which was used to fund the acquisition of Southern California Edison's ("SCE") 48% ownership interest in each of Units 4 and 5 of the Four Corners Power Plant ("Four Corners") and to replenish cash used in 2013 to re-acquire the two series of tax-exempt indebtedness listed above.

On May 1, 2014, APS purchased a total of \$100 million of the Maricopa County, Arizona, Pollution Control Corporation Pollution Control Revenue Refunding Bonds, 2009 Series A, D and E, due 2029 in connection with the mandatory tender provisions for this indebtedness. On May 14, 2014, APS remarketed all \$36 million of the 2009 Series A Bonds, which are classified as long-term debt on our

**PINNACLE WEST CAPITAL CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

Condensed Consolidated Balance Sheets at June 30, 2014. We expect to remarket or refinance all \$64 million of the 2009 Series D Bonds and 2009 Series E Bonds within the next twelve months, which were classified as current maturities of long-term debt at December 31, 2013.

On May 9, 2014, APS replaced its \$500 million revolving credit facility that would have matured in November 2016, with a new \$500 million facility that matures in May 2019.

On May 30, 2014, APS purchased all \$38 million of the Navajo County, Arizona, Pollution Control Corporation Pollution Control Revenue Refunding Bonds, 2009 Series A, due 2034, and on June 1, 2014, APS purchased a total of \$64 million of the Navajo 2009 Series B Bonds and 2009 Series C Bonds, in each case, in connection with the mandatory tender provisions for this indebtedness. We expect to remarket or refinance these bonds within the next twelve months. These bonds were classified as current maturities of long-term debt on our Condensed Consolidated Balance Sheets at December 31, 2013.

On June 1, 2014, APS remarketed all \$13 million of the Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds, 2009 Series A, due 2034. These bonds are classified as long-term debt on our Condensed Consolidated Balance Sheets at June 30, 2014.

On June 18, 2014, APS issued \$250 million of 3.35% unsecured senior notes that mature on June 15, 2024. The net proceeds from the sale were used along with other funds to repay at maturity APS's \$300 million aggregate principal amount of 5.80% senior notes due June 30, 2014.

At June 30, 2014, APS had two credit facilities totaling \$1 billion, including a \$500 million credit facility that matures in April 2018 and the \$500 million facility that matures in May 2019 (see above). APS may increase the amount of each facility up to a maximum of \$700 million upon the satisfaction of certain conditions and with the consent of the lenders. APS will use these facilities to refinance indebtedness and for other general corporate purposes. Interest rates are based on APS's senior unsecured debt credit ratings.

The facilities described above are available to support APS's \$250 million commercial paper program, for bank borrowings or for issuances of letters of credit. At June 30, 2014, APS had \$173 million of commercial paper borrowings and no outstanding borrowings or outstanding letters of credit under these credit facilities.

See "Financial Assurances" in Note 9 for a discussion of APS's separate outstanding letters of credit.

Debt Fair Value

Our long-term debt fair value estimates are based on quoted market prices for the same or similar issues, and are classified within Level 2 of the fair value hierarchy. Certain of our debt instruments contain third-party credit enhancements and, in accordance with GAAP, we do not consider the effect of these credit enhancements when determining fair value. The following table represents the estimated fair value of our long-term debt, including current maturities (dollars in millions):

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	As of June 30, 2014		As of December 31, 2013	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Pinnacle West	\$ 125	\$ 125	\$ 125	\$ 125
APS	3,243	3,628	3,212	3,454
Total	\$ 3,368	\$ 3,753	\$ 3,337	\$ 3,579

Debt Provisions

An existing ACC order requires APS to maintain a common equity ratio of at least 40%. As defined in the ACC order, the common equity ratio is total shareholder equity divided by the sum of total shareholder equity and long-term debt, including current maturities of long-term debt. At June 30, 2014, APS was in compliance with this common equity ratio requirement. Its total shareholder equity was approximately \$4.3 billion, and total capitalization was approximately \$7.5 billion. APS would be prohibited from paying dividends if the payment would reduce its total shareholder equity below approximately \$3.0 billion, assuming APS's total capitalization remains the same.

3. Regulatory Matters**Retail Rate Case Filing with the Arizona Corporation Commission**

On June 1, 2011, APS filed an application with the ACC for a net retail base rate increase of \$95.5 million. APS requested that the increase become effective July 1, 2012. The request would have increased the average retail customer bill by approximately 6.6%. On January 6, 2012, APS and other parties to the general retail rate case entered into an agreement (the "2012 Settlement Agreement") detailing the terms upon which the parties agreed to settle the rate case. On May 15, 2012, the ACC approved the 2012 Settlement Agreement without material modifications.

Settlement Agreement

The 2012 Settlement Agreement provides for a zero net change in base rates, consisting of: (1) a non-fuel base rate increase of \$116.3 million; (2) a fuel-related base rate decrease of \$153.1 million (to be implemented by a change in the base fuel rate for fuel and purchased power costs ("Base Fuel Rate") from \$0.03757 to \$0.03207 per kilowatt hour ("kWh")); and (3) the transfer of cost recovery for certain renewable energy projects from the Arizona Renewable Energy Standard and Tariff ("RES") surcharge to base rates in an estimated amount of \$36.8 million.

APS also agreed not to file its next general rate case before May 31, 2015, and not to request that its next general retail rate increase be effective prior to July 1, 2016. The 2012 Settlement Agreement allows APS to request a change to its base rates during the stay-out period in the event of an extraordinary event that, in the ACC's judgment, requires base rate relief in order to protect the public interest. Nor is APS precluded from seeking rate relief, or any other party to the 2012 Settlement Agreement precluded from petitioning the ACC to examine the reasonableness of APS's rates, in the event of significant regulatory developments that materially impact the financial results expected under the terms of the 2012 Settlement Agreement.

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Other key provisions of the 2012 Settlement Agreement include the following:

- An authorized return on common equity of 10.0%;
- A capital structure comprised of 46.1% debt and 53.9% common equity;
- A test year ended December 31, 2010, adjusted to include plant that is in service as of March 31, 2012;
- Deferral for future recovery or refund of property taxes above or below a specified 2010 test year level caused by changes to the Arizona property tax rate as follows:
 - Deferral of increases in property taxes of 25% in 2012, 50% in 2013 and 75% for 2014 and subsequent years if Arizona property tax rates increase; and
 - Deferral of 100% in all years if Arizona property tax rates decrease;
- A procedure to allow APS to request rate adjustments prior to its next general rate case related to APS's acquisition of additional interests in Units 4 and 5 and the related closure of Units 1-3 of Four Corners (APS made its filing under this provision on December 30, 2013, which would result in an average bill impact to residential customers of approximately 2% if approved as requested);
- Implementation of a Lost Fixed Cost Recovery ("LFCR") rate mechanism to support energy efficiency and distributed renewable generation;
- Modifications to the Environmental Improvement Surcharge ("EIS") to allow for the recovery of carrying costs for capital expenditures associated with government-mandated environmental controls, subject to an existing cents per kWh cap on cost recovery that could produce up to approximately \$5 million in revenues annually;
- Modifications to the Power Supply Adjustor ("PSA"), including the elimination of the 90/10 sharing provision;
- A limitation on the use of the RES surcharge and the Demand Side Management Adjustor Charge ("DSMAC") to recoup capital expenditures not required under the terms of APS's 2009 retail rate case settlement agreement (the "2009 Settlement Agreement");
- Allowing a negative credit that existed in the PSA rate to continue until February 2013, rather than being reset on the anticipated July 1, 2012 rate effective date;
- Modification of the transmission cost adjustor ("TCA") to streamline the process for future transmission-related rate changes; and
- Implementation of various changes to rate schedules, including the adoption of an experimental "buy-through" rate that could allow certain large commercial and industrial customers to select alternative sources of generation to be supplied by APS.

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The 2012 Settlement Agreement was approved by the ACC on May 15, 2012, with new rates effective on July 1, 2012. This accomplished a goal set by the parties to the 2009 Settlement Agreement to process subsequent rate cases within twelve months of sufficiency findings from the ACC staff, which generally occurs within 30 days after the filing of a rate case.

Cost Recovery Mechanisms

APS has received regulatory decisions that allow for more timely recovery of certain costs through the following recovery mechanisms.

Renewable Energy Standard . In 2006, the ACC approved the RES. Under the RES, electric utilities that are regulated by the ACC must supply an increasing percentage of their retail electric energy sales from eligible renewable resources, including solar, wind, biomass, biogas and geothermal technologies. In order to achieve these requirements, the ACC allows APS to include a RES surcharge as part of customer bills to recover the approved amounts for use on renewable energy projects. Each year APS is required to file a five-year implementation plan with the ACC and seek approval for funding the upcoming year's RES budget.

On July 12, 2013, APS filed its annual RES implementation plan, covering the 2014-2018 timeframe and requesting a 2014 RES budget of approximately \$143 million. In a final order dated January 7, 2014, the ACC approved the requested budget. Also in 2013, the ACC conducted a hearing to consider APS's proposal to establish compliance with distributed energy requirements by tracking and recording distributed energy, rather than acquiring and retiring renewable energy credits. On February 6, 2014, the ACC established a proceeding to modify the renewable energy rules to establish a process for compliance with the renewable energy requirement that is not based solely on the use of renewable energy credits. On April 4, 2014, ACC staff submitted a proposal outlining various options which could be used to determine compliance with the renewable energy rules. APS filed comments on the proposal and is awaiting the ACC's selection of a proposal and modification of the rules to implement such proposal.

In accordance with the ACC's decision on the 2014 RES plan, on April 15, 2014, APS filed an application with the ACC requesting permission to build an additional 20 MW of APS-owned utility scale solar under the AZ Sun Program. In a subsequent filing, APS also offered an alternative proposal to replace the 20 MW of utility scale solar with 20 MW of APS-owned residential solar.

On July 1, 2014, APS filed its 2015 RES implementation plan and proposed a RES budget of approximately \$154 million.

Demand Side Management Adjustor Charge . The ACC Electric Energy Efficiency Standards require APS to submit a Demand Side Management Implementation Plan ("DSM Plan") for review by and approval of the ACC.

On June 1, 2012, APS filed its 2013 DSM Plan. In 2013, the standards required APS to achieve cumulative energy savings equal to 5% of its 2012 retail energy sales. Later in 2012, APS filed a supplement to its plan that included a proposed budget for 2013 of \$87.6 million.

On March 11, 2014, the ACC issued an order approving APS's 2013 DSM Plan. The ACC approved a budget of \$68.9 million for each of 2013 and 2014. The ACC also approved a Resource Savings Initiative that allows APS to count towards compliance with the ACC Electric Energy Efficiency

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Standards, savings for improvements to APS's transmission and delivery system, generation and facilities that have been approved through a DSM Plan. Consistent with the ACC's March 11, 2014 order, APS intends to continue its approved DSM programs in 2015.

On June 27, 2013, the ACC voted to open a new docket investigating whether the Electric Energy Efficiency Rules should be modified. The ACC held a series of three workshops in March and April 2014 to investigate methodologies used to determine cost effective energy efficiency programs, cost recovery mechanisms, incentives, and potential changes to the Electric Energy Efficiency and Resource Planning Rules.

PSA Mechanism and Balance. The PSA provides for the adjustment of retail rates to reflect variations in retail fuel and purchased power costs. The following table shows the changes in the deferred fuel and purchased power regulatory asset for 2014 and 2013 (dollars in millions):

	Six Months Ended June 30,	
	2014	2013
Beginning balance	\$ 21	\$ 73
Deferred fuel and purchased power costs — current period	(1)	(36)
Amounts charged to customers	(19)	(10)
Ending balance	<u>\$ 1</u>	<u>\$ 27</u>

The PSA rate for the PSA year beginning February 1, 2014 is \$0.001557 per kWh, as compared to \$0.001329 per kWh for the prior year. This new rate is comprised of a forward component of \$0.001277 per kWh and a historical component of \$0.000280 per kWh. Any uncollected (overcollected) deferrals during the 2014 PSA year will be included in the calculation of the PSA rate for the PSA year beginning February 1, 2015.

Transmission Rates, Transmission Cost Adjustor and Other Transmission Matters . In July 2008, the United States Federal Regulatory Commission ("FERC") approved an Open Access Transmission Tariff for APS to move from fixed rates to a formula rate-setting methodology in order to more accurately reflect and recover the costs that APS incurs in providing transmission services. A large portion of the rate represents charges for transmission services to serve APS's retail customers ("Retail Transmission Charges"). In order to recover the Retail Transmission Charges, APS was previously required to file an application with, and obtain approval from, the ACC to reflect changes in Retail Transmission Charges through the TCA. Under the terms of the 2012 Settlement Agreement (discussed above), however, an adjustment to rates to recover the Retail Transmission Charges will be made annually each June 1 and will go into effect automatically unless suspended by the ACC.

The formula rate is updated each year effective June 1 on the basis of APS's actual cost of service, as disclosed in APS's FERC Form 1 report for the previous fiscal year. Items to be updated include actual capital expenditures made as compared with previous projections, transmission revenue credits and other items. The resolution of proposed adjustments can result in significant volatility in the revenues to be collected. APS reviews the proposed formula rate filing amounts with the ACC staff. Any items or adjustments which are not agreed to by APS and the ACC staff can remain in dispute until settled or litigated at FERC. Settlement or litigated resolution of disputed issues could require an extended period of time and could have a significant effect on the Retail Transmission Charge because

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any adjustment, though applied prospectively, may be calculated to account for previously over- or under-collected amounts.

Effective June 1, 2014, APS's annual wholesale transmission rates for all users of its transmission system increased by approximately \$5.9 million for the twelve-month period beginning June 1, 2014 in accordance with the FERC-approved formula. An adjustment to APS's retail rates to recover FERC-approved transmission charges went into effect automatically on June 1, 2014.

Lost Fixed Cost Recovery Mechanism . The LFCR mechanism permits APS to recover on an after-the-fact basis a portion of its fixed costs that would otherwise have been collected by APS in the kWh sales lost due to APS energy efficiency programs and to distributed generation such as rooftop solar arrays. The fixed costs recoverable by the LFCR mechanism were established in the 2012 Settlement Agreement and amount to approximately 3.1 cents per residential kWh lost and 2.3 cents per non-residential kWh lost. The LFCR adjustment has a year-over-year cap of 1% of retail revenues. Any amounts left unrecovered in a particular year because of this cap can be carried over for recovery in a future year. The kWh's lost from energy efficiency are based on a third-party evaluation of APS's energy efficiency programs. Distributed generation sales losses are determined from the metered output from the distributed generation units or if metering is unavailable, through accepted estimating techniques.

APS filed its first LFCR adjustment on January 15, 2013 and will file for a LFCR adjustment every January thereafter. On February 12, 2013, the ACC approved a LFCR adjustment of \$5.1 million, representing a pro-rated amount for 2012 since the 2012 Settlement Agreement went into effect on July 1, 2012. APS filed its 2014 annual LFCR adjustment on January 15, 2014, requesting a LFCR adjustment of \$25.3 million, effective March 1, 2014. The ACC approved APS's LFCR adjustment without change on March 11, 2014, which became effective April 1, 2014.

Deregulation

On May 9, 2013, the ACC voted to re-examine the facilitation of a deregulated retail electric market in Arizona. The ACC subsequently opened a docket for this matter and received comments from a number of interested parties on the considerations involved in establishing retail electric deregulation in the state. One of these considerations is whether various aspects of a deregulated market, including setting utility rates on a "market" basis, would be consistent with the requirements of the Arizona Constitution. On September 11, 2013, after receiving legal advice from the ACC staff, the ACC voted 4-1 to close the current docket and await full Constitutional authority before any further examination of this matter. The motion approved by the ACC also included opening one or more new dockets in the future to explore options to offer more rate choices to customers and innovative changes within the existing cost-of-service regulatory model that could include elements of competition. The ACC opened a new docket on November 4, 2013 to explore technological advances and innovative changes within the electric utility industry. Workshops in this docket are being held in 2014.

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Net Metering

On July 12, 2013, APS filed an application with the ACC proposing a solution to fix the cost shift brought by the current net metering rules. On December 3, 2013, the ACC issued its order on APS's net metering proposal. The ACC instituted a charge on customers who install rooftop solar panels after December 31, 2013, and directed APS to provide quarterly reports on the pace of rooftop solar adoption to assist the ACC in considering further increases. The charge of \$0.70 per kilowatt became effective on January 1, 2014, and is estimated to collect \$4.90 per month from a typical future rooftop solar customer to help pay for their use of the electricity grid. The new policy will be in effect until the next APS rate case.

In making its decision, the ACC determined that the current net metering program creates a cost shift, causing non-solar utility customers to pay higher rates to cover the costs of maintaining the electrical grid. ACC staff and the state's Residential Utility Consumer Office, among other organizations, also agreed that a cost shift exists. The fixed charge does not increase APS's revenue because it is credited to the LFCR, but it will modestly reduce the impact of the cost shift on non-solar customers. The ACC acknowledged that the new charge addresses only a portion of the cost shift. The ACC also required APS to file its next rate case in June 2015, the earliest date contemplated in the 2012 Settlement Agreement.

In May 2014, the ACC began conducting a series of workshops to, among other things, evaluate the role and value of the electric grid as it relates to rooftop solar and other issues regarding net metering.

On July 22, 2014, the ACC Commissioners voted to reopen the December 2013 net metering decision for the limited purpose of deciding whether to eliminate the requirement that APS file its next rate case in June 2015. The vote included a request that parties comment in the docket about their thoughts on removing the filing date requirement and on the process for the broader discussion regarding rate design. The Commissioners stated that they plan to vote at an August 2014 open meeting on whether to eliminate the requirement that APS file a rate case in June 2015.

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Four Corners

On December 30, 2013, APS purchased SCE's 48% ownership interest in each of Units 4 and 5 of Four Corners. The 2012 Settlement Agreement includes a procedure to allow APS to request rate adjustments prior to its next general rate case related to APS's acquisition of the additional interests in Units 4 and 5 and the related closure of Units 1-3 of Four Corners. APS made its filing under this provision on December 30, 2013. If approved, these adjustments would result in an average bill impact to residential customers of approximately 2%. This includes the deferral for future recovery of all non-fuel operating costs for the acquired SCE interest in Four Corners, net of the non-fuel operating costs savings resulting from the closure of Units 1-3 from the date of closing of the purchase. The 2012 Settlement Agreement also provides for deferral for future recovery of all unrecovered costs incurred in connection with the closure of Units 1-3. The deferral balance related to the acquisition of SCE's interest in Units 4 and 5 and the closure of Units 1-3 was \$55 million as of June 30, 2014. ACC staff and other intervenors have filed testimony in this matter with the ACC, and APS has filed rebuttal testimony. Both ACC staff and the Residential Utility Customer Office have proposed adjustments to the return to be applied to the Four Corners investments until APS's next rate case, which would result in a lower level of recovery than proposed by APS. A hearing on this matter is scheduled to begin August 4, 2014, and we anticipate a decision by the end of 2014. APS cannot predict the outcome of this matter.

As part of APS's acquisition of SCE's interest in Units 4 and 5, APS and SCE agreed, via a "Transmission Termination Agreement," that upon closing of the acquisition, the companies would terminate an existing transmission agreement ("Transmission Agreement") between the parties that provides transmission capacity on a system (the "Arizona Transmission System") for SCE to transmit its portion of the output from Four Corners to California. APS previously submitted a request to FERC related to this termination, which resulted in a FERC order denying rate recovery of \$40 million that APS agreed to pay SCE associated with the termination. APS and SCE negotiated an alternate arrangement under which SCE would assign its 1,555 MW capacity rights over the Arizona Transmission System to third-parties, including 300 MW to APS's marketing and trading group. However, this alternative arrangement was not approved by FERC. In late March 2014, APS and SCE filed requests for rehearing with FERC. We are unable to predict the timing or outcome of these requests. Although APS and SCE continue to evaluate potential paths forward, it is possible that the terms of the Transmission Termination Agreement may again control. As we previously disclosed, APS believes that the original denial by FERC of rate recovery under the Transmission Termination Agreement constitutes the failure of a condition that relieves APS of its obligations under that agreement. If APS and SCE were unable to determine a resolution through negotiation, the Transmission Termination Agreement requires that disputes be resolved through arbitration. APS is unable to predict the outcome of this matter if it proceeds to arbitration. If the matter proceeds to arbitration and APS is not successful, APS may be required to record a charge to its results of operations.

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Regulatory Assets and Liabilities

The detail of regulatory assets is as follows (dollars in millions):

	Remaining Amortization Period	June 30, 2014		December 31, 2013	
		Current	Non-Current	Current	Non-Current
Pension and other postretirement benefits	(a)	\$ —	\$ 342	\$ —	\$ 314
Income taxes — allowance for funds used during construction (“AFUDC”) equity	2043	4	108	4	105
Deferred fuel and purchased power — mark-to-market (Note 7)	2016	—	17	5	29
Transmission vegetation management	2016	9	9	9	14
Coal reclamation	2038	8	14	8	18
Palo Verde VIEs (Note 6)	2046	—	43	—	41
Deferred compensation	2036	—	36	—	34
Deferred fuel and purchased power (b) (c)	2015	1	—	21	—
Tax expense of Medicare subsidy	2023	2	15	2	15
Loss on reacquired debt	2034	1	17	1	17
Income taxes — investment tax credit basis adjustment	2043	2	47	1	39
Pension and other postretirement benefits deferral	2015	8	—	8	4
Four Corners cost deferral	2024	—	55	—	37
Lost fixed cost recovery (b)	2015	34	—	25	—
Transmission cost adjustor (b)	2015	5	—	8	2
Retired power plant costs	2020	3	16	3	18
Deferred property taxes	(d)	—	24	—	11
Other	Various	1	12	2	14
Total regulatory assets (e)		\$ 78	\$ 755	\$ 97	\$ 712

(a) This asset represents the future recovery of pension and other postretirement benefit obligations through retail rates. If these costs are disallowed by the ACC, this regulatory asset would be charged to Other Comprehensive Income (“OCI”) and result in lower future revenues. See Note 4 for further discussion.

(b) See “Cost Recovery Mechanisms” discussion above.

(c) Subject to a carrying charge.

(d) Per the provision of the 2012 Settlement Agreement.

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- (e) There are no regulatory assets for which the ACC has allowed recovery of costs, but not allowed a return by exclusion from rate base. FERC rates are set using a formula rate as described in “Transmission Rates, Transmission Cost Adjustor and Other Transmission Matters.”

The detail of regulatory liabilities is as follows (dollars in millions):

	Remaining Amortization Period	June 30, 2014		December 31, 2013	
		Current	Non-Current	Current	Non-Current
Removal costs	(a)	\$ 29	\$ 293	\$ 28	\$ 303
Asset retirement obligations	(a)	—	274	—	266
Renewable energy standard (b)	2015	35	11	33	15
Income taxes — change in rates	2043	—	73	—	74
Spent nuclear fuel	2047	5	36	6	36
Deferred gains on utility property	2019	2	9	2	10
Income taxes — deferred investment tax credit	2043	3	94	3	79
Demand side management (b)	2015	35	—	27	—
Deferred fuel and purchased power — mark to market (Note 7)	2015	4	—	—	—
Other	Various	1	19	—	18
Total regulatory liabilities		\$ 114	\$ 809	\$ 99	\$ 801

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- (a) In accordance with regulatory accounting guidance, APS accrues for removal costs for its regulated assets, even if there is no legal obligation for removal.
 (b) See “Cost Recovery Mechanisms” discussion above.

4. Retirement Plans and Other Benefits

Pinnacle West sponsors a qualified defined benefit and account balance pension plan, a non-qualified supplemental excess benefit retirement plan, and other postretirement benefit plans for the employees of Pinnacle West and our subsidiaries. Pinnacle West uses a December 31 measurement date for its pension and other postretirement benefit plans. The market-related value of our plan assets is their fair value at the measurement date.

Certain pension and other postretirement benefit costs in excess of amounts recovered in electric retail rates were deferred in 2011 and 2012 as a regulatory asset for future recovery, pursuant to APS’s 2009 retail rate case settlement. Pursuant to this order, we began amortizing the regulatory asset over three years beginning in July 2012. We amortized approximately \$2 million and \$4 million for the three and six months ended June 30, 2014 and 2013, respectively. The following table provides details of the plans’ net periodic benefit costs and the portion of these costs charged to expense (including administrative costs and excluding amounts capitalized as overhead construction, billed to electric plant participants or charged or amortized to the regulatory asset) (dollars in millions):

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	Pension Benefits				Other Benefits			
	Three Months Ended June 30, 2014		Six Months Ended June 30, 2014		Three Months Ended June 30, 2014		Six Months Ended June 30, 2014	
	2014	2013	2014	2013	2014	2013	2014	2013
Service cost — benefits earned during the period	\$ 12	\$ 15	\$ 27	\$ 32	\$ 5	\$ 6	\$ 9	\$ 12
Interest cost on benefit obligation	33	28	65	56	11	10	23	20
Expected return on plan assets	(39)	(36)	(79)	(73)	(13)	(12)	(25)	(23)
Amortization of:								
Prior service cost	—	—	—	1	—	—	—	—
Net actuarial loss	3	10	5	20	—	3	—	6
Net periodic benefit cost	<u>\$ 9</u>	<u>\$ 17</u>	<u>\$ 18</u>	<u>\$ 36</u>	<u>\$ 3</u>	<u>\$ 7</u>	<u>\$ 7</u>	<u>\$ 15</u>
Portion of cost charged to expense	<u>\$ 5</u>	<u>\$ 9</u>	<u>\$ 11</u>	<u>\$ 19</u>	<u>\$ 3</u>	<u>\$ 4</u>	<u>\$ 5</u>	<u>\$ 9</u>

Contributions

The minimum contributions for the pension plan total \$141 million for the next three years under the Moving Ahead for Progress in the 21st Century Act (zero in 2014, \$19 million in 2015, and \$122 million in 2016). However, we expect to make voluntary contributions totaling up to \$300 million for the next three years (\$175 million in 2014, of which \$140 million was already contributed through July 2014, up to \$100 million in 2015, and up to \$25 million in 2016). The contributions to our other postretirement benefit plans for 2014, 2015 and 2016 are expected to be approximately \$10 million each year.

5. Income Taxes

During the first quarter of 2014, a \$135 million cash refund was received from the Internal Revenue Service (“IRS”) related to tax returns for the years ended December 31, 2008 and 2009. This refund was classified as a current income tax receivable at December 31, 2013.

Net Income associated with the Palo Verde sale leaseback variable interest entities is not subject to tax (see Note 6). As a result, there is no income tax expense associated with the VIEs recorded on the Condensed Consolidated Statements of Income.

In January 2014, we prospectively adopted guidance requiring unrecognized tax benefits to be presented as a reduction to any available deferred income tax asset for a net operating loss, a similar tax loss, or a tax credit carryforward. As a result of this guidance, \$19 million and \$5 million of unrecognized tax benefits were recorded as a reduction to net current deferred income tax assets on the Condensed Consolidated Balance Sheets and APS Condensed Consolidated Balance Sheets, respectively as of June 30, 2014.

As of June 30, 2014, the tax year ended December 31, 2010 and all subsequent tax years remain subject to examination by the IRS. With few exceptions, we are no longer subject to state income tax examinations by tax authorities for years before 2008.

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6. Palo Verde Sale Leaseback Variable Interest Entities

In 1986, APS entered into agreements with three separate VIE lessor trusts in order to sell and lease back interests in Palo Verde Unit 2 and related common facilities. APS will pay approximately \$49 million per year during 2014 and 2015 related to these leases. The lease agreements include fixed rate renewal periods, which give APS the ability to utilize the assets for a significant portion of the assets' economic life, and therefore provide APS with the power to direct activities of the VIEs that most significantly impact the VIEs' economic performance. Predominately due to the fixed rate renewal periods, APS has been deemed the primary beneficiary of these VIEs and therefore consolidates the VIEs.

On July 7, 2014, APS notified the lessor trust entities of APS's intent to exercise the fixed rate lease renewal options. The length of the renewal options will result in APS retaining the assets through 2023 under one lease and 2033 under the other two leases. APS will be required to make lease payments of approximately \$23 million annually for the period 2016 through 2023, and about \$16 million annually for the period 2024 through 2033. At the end of the lease renewal periods, APS will have the option to purchase the leased assets at their fair market value, extend the leases for up to two years, or return the assets to the lessors.

As a result of consolidation, we eliminate rent expense and recognize depreciation and interest expense, resulting in an increase in net income for the three and six months ended June 30, 2014 of \$9 million and \$18 million, respectively, and for the three and six months ended June 30, 2013 of \$8 million and \$17 million, respectively, entirely attributable to the noncontrolling interests. Income attributable to Pinnacle West shareholders remains the same. Consolidation of these VIEs also results in changes to our Condensed Consolidated Statements of Cash Flows, but does not impact net cash flows.

Our Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013 include the following amounts relating to the VIEs (in millions):

	June 30, 2014	December 31, 2013
Palo Verde sale leaseback property plant and equipment, net of accumulated depreciation	\$ 123	\$ 125
Current maturities of long-term debt	37	26
Long-term debt excluding current maturities	1	13
Equity — Noncontrolling interests	148	146

Assets of the VIEs are restricted and may only be used to settle the VIEs' debt obligations and for payment to the noncontrolling interest holders. Other than the VIEs' assets reported on our consolidated financial statements, the creditors of the VIEs have no other recourse to the assets of APS or Pinnacle West, except in certain circumstances such as a default by APS under the leases.

APS is exposed to losses relating to these VIEs upon the occurrence of certain events that APS does not consider to be reasonably likely to occur. Under certain circumstances (for example, the United States Nuclear Regulatory Commission ("NRC") issuing specified violation orders with respect to Palo Verde or the occurrence of specified nuclear events), APS would be required to make specified payments to the VIEs' noncontrolling equity participants, assume the VIEs' debt, and take title to the leased Unit 2 interests, which, if appropriate, may be required to be written down in value. If such an event had

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occurred as of June 30, 2014, APS would have been required to pay the noncontrolling equity participants approximately \$138 million and assume \$38 million of debt. Since APS consolidates these VIEs, the debt APS would be required to assume is already reflected in our Condensed Consolidated Balance Sheets.

For regulatory ratemaking purposes, the leases will continue to be treated as operating leases and, as a result, we have recorded a regulatory asset relating to the arrangements.

7. Derivative Accounting

We are exposed to the impact of market fluctuations in the commodity price and transportation costs of electricity, natural gas, coal, emissions allowances and in interest rates. We manage risks associated with market volatility by utilizing various physical and financial derivative instruments, including futures, forwards, options and swaps. As part of our overall risk management program, we may use derivative instruments to hedge purchases and sales of electricity and fuels. Derivative instruments that meet certain hedge accounting criteria may be designated as cash flow hedges and are used to limit our exposure to cash flow variability on forecasted transactions. The changes in market value of such instruments have a high correlation to price changes in the hedged transactions. We also enter into derivative instruments for economic hedging purposes. While we believe the economic hedges mitigate exposure to fluctuations in commodity prices, these instruments have not been designated as accounting hedges. Contracts that have the same terms (quantities, delivery points and delivery periods) and for which power does not flow are netted, which reduces both revenues and fuel and purchased power costs in our Condensed Consolidated Statements of Income, but does not impact our financial condition, net income or cash flows.

On June 1, 2012, we elected to discontinue cash flow hedge accounting treatment for the significant majority of our contracts that had previously been designated as cash flow hedges. This discontinuation is due to changes in PSA recovery (see Note 3), which now allows for 100% deferral of the unrealized gains and losses relating to these contracts. For those contracts that were de-designated, all changes in fair value after May 31, 2012 are no longer recorded through OCI, but are deferred through the PSA. The amounts previously recorded in accumulated OCI relating to these instruments will remain in accumulated OCI, and will transfer to earnings in the same period or periods during which the hedged transaction affects earnings or sooner if we determine it is probable that the forecasted transaction will not occur. When amounts have been reclassified from accumulated OCI to earnings, they will be subject to deferral in accordance with the PSA. Cash flow hedge accounting treatment will continue for a limited number of contracts that are not subject to PSA recovery.

Our derivative instruments, excluding those qualifying for a scope exception, are recorded on the balance sheet as an asset or liability and are measured at fair value. See Note 12 for a discussion of fair value measurements. Derivative instruments may qualify for the normal purchases and normal sales scope exception if they require physical delivery and the quantities represent those transacted in the normal course of business. Derivative instruments qualifying for the normal purchases and sales scope exception are accounted for under the accrual method of accounting and excluded from our derivative instrument discussion and disclosures below.

Hedge effectiveness is the degree to which the derivative instrument contract and the hedged item are correlated and is measured based on the relative changes in fair value of the derivative instrument contract and the hedged item over time. We assess hedge effectiveness both at inception and on a continuing basis. These assessments exclude the time value of certain options. For accounting

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hedges that are deemed an effective hedge, the effective portion of the gain or loss on the derivative instrument is reported as a component of OCI and reclassified into earnings in the same period during which the hedged transaction affects earnings. We recognize in current earnings, subject to the PSA, the gains and losses representing hedge ineffectiveness, and the gains and losses on any hedge components which are excluded from our effectiveness assessment. As cash flow hedge accounting has been discontinued for the significant majority of our contracts, after May 31, 2012, effectiveness testing is no longer being performed for these contracts.

For its regulated operations, APS defers for future rate treatment 100% of the unrealized gains and losses on derivatives pursuant to the PSA mechanism that would otherwise be recognized in income. Realized gains and losses on derivatives are deferred in accordance with the PSA to the extent the amounts are above or below the Base Fuel Rate (see Note 3). Gains and losses from derivatives in the following tables represent the amounts reflected in income before the effect of PSA deferrals.

As of June 30, 2014, we had the following outstanding gross notional volume of derivatives, which represent both purchases and sales (does not reflect net position):

Commodity	Quantity	
Power	5,038	GWh
Gas	132	Billion cubic feet

Gains and Losses from Derivative Instruments

The following table provides information about gains and losses from derivative instruments in designated cash flow accounting hedging relationships during the three and six months ended June 30, 2014 and 2013 (dollars in thousands):

Commodity Contracts	Financial Statement Location	Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
Gain (loss) Recognized in OCI on Derivative Instruments (Effective Portion)	OCI — derivative instruments	\$ 66	\$ (265)	\$ 243	\$ (169)
Loss Reclassified from Accumulated OCI into Income (Effective Portion Realized) (a)	Fuel and purchased power (b)	(3,216)	(7,146)	(7,654)	(15,499)

(a) During the three and six months ended June 30, 2014 and 2013, we had no amounts reclassified from accumulated OCI to earnings related to discontinued cash flow hedges.

(b) Amounts are before the effect of PSA deferrals.

During the next twelve months, we estimate that a net loss of \$17 million before income taxes will be reclassified from accumulated OCI as an offset to the effect of market price changes for the related hedged transactions. In accordance with the PSA, substantially all of these amounts will be recorded as either a regulatory asset or liability and have no immediate effect on earnings.

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The following table provides information about gains and losses from derivative instruments not designated as accounting hedging instruments during the three and six months ended June 30, 2014 and 2013 (dollars in thousands):

Commodity Contracts	Financial Statement Location	Three Months Ended June 30,		Six Months Ended June 30,	
		2014	2013	2014	2013
Net Gain Recognized in Income	Operating revenues (a)	\$ 155	\$ 322	\$ 63	\$ 205
Net Gain (loss) Recognized in Income	Fuel and purchased power (a)	4,805	(27,758)	22,912	(10,408)
Total		<u>\$ 4,960</u>	<u>\$ (27,436)</u>	<u>\$ 22,975</u>	<u>\$ (10,203)</u>

(a) Amounts are before the effect of PSA deferrals.

Derivative Instruments in the Condensed Consolidated Balance Sheets

Our derivative transactions are typically executed under standardized or customized agreements, which include collateral requirements and, in the event of a default, would allow for the netting of positive and negative exposures associated with a single counterparty. Agreements that allow for the offsetting of positive and negative exposures associated with a single counterparty are considered master netting arrangements. Transactions with counterparties that have master netting arrangements are offset and reported net on the Condensed Consolidated Balance Sheets. Transactions that do not allow for offsetting of positive and negative positions are reported gross on the Condensed Consolidated Balance Sheets.

We do not offset counterparty's current derivative contracts with the counterparty's non-current derivative contracts, although our master netting arrangements would allow current and non-current positions to be offset in the event of a default. Additionally, in the event of a default, our master netting arrangements would allow for the offsetting of all transactions executed under the master netting arrangement. These types of transactions may include non-derivative instruments, derivatives qualifying for scope exceptions, trade receivables and trade payables arising from settled positions, and other forms of non-cash collateral (such as letters of credit). These types of transactions are excluded from the offsetting tables presented below.

The significant majority of our derivative instruments are not currently designated as hedging instruments. The Condensed Consolidated Balance Sheets as of June 30, 2014 and December 31, 2013, include gross liabilities of \$4 million and \$5 million, respectively, of derivative instruments designated as hedging instruments.

The following tables provide information about the fair value of our risk management activities reported on a gross basis, and the impacts of offsetting as of June 30, 2014 and December 31, 2013. These amounts relate to commodity contracts and are located in the assets and liabilities from risk management activities lines of our Condensed Consolidated Balance Sheets.

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As of June 30, 2014: (dollars in thousands)	Gross Recognized Derivatives (a)	Amounts Offset (b)	Net Recognized Derivatives	Other (c)	Amount Reported on Balance Sheet
Current Assets	\$ 26,941	\$ (12,125)	\$ 14,816	\$ 604	\$ 15,420
Investments and Other Assets	23,824	(3,753)	20,071	1,510	21,581
Total Assets	<u>50,765</u>	<u>(15,878)</u>	<u>34,887</u>	<u>2,114</u>	<u>37,001</u>
Current Liabilities	(40,376)	26,367	(14,009)	(7,493)	(21,502)
Deferred Credits and Other	(54,278)	30,911	(23,367)	—	(23,367)
Total Liabilities	<u>(94,654)</u>	<u>57,278</u>	<u>(37,376)</u>	<u>(7,493)</u>	<u>(44,869)</u>
Total	<u><u>\$ (43,889)</u></u>	<u><u>\$ 41,400</u></u>	<u><u>\$ (2,489)</u></u>	<u><u>\$ (5,379)</u></u>	<u><u>\$ (7,868)</u></u>

- (a) All of our gross recognized derivative instruments were subject to master netting arrangements.
- (b) Includes cash collateral provided to counterparties of \$41,400.
- (c) Represents option premiums, and cash collateral and margin that is not subject to offsetting. Amounts relate to non-derivative instruments, derivatives qualifying for scope exceptions, or collateral and margin posted in excess of the recognized derivative instrument. Includes cash collateral received from counterparties of \$7,493, and cash margin provided to counterparties of \$604.

As of December 31, 2013: (dollars in thousands)	Gross Recognized Derivatives (a)	Amounts Offset (b)	Net Recognized Derivatives	Other (c)	Amount Reported on Balance Sheet
Current Assets	\$ 24,587	\$ (7,425)	\$ 17,162	\$ 7	\$ 17,169
Investments and Other Assets	25,364	(1,549)	23,815	—	23,815
Total Assets	<u>49,951</u>	<u>(8,974)</u>	<u>40,977</u>	<u>7</u>	<u>40,984</u>
Current Liabilities	(50,540)	26,166	(24,374)	(7,518)	(31,892)
Deferred Credits and Other	(72,123)	1,808	(70,315)	—	(70,315)
Total Liabilities	<u>(122,663)</u>	<u>27,974</u>	<u>(94,689)</u>	<u>(7,518)</u>	<u>(102,207)</u>
Total	<u><u>\$ (72,712)</u></u>	<u><u>\$ 19,000</u></u>	<u><u>\$ (53,712)</u></u>	<u><u>\$ (7,511)</u></u>	<u><u>\$ (61,223)</u></u>

- (a) All of our gross recognized derivative instruments were subject to master netting arrangements.
- (b) Includes cash collateral provided to counterparties of \$19,000.
- (c) Represents cash collateral and margin that is not subject to offsetting. Amounts relate to non-derivative instruments, derivatives qualifying for scope exceptions, or collateral and margin posted in excess of the recognized derivative instrument. Includes cash collateral received from counterparties of \$7,518, and cash margin provided to counterparties of \$7.

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Credit Risk and Credit Related Contingent Features

We are exposed to losses in the event of nonperformance or nonpayment by counterparties. We have risk management contracts with many counterparties, including two counterparties for which our exposure represents approximately 77% of Pinnacle West's \$37 million of risk management assets as of June 30, 2014. This exposure relates to long-term traditional wholesale contracts with counterparties that have high credit quality. Our risk management process assesses and monitors the financial exposure of all counterparties. Despite the fact that the great majority of trading counterparties' debt is rated as investment grade by the credit rating agencies, there is still a possibility that one or more of these companies could default, resulting in a material impact on consolidated earnings for a given period. Counterparties in the portfolio consist principally of financial institutions, major energy companies, municipalities and local distribution companies. We maintain credit policies that we believe minimize overall credit risk to within acceptable limits. Determination of the credit quality of our counterparties is based upon a number of factors, including credit ratings and our evaluation of their financial condition. To manage credit risk, we employ collateral requirements and standardized agreements that allow for the netting of positive and negative exposures associated with a single counterparty. Valuation adjustments are established representing our estimated credit losses on our overall exposure to counterparties.

Certain of our derivative instrument contracts contain credit-risk-related contingent features including, among other things, investment grade credit rating provisions, credit-related cross-default provisions, and adequate assurance provisions. Adequate assurance provisions allow counterparty with reasonable grounds for uncertainty to demand additional collateral based on subjective events and/or conditions. For those derivative instruments in a net liability position, with investment grade credit contingencies, the counterparties could demand additional collateral if our debt credit rating were to fall below investment grade (below BBB- for Standard & Poor's or Fitch or Baa3 for Moody's).

The following table provides information about our derivative instruments that have credit-risk-related contingent features at June 30, 2014 (dollars in millions):

	June 30, 2014
Aggregate Fair Value of Derivative Instruments in a Net Liability Position	\$ 95
Cash Collateral Posted	41
Additional Cash Collateral in the Event Credit-Risk-Related Contingent Features were Fully Triggered	43
(a)	43

(a) This amount is after counterparty netting and includes those contracts which qualify for scope exceptions, which are excluded from the derivative details above.

We also have energy-related non-derivative instrument contracts with investment grade credit-related contingent features, which could also require us to post additional collateral of approximately \$175 million if our debt credit ratings were to fall below investment grade.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

8. Changes in Equity

The following tables show Pinnacle West's changes in shareholders' equity and changes in equity of noncontrolling interests for the three and six months ended June 30, 2014 and 2013 (dollars in thousands):

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Common Shareholders	Noncontrolling Interests	Total	Common Shareholders	Noncontrolling Interests	Total
Beginning balance, April 1	\$ 4,222,786	\$ 154,915	\$ 4,377,701	\$ 4,014,455	\$ 137,875	\$ 4,152,330
Net income	132,458	8,926	141,384	131,207	8,391	139,598
Other comprehensive income	685	—	685	3,474	—	3,474
Total comprehensive income	133,143	8,926	142,069	134,681	8,391	143,072
Issuance of capital stock	2,280	—	2,280	2,363	—	2,363
Reissuance of treasury stock — net	654	—	654	366	—	366
Other (primarily stock compensation)	292	—	292	185	—	185
Dividends on common stock	(125,265)	—	(125,265)	(119,885)	—	(119,885)
Net capital activities by noncontrolling interests	—	(15,869)	(15,869)	—	(9,196)	(9,196)
Ending balance, June 30	<u>\$ 4,233,890</u>	<u>\$ 147,972</u>	<u>\$ 4,381,862</u>	<u>\$ 4,032,165</u>	<u>\$ 137,070</u>	<u>\$ 4,169,235</u>
 Six Months Ended June 30, 2014						
	Common Shareholders	Noncontrolling Interests	Total	Common Shareholders	Noncontrolling Interests	Total
Beginning balance, January 1	\$ 4,194,470	\$ 145,990	\$ 4,340,460	\$ 3,972,806	\$ 129,483	\$ 4,102,289
Net income	148,224	17,851	166,075	155,651	16,783	172,434
Other comprehensive income	3,836	—	3,836	9,551	—	9,551
Total comprehensive income	152,060	17,851	169,911	165,202	16,783	181,985
Issuance of capital stock	4,872	—	4,872	4,937	—	4,937
Reissuance (purchase) of treasury stock — net	4,119	—	4,119	(5,905)	—	(5,905)
Other (primarily stock compensation)	3,634	—	3,634	15,010	—	15,010
Dividends on common stock	(125,265)	—	(125,265)	(119,885)	—	(119,885)
Net capital activities by noncontrolling interests	—	(15,869)	(15,869)	—	(9,196)	(9,196)
Ending balance, June 30	<u>\$ 4,233,890</u>	<u>\$ 147,972</u>	<u>\$ 4,381,862</u>	<u>\$ 4,032,165</u>	<u>\$ 137,070</u>	<u>\$ 4,169,235</u>

**PINNACLE WEST CAPITAL CORPORATION
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9. Commitments and Contingencies

Palo Verde Nuclear Generating Station

Spent Nuclear Fuel and Waste Disposal

On December 19, 2012, APS, acting on behalf of itself and the participant owners of Palo Verde, filed a breach of contract lawsuit against the United States Department of Energy (“DOE”) in the United States Court of Federal Claims (“Court of Federal Claims”). The lawsuit seeks to recover damages incurred due to DOE’s breach of the Contract for Disposal of Spent Nuclear Fuel and/or High Level Radioactive Waste (“Standard Contract”) for failing to accept Palo Verde spent nuclear fuel and high level waste from January 1, 2007 through June 30, 2011, as it was required to do pursuant to the terms of the Standard Contract and the Nuclear Waste Protection Act. This lawsuit is currently pending in the Court of Federal Claims.

Nuclear Insurance

Public liability for incidents at nuclear power plants is governed by the Price-Anderson Nuclear Industries Indemnity Act (“Price-Anderson Act”), which limits the liability of nuclear reactor owners to the amount of insurance available from both commercial sources and an industry retrospective payment plan. In accordance with the Price-Anderson Act, the Palo Verde participants are insured against public liability for a nuclear incident up to \$13.6 billion per occurrence. Palo Verde maintains the maximum available nuclear liability insurance in the amount of \$375 million, which is provided by American Nuclear Insurers. The remaining balance of \$13.2 billion of liability coverage is provided through a mandatory industry-wide retrospective assessment program. If losses at any nuclear power plant covered by the program exceed the accumulated funds, APS could be assessed retrospective premium adjustments. The maximum retrospective premium assessment per reactor under the program for each nuclear liability incident is approximately \$127.3 million, subject to an annual limit of \$19 million per incident, to be periodically adjusted for inflation. Based on APS’s ownership interest in the three Palo Verde units, APS’s maximum potential retrospective premium assessment per incident for all three units is approximately \$111 million, with a maximum annual retrospective premium assessment of approximately \$16.5 million.

The Palo Verde participants maintain “all risk” (including nuclear hazards) insurance for property damage to, and decontamination of, property at Palo Verde in the aggregate amount of \$2.75 billion, a substantial portion of which must first be applied to stabilization and decontamination. APS has also secured insurance against portions of any increased cost of replacement generation or purchased power and business interruption resulting from a sudden and unforeseen accidental outage of any of the three units. The property damage, decontamination, and replacement power coverages are provided by Nuclear Electric Insurance Limited (“NEIL”). APS is subject to retrospective premium assessments under all NEIL policies if NEIL’s losses in any policy year exceed accumulated funds. The maximum amount APS could incur under the current NEIL policies totals approximately \$20 million for each retrospective premium assessment declared by NEIL’s Board of Directors due to losses. In addition, NEIL policies contain rating triggers that would result in APS providing approximately \$54 million of collateral assurance within 20 business days of a rating downgrade to non-investment grade. The insurance coverage discussed in this and the previous paragraph is subject to certain policy conditions, sublimits and exclusions.

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Contractual Obligations

There have been no material changes as of June 30, 2014 outside the normal course of business in contractual obligations from the information provided in our 2013 Form 10-K. See Note 2 for discussion regarding changes in our long-term debt obligations.

On July 7, 2014, APS notified the Palo Verde Sale Leaseback lessor trust entities of APS's intent to exercise fixed rate lease renewal options. Under the extended lease terms, APS will be required to make lease payments to the lessors of approximately \$23 million annually for the period 2016 through 2023, and about \$16 million annually for the period 2024 through 2033. See Note 6.

Superfund-Related Matters

The Comprehensive Environmental Response Compensation and Liability Act ("Superfund") establishes liability for the cleanup of hazardous substances found contaminating the soil, water or air. Those who generated, transported or disposed of hazardous substances at a contaminated site are among those who are potentially responsible parties ("PRPs"). PRPs may be strictly, and often are jointly and severally, liable for clean-up. On September 3, 2003, the United States Environmental Protection Agency ("EPA") advised APS that EPA considers APS to be a PRP in the Motorola 52nd Street Superfund Site, Operable Unit 3 ("OU3") in Phoenix, Arizona. APS has facilities that are within this Superfund site. APS and Pinnacle West have agreed with EPA to perform certain investigative activities of the APS facilities within OU3. In addition, on September 23, 2009, APS agreed with EPA and one other PRP to voluntarily assist with the funding and management of the site-wide groundwater remedial investigation and feasibility study work plan. We estimate that our costs related to this investigation and study will be approximately \$2 million. We anticipate incurring additional expenditures in the future, but because the overall investigation is not complete and ultimate remediation requirements are not yet finalized, at the present time expenditures related to this matter cannot be reasonably estimated.

On August 6, 2013, the Roosevelt Irrigation District ("RID") filed a lawsuit in Arizona District Court against APS and 24 other defendants, alleging that RID's groundwater wells were contaminated by the release of hazardous substances from facilities owned or operated by the defendants. The lawsuit also alleges that, under Superfund laws, the defendants are jointly and severally liable to RID. The allegations against APS arise out of APS's current and former ownership of facilities in and around OU3. We are unable to determine a range of potential losses that are reasonably possible of occurring.

Southwest Power Outage

Regulatory. On September 8, 2011 at approximately 3:30 PM, a 500 kilovolt ("kV") transmission line running between the Hassayampa and North Gila substations in southwestern Arizona tripped out of service due to a fault that occurred at a switchyard operated by APS. Approximately ten minutes after the transmission line went off-line, generation and transmission resources for the Yuma area were lost, resulting in approximately 69,700 APS customers losing service.

Within the same time period that APS's Yuma customers lost service, a series of transmission and generation disruptions occurred across the systems of several utilities that resulted in outages affecting portions of southern Arizona, southern California and northern Mexico. A total of approximately 7,900 MW of firm load and 2.7 million customers were reported to have been affected. Service to all affected APS customers was restored by 9:15 PM on September 8. Service to customers affected by the wider regional outages was restored by approximately 3:25 AM on September 9.

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FERC and the North American Electric Reliability Corporation (“NERC”) conducted a joint inquiry into the outages and, on May 1, 2012, they issued a report (the “Joint Report”) with their analysis and conclusions as to the causes of the events. The report included recommendations to help industry operators prevent similar outages in the future, including increased data sharing and coordination among the western utilities and entities responsible for bulk electric system reliability coordination. The Joint Report did not address potential reliability violations or an assessment of responsibility of the parties involved.

On January 22, 2014, following non-public preliminary investigations, FERC Staff issued a Notice of Alleged Violations naming six entities involved in the event, including APS. FERC Staff alleged that each of the named entities violated varying numbers of NERC Reliability Standards. APS is alleged to have violated seven Reliability Standard Requirements. The allegations of violations were preliminary determinations by FERC Staff and did not constitute findings by FERC itself that any violations had occurred.

On July 7, 2014, FERC approved a Stipulation and Consent Agreement among FERC’s Office of Enforcement, NERC and APS which resolves all civil and administrative disputes within the jurisdiction of FERC concerning the September 8 event, including FERC’s and NERC’s investigations. In the settlement, APS neither admitted nor denied alleged violations of four Reliability Standard Requirements. APS agreed to pay a civil penalty of \$3.25 million, of which \$2 million is to be paid in equal parts to the Department of the Treasury and NERC and \$1.25 million will be credited as a partial civil penalty offset in exchange for APS completing certain reliability enhancements.

Litigation. On September 6, 2013, a purported consumer class action complaint was filed in Federal District Court in San Diego, California, naming APS and Pinnacle West as defendants and seeking damages for loss of perishable inventory and sales as a result of interruption of electrical service. APS and Pinnacle West filed a motion to dismiss, which the court granted on December 9, 2013. On January 13, 2014, the plaintiffs appealed the lower court’s decision. The appeal is now pending before the Ninth Circuit Court of Appeals. We are unable to determine a range of potential losses that are reasonably possible of occurring.

Clean Air Act Citizen Lawsuit

On October 4, 2011, Earthjustice, on behalf of several environmental organizations, filed a lawsuit in the United States District Court for the District of New Mexico against APS and the other Four Corners participants alleging violations of the New Source Review (“NSR”) provisions of the Clean Air Act. Subsequent to filing its original Complaint, on January 6, 2012, Earthjustice filed a First Amended Complaint adding claims for violations of the Clean Air Act’s New Source Performance Standards (“NSPS”) program. Among other things, the environmental plaintiffs seek to have the court enjoin operations at Four Corners until APS applies for and obtains any required NSR permits and complies with the NSPS. The plaintiffs further request the court to order the payment of civil penalties, including a beneficial mitigation project. On April 2, 2012, APS and the other Four Corners participants filed motions to dismiss. The case is being held in abeyance while the parties seek to negotiate a settlement. On March 30, 2013, upon joint motion of the parties, the court issued an order deeming the motions to dismiss withdrawn without prejudice during pendency of the stay. At such time as the stay is lifted, APS and the other Four Corners participants may reinstate their motions to dismiss without risk of default. We are unable to determine a range of potential losses that are reasonably possible of occurring.

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Environmental Matters

APS is subject to numerous environmental laws and regulations affecting many aspects of its present and future operations, including air emissions, water quality, wastewater discharges, solid waste, hazardous waste, and coal combustion residuals (“CCRs”). These laws and regulations can change from time to time, imposing new obligations on APS resulting in increased capital, operating, and other costs. Associated capital expenditures or operating costs could be material. APS intends to seek recovery of any such environmental compliance costs through our rates, but cannot predict whether it will obtain such recovery. The following proposed and final rules involve material compliance costs to APS.

Regional Haze Rules. APS has received the final rulemakings imposing new requirements on Four Corners and the Cholla Power Plant (“Cholla”) and the Navajo Generating Station (“Navajo Plant.”) EPA and Arizona Department of Environmental Quality (“ADEQ”) will require these plants to install pollution control equipment that constitutes the “best available retrofit technology” (“BART”) to lessen the impacts of emissions on visibility surrounding the plants. Based on EPA’s final standards, APS’s 63% share of the cost of these controls for Four Corners Units 4 and 5 would be approximately \$350 million. APS’s share of costs for upgrades at Navajo, based on EPA’s Federal Implementation Plan (“FIP”), could be up to approximately \$200 million. APS has filed a Petition for Review of EPA’s rule as it applies to Cholla, which, if not successful, will require installation of controls with a cost to APS of approximately \$200 million.

Mercury and Other Hazardous Air Pollutants. In 2011, EPA issued rules establishing maximum achievable control technology standards to regulate emissions of mercury and other hazardous air pollutants from fossil-fired plants. APS estimates that the cost for the remaining equipment necessary to meet these standards is approximately \$130 million for Cholla Units 2 and 3. No additional equipment is needed for Four Corners Units 4 and 5 to comply with these rules. Salt River Project Agricultural Improvement and Power District (“SRP”), the operating agent for the Navajo Plant, is still evaluating compliance options under the rules.

Other future environmental rules that could involve material compliance costs include those related to cooling water intake structures, coal combustion waste, effluent limitations, ozone national ambient air quality, greenhouse gas (“GHG”) emissions (such as the EPA’s proposed “Clean Power Plan” rule issued in accordance with President Obama’s Climate Action Plan), and other rules or matters involving the Clean Air Act, Clean Water Act, Endangered Species Act, the Navajo Nation, and water supplies for our power plants. The financial impact of complying with these and other future environmental rules could jeopardize the economic viability of our coal plants or the willingness or ability of power plant participants to fund any required equipment upgrades or continue their participation in these plants. The economics of continuing to own certain resources, particularly our coal plants, may deteriorate, warranting early retirement of those plants, which may result in asset impairments. APS would seek recovery in rates for the book value of any remaining investments in the plants as well as other costs related to early retirement, but cannot predict whether it would obtain such recovery.

Regional Haze Rules — Cholla

APS believes that EPA’s final rule as it applies to Cholla is unsupported and that EPA had no basis for disapproving Arizona’s State Implementation Plan (“SIP”) and promulgating a FIP that is inconsistent with the state’s considered BART determinations under the regional haze program.

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Accordingly, on February 1, 2013, APS filed a Petition for Review of the final BART rule in the United States Court of Appeals for the Ninth Circuit. Briefing in the case was completed in February 2014, and the parties are waiting for the court to schedule oral argument.

New Mexico Tax Matter

On May 23, 2013, the New Mexico Taxation and Revenue Department issued a notice of assessment for coal severance surtax, penalty, and interest totaling approximately \$30 million related to coal supplied under the coal supply agreement for Four Corners (the "Assessment"). APS's share of the Assessment is approximately \$12 million. For procedural reasons, on behalf of the Four Corners co-owners, including APS, the coal supplier made a partial payment of the Assessment and immediately filed a refund claim with respect to that partial payment in August 2013. The New Mexico Taxation and Revenue Department denied the refund claim. On December 19, 2013, the coal supplier and APS, on its own behalf and as operating agent for Four Corners, filed a complaint with the New Mexico District Court contesting both the validity of the Assessment and the refund claim denial. APS believes the Assessment and the refund claim denial are without merit, but cannot predict the timing or outcome of this litigation.

Financial Assurances

APS has entered into various agreements that require letters of credit for financial assurance purposes. At June 30, 2014, approximately \$76 million of letters of credit were outstanding to support existing pollution control bonds of a similar amount. The letters of credit are available to fund the payment of principal and interest of such debt obligations. One of these letters of credit expires in 2015 and two expire in 2016. APS has also entered into letters of credit to support certain equity participants in the Palo Verde sale leaseback transactions (see Note 6 for further details on the Palo Verde sale leaseback transactions). These letters of credit will expire on December 31, 2015, and totaled approximately \$24 million at June 30, 2014. Additionally, APS has issued a letter of credit to support collateral obligations under a natural gas tolling contract entered into with a third party. At June 30, 2014, that letter of credit totaled \$5 million and will expire in 2014.

We enter into agreements that include indemnification provisions relating to liabilities arising from or related to certain of our agreements. Most significantly, APS has agreed to indemnify the equity participants and other parties in the Palo Verde sale leaseback transactions with respect to certain tax matters. Generally, a maximum obligation is not explicitly stated in the indemnification provisions and, therefore, the overall maximum amount of the obligation under such indemnification provisions cannot be reasonably estimated. Based on historical experience and evaluation of the specific indemnities, we do not believe that any material loss related to such indemnification provisions is likely.

Pinnacle West has issued parental guarantees and has provided indemnification under certain surety bonds for APS which were not material at June 30, 2014.

10. Other Income and Other Expense

The following table provides detail of other income and other expense for the three and six months ended June 30, 2014 and 2013 (dollars in thousands):

PINNACLE WEST CAPITAL CORPORATION
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	Three Months Ended June 30,		Six Months Ended June 30	
	2014	2013	2014	2013
Other income:				
Interest income	\$ 495	\$ 467	\$ 746	\$ 1,176
Miscellaneous	2,286	2	4,402	51
Total other income	<u><u>\$ 2,781</u></u>	<u><u>\$ 469</u></u>	<u><u>\$ 5,148</u></u>	<u><u>\$ 1,227</u></u>
Other expense:				
Non-operating costs	\$ (2,620)	\$ (1,990)	\$ (4,992)	\$ (3,923)
Investment losses — net	(105)	(96)	(246)	(208)
Miscellaneous	2,217	(148)	46	(1,855)
Total other expense	<u><u>\$ (508)</u></u>	<u><u>\$ (2,234)</u></u>	<u><u>\$ (5,192)</u></u>	<u><u>\$ (5,986)</u></u>

11. Earnings Per Share

The following table presents the calculation of Pinnacle West's basic and diluted earnings per share for the three and six months ended June 30, 2014 and 2013 (in thousands, except per share amounts):

	Three Months Ended June 30,		Six Months Ended June 30	
	2014	2013	2014	2013
Net income attributable to common shareholders	\$ 132,458	\$ 131,207	\$ 148,224	\$ 155,651
Average common shares outstanding — basic	110,565	109,962	110,546	109,898
Net effect of dilutive securities:				
Contingently issuable performance shares and restricted stock units	437	970	379	945
Average common shares outstanding — diluted	<u><u>111,002</u></u>	<u><u>110,932</u></u>	<u><u>110,925</u></u>	<u><u>110,843</u></u>
Earnings per average common share attributable to common shareholders — basic	<u><u>\$ 1.20</u></u>	<u><u>\$ 1.19</u></u>	<u><u>\$ 1.34</u></u>	<u><u>\$ 1.42</u></u>
Earnings per average common share attributable to common shareholders — diluted	<u><u>\$ 1.19</u></u>	<u><u>\$ 1.18</u></u>	<u><u>\$ 1.34</u></u>	<u><u>\$ 1.40</u></u>

12. Fair Value Measurements

We classify our assets and liabilities that are carried at fair value within the fair value hierarchy. This hierarchy ranks the quality and reliability of the inputs used to determine fair values, which are then classified and disclosed in one of three categories. The three levels of the fair value hierarchy are:

Level 1 — Unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access at the measurement date. Active markets are those in which transactions for the asset or liability occur in sufficient frequency and volume to provide information on an ongoing basis. This category includes exchange traded equities, exchange traded derivative instruments, cash equivalents, and investments in U.S. Treasury securities.

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Level 2 — Utilizes quoted prices in active markets for similar assets or liabilities; quoted prices in markets that are not active; and model-derived valuations whose inputs are observable (such as yield curves). This category includes non-exchange traded contracts such as forwards, options, swaps and certain investments in fixed income securities. This category also includes investments in common and collective trusts and commingled funds that are redeemable and valued based on net asset value (“NAV”).

Level 3 — Valuation models with significant unobservable inputs that are supported by little or no market activity. Instruments in this category include long-dated derivative transactions where valuations are unobservable due to the length of the transaction, options, and transactions in locations where observable market data does not exist. The valuation models we employ utilize spot prices, forward prices, historical market data and other factors to forecast future prices.

Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Thus, a valuation may be classified in Level 3 even though the valuation may include significant inputs that are readily observable. We maximize the use of observable inputs and minimize the use of unobservable inputs. We rely primarily on the market approach of using prices and other market information for identical and/or comparable assets and liabilities. If market data is not readily available, inputs may reflect our own assumptions about the inputs market participants would use. Our assessment of the inputs and the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of fair value assets and liabilities as well as their placement within the fair value hierarchy levels. We assess whether a market is active by obtaining observable broker quotes, reviewing actual market activity, and assessing the volume of transactions. We consider broker quotes observable inputs when the quote is binding on the broker, we can validate the quote with market activity, or we can determine that the inputs the broker used to arrive at the quoted price are observable.

Recurring Fair Value Measurements

We apply recurring fair value measurements to certain cash equivalents, derivative instruments, investments held in our nuclear decommissioning trust and plan assets held in our retirement and other benefit plans. See Note 8 in the 2013 Form 10-K for the fair value discussion of plan assets held in our retirement and other benefit plans.

Cash Equivalents

Cash equivalents represent short-term investments with original maturities of three months or less in exchange traded money market funds that are valued using quoted prices in active markets.

Risk Management Activities — Derivative Instruments

Exchange traded commodity contracts are valued using unadjusted quoted prices. For non-exchange traded commodity contracts, we calculate fair value based on the average of the bid and offer price, discounted to reflect net present value. We maintain certain valuation adjustments for a number of risks associated with the valuation of future commitments. These include valuation adjustments for liquidity and credit risks. The liquidity valuation adjustment represents the cost that would be incurred if all unmatched positions were closed out or hedged. The credit valuation adjustment represents estimated credit losses on our net exposure to counterparties, taking into account netting agreements, expected

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default experience for the credit rating of the counterparties and the overall diversification of the portfolio. We maintain credit policies that management believes minimize overall credit risk.

Certain non-exchange traded commodity contracts are valued based on unobservable inputs due to the long-term nature of contracts, characteristics of the product, or the unique location of the transactions. Our long-dated energy transactions consist of observable valuations for the near-term portion and unobservable valuations for the long-term portions of the transaction. We rely primarily on broker quotes to value these instruments. When our valuations utilize broker quotes, we perform various control procedures to ensure the quote has been developed consistent with fair value accounting guidance. These controls include assessing the quote for reasonableness by comparison against other broker quotes, reviewing historical price relationships, and assessing market activity. When broker quotes are not available, the primary valuation technique used to calculate the fair value is the extrapolation of forward pricing curves using observable market data for more liquid delivery points in the same region and actual transactions at more illiquid delivery points.

Option contracts are primarily valued using a Black-Scholes option valuation model, which utilizes both observable and unobservable inputs such as broker quotes, interest rates and price volatilities.

When the unobservable portion is significant to the overall valuation of the transaction, the entire transaction is classified as Level 3. Our classification of instruments as Level 3 is primarily reflective of the long-term nature of our energy transactions and the use of option valuation models with significant unobservable inputs.

Our energy risk management committee, consisting of officers and key management personnel, oversees our energy risk management activities to ensure compliance with our stated energy risk management policies. We have a risk control function that is responsible for valuing our derivative commodity instruments in accordance with established policies and procedures. The risk control function reports to the chief financial officer's organization.

Investments Held in our Nuclear Decommissioning Trusts

The nuclear decommissioning trust invests in fixed income securities and equity securities. Equity securities are held indirectly through commingled funds. The commingled funds are valued based on the concept of NAV, which is a value primarily derived from the quoted active market prices of the underlying equity securities. We may transact in these commingled funds on a semi-monthly basis at the NAV, and accordingly classify these investments as Level 2. The commingled funds, which are similar to mutual funds, are maintained by a bank and hold investments in accordance with the stated objective of tracking the performance of the S&P 500 Index. Because the commingled fund shares are offered to a limited group of investors, they are not considered to be traded in an active market.

Cash equivalents reported within Level 2 represent investments held in a short-term investment commingled fund, valued using NAV, which invests in U.S. government fixed income securities. We may transact in this commingled fund on a daily basis at the NAV.

Fixed income securities issued by the U.S. Treasury held directly by the nuclear decommissioning trust are valued using quoted active market prices and are classified as Level 1. Fixed income securities issued by corporations, municipalities, and other agencies, including mortgage-backed

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instruments, are valued using quoted inactive market prices, quoted active market prices for similar securities, or by utilizing calculations which incorporate observable inputs such as yield curves and spreads relative to such yield curves. These instruments are classified as Level 2. Whenever possible, multiple market quotes are obtained which enables a cross-check validation. A primary price source is identified based on asset type, class, or issue of securities.

We price securities using information provided by our trustee for our nuclear decommissioning trust assets. Our trustee uses pricing services that utilize the valuation methodologies described to determine fair market value. We have internal control procedures designed to ensure this information is consistent with fair value accounting guidance. These procedures include assessing valuations using an independent pricing source, verifying that pricing can be supported by actual recent market transactions, assessing hierarchy classifications, comparing investment returns with benchmarks, and obtaining and reviewing independent audit reports on the trustee's internal operating controls and valuation processes. See Note 13 for additional discussion about our nuclear decommissioning trust.

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Fair Value Tables

The following table presents the fair value at June 30, 2014 of our assets and liabilities that are measured at fair value on a recurring basis (dollars in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (a) (Level 3)	Other	Balance at June 30, 2014
Assets					
Risk management activities — derivative instruments:					
Commodity contracts	\$ —	\$ 17	\$ 33	\$ (13)(b)	\$ 37
Nuclear decommissioning trust:					
U.S. commingled equity funds	—	291	—	—	291
Fixed income securities:					
U.S. Treasury	122	—	—	—	122
Cash and cash equivalent funds	—	9	—	(5)(c)	4
Corporate debt	—	106	—	—	106
Mortgage-backed securities	—	82	—	—	82
Municipality bonds	—	63	—	—	63
Other	—	14	—	—	14
Subtotal nuclear decommissioning trust	<u>122</u>	<u>565</u>	<u>—</u>	<u>(5)</u>	<u>682</u>
Total	<u><u>\$ 122</u></u>	<u><u>\$ 582</u></u>	<u><u>\$ 33</u></u>	<u><u>\$ (18)</u></u>	<u><u>\$ 719</u></u>
Liabilities					
Risk management activities — derivative instruments:					
Commodity contracts	\$ —	\$ (19)	\$ (75)	\$ 49(b)	\$ (45)

(a) Primarily consists of heat rate options and long-dated electricity contracts.

(b) Primarily represents counterparty netting, margin and collateral (see Note 7).

(c) Represents nuclear decommissioning trust net pending securities sales and purchases.

PINNACLE WEST CAPITAL CORPORATION
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The following table presents the fair value at December 31, 2013 of our assets and liabilities that are measured at fair value on a recurring basis (dollars in millions):

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (a) (Level 3)	Other	Balance at December 31, 2013
Assets					
Risk management activities — derivative instruments:					
Commodity Contracts	\$ —	\$ 9	\$ 41	\$ (9)(b)	\$ 41
Nuclear decommissioning trust:					
U.S. commingled equity funds	—	272	—	—	272
Fixed income securities:					
U.S. Treasury	107	—	—	—	107
Cash and cash equivalent funds	—	11	—	(3)(c)	8
Corporate debt	—	88	—	—	88
Mortgage-backed securities	—	85	—	—	85
Municipality bonds	—	71	—	—	71
Other	—	11	—	—	11
Subtotal nuclear decommissioning trust	<u>107</u>	<u>538</u>	<u>—</u>	<u>(3)</u>	<u>642</u>
Total	<u><u>\$ 107</u></u>	<u><u>\$ 547</u></u>	<u><u>\$ 41</u></u>	<u><u>\$ (12)</u></u>	<u><u>\$ 683</u></u>
Liabilities					
Risk management activities — derivative instruments:					
Commodity contracts	\$ —	\$ (33)	\$ (90)	\$ 21(b)	\$ (102)

(a) Primarily consists of heat rate options and long-dated electricity contracts.

(b) Represents counterparty netting, margin and collateral (see Note 7).

(c) Represents nuclear decommissioning trust net pending securities sales and purchases.

Fair Value Measurements Classified as Level 3

The significant unobservable inputs used in the fair value measurement of our energy derivative contracts include broker quotes that cannot be validated as an observable input primarily due to the long-term nature of the quote and option model inputs. Significant changes in these inputs in isolation would result in significantly higher or lower fair value measurements. Changes in our derivative contract fair values, including changes relating to unobservable inputs, typically will not impact net income due to regulatory accounting treatment (see Note 3).

Because our forward commodity contracts classified as Level 3 are currently in a net purchase position, we would expect price increases of the underlying commodity to result in increases in the net fair value of the related contracts. Conversely, if the price of the underlying commodity decreases, the net fair value of the related contracts would likely decrease.

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Our option contracts classified as Level 3 primarily relate to purchase heat rate options. The significant unobservable inputs for these instruments include electricity prices, gas prices and volatilities. If electricity prices and electricity price volatilities increase, we would expect the fair value of these options to increase, and if these valuation inputs decrease, we would expect the fair value of these options to decrease. If natural gas prices and natural gas price volatilities increase, we would expect the fair value of these options to decrease, and if these inputs decrease, we would expect the fair value of the options to increase. The commodity prices and volatilities do not always move in corresponding directions. The options' fair values are impacted by the net changes of these various inputs.

Other unobservable valuation inputs include credit and liquidity reserves which do not have a material impact on our valuations; however, significant changes in these inputs could also result in higher or lower fair value measurements.

The following tables provide information regarding our significant unobservable inputs used to value our risk management derivative Level 3 instruments at June 30, 2014 and December 31, 2013:

Commodity Contracts	June 30, 2014		Valuation Technique	Significant Unobservable Input	Range	Weighted-Average
	Assets	Liabilities				
Electricity:						
Forward Contracts (a)	\$ 29	\$ 52	Discounted cash flows	Electricity forward price (per MWh)	\$25.27 - \$73.70	\$ 42.78
Option Contracts (b)	—	20	Option model	Electricity forward price (per MWh)	\$40.56 - \$94.30	\$ 62.18
				Natural gas forward price (per MMBtu)	\$3.93 - \$4.04	\$ 4.00
				Electricity price volatilities	23% - 111%	53%
				Natural gas price volatilities	23% - 49%	31%
Natural Gas:						
Forward Contracts (a)	4	3	Discounted cash flows	Natural gas forward price (per MMBtu)	\$3.87 - \$4.45	\$ 4.07
Total	<u>\$ 33</u>	<u>\$ 75</u>				

(a) Includes swaps and physical and financial contracts.

(b) Electricity and natural gas price volatilities are estimated based on historical forward price movements due to lack of market quotes for implied volatilities.

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Commodity Contracts	December 31, 2013 Fair Value (millions)		Valuation Technique	Significant Unobservable Input	Range	Weighted- Average
	Assets	Liabilities				
Electricity:						
Forward Contracts (a)	\$ 40	\$ 66	Discounted cash flows	Electricity forward price (per MWh)	\$24.89 - \$65.04	\$ 41.09
Option Contracts (b)	—	19	Option model	Electricity forward price (per MWh) Natural gas forward price (per MMBtu)	\$39.91 - \$85.41 \$3.57 - \$3.80	\$ 58.70 \$ 3.71
				Electricity price volatilities Natural gas price volatilities	35% - 94% 22% - 36%	59% 27%
Natural Gas:						
Forward Contracts (a)	1	5	Discounted cash flows	Natural gas forward price (per MMBtu)	\$3.47 - \$4.31	\$ 3.87
Total	<u>\$ 41</u>	<u>\$ 90</u>				

- (a) Includes swaps and physical and financial contracts.
 (b) Electricity and gas price volatilities are based on historical forward price movements due to lack of market quotes for implied volatilities.

The following table shows the changes in fair value for our risk management activities assets and liabilities that are measured at fair value on a recurring basis using Level 3 inputs for the three and six months ended June 30, 2014 and 2013 (dollars in millions):

Commodity Contracts	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Net derivative balance at beginning of period	\$ (49)	\$ (53)	\$ (49)	\$ (48)
Total net gains (losses) realized/unrealized:				
Deferred as a regulatory asset or liability	3	(4)	6	(5)
Settlements	4	4	5	2
Transfers into Level 3 from Level 2	1	—	(2)	(1)
Transfers from Level 3 into Level 2	—	—	(1)	(1)
Net derivative balance at end of period	<u>\$ (41)</u>	<u>\$ (53)</u>	<u>\$ (41)</u>	<u>\$ (53)</u>
Net unrealized gains included in earnings related to instruments still held at end of period	\$ —	\$ —	\$ —	\$ —

Amounts included in earnings are either recorded in operating revenues or fuel and purchased power depending on the nature of the underlying contract.

Transfers reflect the fair market value at the beginning of the period and are triggered by a change in the lowest significant input as of the end of the period. We had no significant Level 1 transfers

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to or from any other hierarchy level. Transfers in or out of Level 3 are typically related to our long-dated energy transactions that extend beyond available quoted periods.

Financial Instruments Not Carried at Fair Value

The carrying value of our net accounts receivable, accounts payable and any short-term borrowings approximate fair value. Our short-term borrowings are classified within Level 2 of the fair value hierarchy. For our long-term debt fair values, see Note 2.

13. Nuclear Decommissioning Trusts

To fund the costs APS expects to incur to decommission Palo Verde, APS established external decommissioning trusts in accordance with NRC regulations. Third-party investment managers are authorized to buy and sell securities per their stated investment guidelines. The trust funds are invested in fixed income securities and equity securities. APS classifies investments in decommissioning trust funds as available for sale. As a result, we record the decommissioning trust funds at their fair value on our Condensed Consolidated Balance Sheets. See Note 12 for a discussion of how fair value is determined and the classification of the nuclear decommissioning trust investments within the fair value hierarchy. Because of the ability of APS to recover decommissioning costs in rates and in accordance with the regulatory treatment for decommissioning trust funds, we have deferred realized and unrealized gains and losses (including other-than-temporary impairments on investment securities) in other regulatory liabilities. The following table includes the unrealized gains and losses based on the original cost of the investment and summarizes the fair value of APS's nuclear decommissioning trust fund assets at June 30, 2014 and December 31, 2013 (dollars in millions):

	Fair Value	Total Unrealized Gains	Total Unrealized Losses
June 30, 2014			
Equity securities	\$ 291	\$ 145	\$ —
Fixed income securities	396	16	(1)
Net payables (a)	(5)	—	—
Total	\$ 682	\$ 161	\$ (1)

(a) Net payables relate to pending securities sales and purchases.

	Fair Value	Total Unrealized Gains	Total Unrealized Losses
December 31, 2013			
Equity securities	\$ 272	\$ 129	\$ —
Fixed income securities	373	11	(6)
Net payables (a)	(3)	—	—
Total	\$ 642	\$ 140	\$ (6)

(a) Net payables relate to pending securities sales and purchases.

PINNACLE WEST CAPITAL CORPORATION
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The costs of securities sold are determined on the basis of specific identification. The following table sets forth approximate realized gains and losses and proceeds from the sale of securities by the nuclear decommissioning trust funds (dollars in millions):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Realized gains	\$ 1	\$ 1	\$ 2	\$ 3
Realized losses	(1)	(1)	(3)	(2)
Proceeds from the sale of securities (a)	96	119	199	254

(a) Proceeds are reinvested in the trust.

The fair value of fixed income securities, summarized by contractual maturities, at June 30, 2014 is as follows (dollars in millions):

	Fair Value
Less than one year	\$ 22
1 year – 5 years	118
5 years – 10 years	109
Greater than 10 years	147
Total	\$ 396

14. New Accounting Standards

During 2014, we adopted, on a prospective basis, new guidance relating to the presentation of unrecognized tax benefits. This guidance generally requires entities to present unrecognized tax benefits as a reduction to any available deferred tax asset for a net operating loss, a similar tax loss, or a tax credit carryforward. Prior to adopting this guidance, we presented unrecognized tax benefits on a gross basis. The adoption of this new guidance changed our balance sheet presentation of unrecognized tax benefits, but did not impact our operating results or cash flows. See Note 5 for details regarding the impacts of adopting this guidance.

In May 2014, new revenue recognition guidance was issued. This guidance provides a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The new guidance is effective for us on January 1, 2017, and may be adopted using full retrospective application or a simplified transition method that allows entities to record a cumulative effect adjustment in retained earnings at the date of initial application. We are currently evaluating this new guidance and the impacts it may have on our financial statements.

15. Changes in Accumulated Other Comprehensive Loss

The following table shows the changes in accumulated other comprehensive loss, including reclassification adjustments, net of tax, by component for the three and six months ended June 30, 2014 and 2013 (dollars in thousands):

PINNACLE WEST CAPITAL CORPORATION
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	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Derivative Instruments	Pension and Other Postretirement Benefits	Total	Derivative Instruments	Pension and Other Postretirement Benefits	Total
Beginning balance, April 1	\$ (20,364)	\$ (54,538)	\$ (74,902)	\$ (44,481)	\$ (63,450)	\$ (107,931)
OCI (loss) before reclassifications	40	(2,072)	(2,032)	(160)	(1,635)	(1,795)
Amounts reclassified from accumulated other comprehensive loss	1,955(a)	762(b)	2,717	4,322(a)	947(b)	5,269
Net current period OCI (loss)	1,995	(1,310)	685	4,162	(688)	3,474
Ending balance, June 30	\$ (18,369)	\$ (55,848)	\$ (74,217)	\$ (40,319)	\$ (64,138)	\$ (104,457)

- (a) These amounts represent realized gains and losses, are included in the computation of fuel and purchased power costs and are subject to the PSA. See Note 7.
- (b) These amounts primarily represent amortization of actuarial loss, and are included in the computation of net periodic pension cost. See Note 4.

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Derivative Instruments	Pension and Other Postretirement Benefits	Total	Derivative Instruments	Pension and Other Postretirement Benefits	Total
Beginning balance, January 1	\$ (23,058)	\$ (54,995)	\$ (78,053)	\$ (49,592)	\$ (64,416)	\$ (114,008)
OCI (loss) before reclassifications	(381)	(2,072)	(2,453)	(102)	(1,635)	(1,737)
Amounts reclassified from accumulated other comprehensive loss	5,070(a)	1,219(b)	6,289	9,375(a)	1,913(b)	11,288
Net current period OCI (loss)	4,689	(853)	3,836	9,273	278	9,551
Ending balance, June 30	\$ (18,369)	\$ (55,848)	\$ (74,217)	\$ (40,319)	\$ (64,138)	\$ (104,457)

- (a) These amounts represent realized gains and losses, are included in the computation of fuel and purchased power costs and are subject to the PSA. See Note 7.
- (b) These amounts primarily represent amortization of actuarial loss, and are included in the computation of net periodic pension cost. See Note 4.

16. Asset Retirement Obligations

APS has asset retirement obligations for its Palo Verde nuclear facilities and certain other generation, transmission and distribution assets. The Palo Verde asset retirement obligation primarily relates to final plant decommissioning. This obligation is based on the NRC's requirements for disposal of radiated property or plant and agreements APS reached with the ACC for final decommissioning of the plant. During the fourth quarter of 2013, a new decommissioning study with updated cash flow estimates was completed for Palo Verde. During the second quarter of 2014, an update to the 2013

PINNACLE WEST CAPITAL CORPORATION
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decommissioning study was completed for Palo Verde to incorporate additional fuel related charges. An update was made in the amount of \$20 million.

The non-nuclear generation asset retirement obligations primarily relate to requirements for removing portions of those plants at the end of the plant life or lease term. The Four Corners coal-fired power plant asset retirement obligation relates to final plant decommissioning, including ash pond closures. In the fourth quarter of 2012, a new study related to ash pond closure was completed which updated the total costs estimates and related cash flows. In the fourth quarter of 2013, APS finalized the transaction to acquire SCE's interest in Four Corners. As part of that transaction, APS assumed SCE's asset retirement obligation. Also, APS retired Four Corners Units 1-3 on December 30, 2013. Decommissioning activities began for Units 1-3 in January 2014. An update was made to the timing of the Units 1-3 decommissioning cash flows to coincide with the expected decommissioning activities. In the first quarter of 2014, the Four Corners Units 1-3 decommissioning study was finalized and approved and an update was made in the amount of \$24 million.

Some of APS's transmission and distribution assets have asset retirement obligations because they are subject to right of way and easement agreements that require final removal. These agreements have a history of uninterrupted renewal that APS expects to continue. As a result, APS cannot reasonably estimate the fair value of the asset retirement obligation related to such distribution and transmission assets.

Additionally, APS has aquifer protection permits for some of its generation sites that require the closure of certain facilities at those sites.

The following schedule shows the change in our asset retirement obligations for the six months ended June 30, 2014 (dollars in millions):

Asset retirement obligations at January 1, 2014	\$ 347
Changes attributable to:	
Accretion expense	11
Settlements	(10)
Estimated cash flow revisions	44
Asset retirement obligations at June 30, 2014	<u>\$ 392</u>

Decommissioning activities for Four Corners Units 1-3 began in January 2014; thus, \$35.7 million of the total asset retirement obligation of \$392 million at June 30, 2014, is classified as a current liability on the balance sheet.

In accordance with regulatory accounting, APS accrues removal costs for its regulated utility assets, even if there is no legal obligation for removal. See detail of regulatory liabilities in Note 3.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands)

	Three Months Ended June 30,	
	2014	2013
ELECTRIC OPERATING REVENUES	\$ 905,578	\$ 915,065
OPERATING EXPENSES		
Fuel and purchased power	290,854	277,584
Operations and maintenance	208,059	224,950
Depreciation and amortization	105,127	106,268
Income taxes	77,371	81,952
Taxes other than income taxes	43,773	40,583
Total	<u>725,184</u>	<u>731,337</u>
OPERATING INCOME	<u>180,394</u>	<u>183,728</u>
OTHER INCOME (DEDUCTIONS)		
Income taxes	1,568	3,100
Allowance for equity funds used during construction	7,499	6,265
Other income (Note S-2)	3,221	948
Other expense (Note S-2)	(1,477)	(4,844)
Total	<u>10,811</u>	<u>5,469</u>
INTEREST EXPENSE		
Interest on long-term debt	48,462	47,543
Interest on short-term borrowings	1,637	1,968
Debt discount, premium and expense	1,054	982
Allowance for borrowed funds used during construction	(3,790)	(3,636)
Total	<u>47,363</u>	<u>46,857</u>
NET INCOME	<u>143,842</u>	<u>142,340</u>
Less: Net income attributable to noncontrolling interests (Note 6)	<u>8,926</u>	<u>8,391</u>
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	<u>\$ 134,916</u>	<u>\$ 133,949</u>

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Three Months Ended June 30,	
	2014	2013
NET INCOME	\$ 143,842	\$ 142,340
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Derivative instruments:		
Net unrealized gain (loss), net of tax benefit (expense) of \$(26) and \$105	40	(160)
Reclassification of net realized loss, net of tax benefit of \$1,261 and \$2,824	1,954	4,322
Pension and other postretirement benefits activity, net of tax benefit of \$828 and \$399	(1,283)	(611)
Total other comprehensive income	711	3,551
COMPREHENSIVE INCOME		
Less: Comprehensive income attributable to noncontrolling interests	8,926	8,391
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 135,627	\$ 137,500

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2014	2013
ELECTRIC OPERATING REVENUES	\$ 1,591,123	\$ 1,600,892
OPERATING EXPENSES		
Fuel and purchased power	540,640	508,263
Operations and maintenance	416,344	445,702
Depreciation and amortization	206,875	209,974
Income taxes	87,849	98,012
Taxes other than income taxes	89,386	80,351
Total	1,341,094	1,342,302
OPERATING INCOME	250,029	258,590
OTHER INCOME (DEDUCTIONS)		
Income taxes	2,778	5,432
Allowance for equity funds used during construction	14,941	13,129
Other income (Note S-2)	5,983	2,291
Other expense (Note S-2)	(6,533)	(11,140)
Total	17,169	9,712
INTEREST EXPENSE		
Interest on long-term debt	97,358	93,764
Interest on short-term borrowings	3,050	3,397
Debt discount, premium and expense	2,065	1,993
Allowance for borrowed funds used during construction	(7,560)	(7,626)
Total	94,913	91,528
NET INCOME	172,285	176,774
Less: Net income attributable to noncontrolling interests (Note 6)	17,851	16,783
NET INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 154,434	\$ 159,991

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(unaudited)
(dollars in thousands)

	Six Months Ended June 30,	
	2014	2013
NET INCOME	\$ 172,285	\$ 176,774
OTHER COMPREHENSIVE INCOME, NET OF TAX		
Derivative instruments:		
Net unrealized loss, net of tax benefit (expense) of \$(624) and \$67	(381)	(102)
Reclassification of net realized loss, net of tax benefit of \$2,584 and \$6,124	5,070	9,374
Pension and other postretirement benefits activity, net of tax benefit (expense) of \$222 and \$(177)	(717)	271
Total other comprehensive income	3,972	9,543
COMPREHENSIVE INCOME		
Less: Comprehensive income attributable to noncontrolling interests	176,257	186,317
	17,851	16,783
COMPREHENSIVE INCOME ATTRIBUTABLE TO COMMON SHAREHOLDER	\$ 158,406	\$ 169,534

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	June 30, 2014	December 31, 2013
ASSETS		
PROPERTY, PLANT AND EQUIPMENT		
Plant in service and held for future use	\$ 15,444,835	\$ 15,196,598
Accumulated depreciation and amortization	(5,385,579)	(5,296,501)
Net	10,059,256	9,900,097
Construction work in progress	584,152	581,369
Palo Verde sale leaseback, net of accumulated depreciation (Note 6)	123,190	125,125
Intangible assets, net of accumulated amortization	136,882	157,534
Nuclear fuel, net of accumulated amortization	125,246	124,557
Total property, plant and equipment	11,028,726	10,888,682
INVESTMENTS AND OTHER ASSETS		
Nuclear decommissioning trust (Note 13)	682,359	642,007
Assets from risk management activities (Note 7)	21,581	23,815
Other assets	34,387	33,709
Total investments and other assets	738,327	699,531
CURRENT ASSETS		
Cash and cash equivalents	9,082	3,725
Customer and other receivables	325,119	299,055
Accrued unbilled revenues	172,444	96,796
Allowance for doubtful accounts	(2,731)	(3,203)
Materials and supplies (at average cost)	230,310	221,682
Fossil fuel (at average cost)	38,835	38,028
Income tax receivable (Note 5)	—	135,179
Assets from risk management activities (Note 7)	15,420	17,169
Deferred fuel and purchased power regulatory asset (Note 3)	1,043	20,755
Other regulatory assets (Note 3)	77,148	76,388
Deferred income taxes	3,390	—
Other current assets	47,797	39,153
Total current assets	917,857	944,727
DEFERRED DEBITS		
Regulatory assets (Note 3)	755,174	711,712
Unamortized debt issue costs	24,410	21,860
Other	115,966	114,865
Total deferred debits	895,550	848,437
TOTAL ASSETS	\$ 13,580,460	\$ 13,381,377

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(unaudited)
(dollars in thousands)

	June 30, 2014	December 31, 2013
LIABILITIES AND EQUITY		
CAPITALIZATION		
Common stock	\$ 178,162	\$ 178,162
Additional paid-in capital	2,379,696	2,379,696
Retained earnings	1,833,635	1,804,398
Accumulated other comprehensive loss:		
Pension and other postretirement benefits	(31,030)	(30,313)
Derivative instruments	(18,370)	(23,059)
Total shareholder equity	4,342,093	4,308,884
Noncontrolling interests (Note 6)	147,972	145,990
Total equity (Note S-1)	4,490,065	4,454,874
Long-term debt less current maturities (Note 2)	2,874,513	2,671,465
Total capitalization	<u>7,364,578</u>	<u>7,126,339</u>
CURRENT LIABILITIES		
Short-term borrowings (Note 2)	172,775	153,125
Current maturities of long-term debt (Note 2)	368,841	540,424
Accounts payable	315,240	281,237
Accrued taxes (Note 5)	160,841	122,460
Accrued interest	52,520	48,132
Common dividends payable	62,600	62,500
Customer deposits	74,779	76,101
Deferred income taxes	—	2,033
Liabilities from risk management activities (Note 7)	21,502	31,892
Liabilities for asset retirements	35,726	32,896
Regulatory liabilities (Note 3)	114,204	99,273
Other current liabilities	148,676	130,774
Total current liabilities	<u>1,527,704</u>	<u>1,580,847</u>
DEFERRED CREDITS AND OTHER		
Deferred income taxes	2,392,061	2,347,724
Regulatory liabilities (Note 3)	809,442	801,297
Liabilities for asset retirements (Note 16)	356,436	313,833
Liabilities for pension and other postretirement benefits (Note 4)	403,690	476,017
Liabilities from risk management activities (Note 7)	23,367	70,315
Customer advances	120,330	114,480
Coal mine reclamation	208,951	207,453
Deferred investment tax credit	181,236	152,361
Unrecognized tax benefits (Note 5)	36,994	42,209
Other	155,671	148,502
Total deferred credits and other	<u>4,688,178</u>	<u>4,674,191</u>
COMMITMENTS AND CONTINGENCIES (SEE NOTES)		
TOTAL LIABILITIES AND EQUITY	\$ 13,580,460	\$ 13,381,377

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.

ARIZONA PUBLIC SERVICE COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (unaudited)
 (dollars in thousands)

	Six Months Ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 172,285	\$ 176,774
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization including nuclear fuel	246,324	249,434
Deferred fuel and purchased power	1,315	36,183
Deferred fuel and purchased power amortization	18,399	10,921
Allowance for equity funds used during construction	(14,941)	(13,129)
Deferred income taxes	34,133	66,947
Deferred investment tax credit	28,875	20,159
Change in derivative instruments fair value	49	349
Changes in current assets and liabilities:		
Customer and other receivables	(65,603)	(80,854)
Accrued unbilled revenues	(75,648)	(68,763)
Materials, supplies and fossil fuel	(9,435)	(4,002)
Income tax receivable	135,179	296
Other current assets	(14,120)	(14,067)
Accounts payable	28,465	86,338
Accrued taxes	38,381	12,596
Other current liabilities	31,296	(28,506)
Change in margin and collateral accounts — assets	(2,107)	(1,111)
Change in margin and collateral accounts — liabilities	(22,425)	14,600
Change in other long-term assets	(18,703)	(21,658)
Change in other long-term liabilities	(24,467)	26,628
Net cash flow provided by operating activities	<u>487,252</u>	<u>469,135</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(388,752)	(376,601)
Contributions in aid of construction	12,646	21,236
Allowance for borrowed funds used during construction	(7,560)	(7,626)
Proceeds from nuclear decommissioning trust sales	199,224	253,996
Investment in nuclear decommissioning trust	(207,848)	(262,621)
Other	(678)	(270)
Net cash flow used for investing activities	<u>(392,968)</u>	<u>(371,886)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of long-term debt	535,975	136,307
Short-term borrowings — net	19,650	(62,075)
Repayment of long-term debt	(503,583)	(40,127)
Dividends paid on common stock	(125,100)	(119,700)
Noncontrolling interests	(15,869)	(9,197)
Net cash flow used for financing activities	<u>(88,927)</u>	<u>(94,792)</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	5,357	2,457
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	3,725	3,499
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$ 9,082	\$ 5,956
Supplemental disclosure of cash flow information		
Cash paid (received) during the period for:		
Income taxes, net of refunds	\$ (134,399)	\$ —
Interest, net of amounts capitalized	\$ 88,461	\$ 89,676
Significant non-cash investing and financing activities:		
Accrued capital expenditures	\$ 19,668	\$ 8,904
Dividends declared but not yet paid	\$ 62,600	\$ 59,900

See Notes to Pinnacle West's Condensed Consolidated Financial Statements and Supplemental Notes to Arizona Public Service Company's Condensed Consolidated Financial Statements.



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Certain notes to APS's Condensed Consolidated Financial Statements are combined with the Notes to Pinnacle West's Condensed Consolidated Financial Statements. Listed below are the Condensed Consolidated Notes to Pinnacle West's Condensed Consolidated Financial Statements, the majority of which also relate to APS's Condensed Consolidated Financial Statements. In addition, listed below are the Supplemental Notes that are required disclosures for APS and should be read in conjunction with Pinnacle West's Condensed Consolidated Notes.

	Condensed Consolidated Note Reference	APS's Supplemental Note Reference
Consolidation and Nature of Operations	Note 1	—
Long-Term Debt and Liquidity Matters	Note 2	—
Regulatory Matters	Note 3	—
Retirement Plans and Other Benefits	Note 4	—
Income Taxes	Note 5	—
Palo Verde Sale Leaseback Variable Interest Entities	Note 6	—
Derivative Accounting	Note 7	—
Changes in Equity	Note 8	Note S-1
Commitments and Contingencies	Note 9	—
Other Income and Other Expense	Note 10	Note S-2
Earnings Per Share	Note 11	—
Fair Value Measurements	Note 12	—
Nuclear Decommissioning Trusts	Note 13	—
New Accounting Standards	Note 14	—
Changes in Accumulated Other Comprehensive Income	Note 15	Note S-3
Asset Retirement Obligations	Note 16	—

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

S-1. Changes in Equity

The following tables show APS's changes in shareholder equity and changes in equity of noncontrolling interests for the three and six months ended June 30, 2014 and 2013 (dollars in thousands):

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Shareholder Equity	Noncontrolling Interests	Total	Shareholder Equity	Noncontrolling Interests	Total
Beginning balance, April 1	\$ 4,331,661	\$ 154,915	\$ 4,486,576	\$ 4,125,032	\$ 137,875	\$ 4,262,907
Net income	134,916	8,926	143,842	133,949	8,391	142,340
OCI	711	—	711	3,551	—	3,551
Total comprehensive income	135,627	8,926	144,553	137,500	8,391	145,891
Dividends on common stock	(125,200)	—	(125,200)	(119,800)	—	(119,800)
Net capital activities by noncontrolling interests	—	(15,869)	(15,869)	—	(9,196)	(9,196)
Other	5	—	5	(6)	—	(6)
Ending balance, June 30	<u>\$ 4,342,093</u>	<u>\$ 147,972</u>	<u>\$ 4,490,065</u>	<u>\$ 4,142,726</u>	<u>\$ 137,070</u>	<u>\$ 4,279,796</u>
Six Months Ended June 30, 2014						
	Shareholder Equity	Noncontrolling Interests	Total	Shareholder Equity	Noncontrolling Interests	Total
Beginning balance, January 1	\$ 4,308,884	\$ 145,990	\$ 4,454,874	\$ 4,093,000	\$ 129,483	\$ 4,222,483
Net income	154,434	17,851	172,285	159,991	16,783	176,774
OCI	3,972	—	3,972	9,543	—	9,543
Total comprehensive income	158,406	17,851	176,257	169,534	16,783	186,317
Dividends on common stock	(125,200)	—	(125,200)	(119,800)	—	(119,800)
Net capital activities by noncontrolling interests	—	(15,869)	(15,869)	—	(9,196)	(9,196)
Other	3	—	3	(8)	—	(8)
Ending balance, June 30	<u>\$ 4,342,093</u>	<u>\$ 147,972</u>	<u>\$ 4,490,065</u>	<u>\$ 4,142,726</u>	<u>\$ 137,070</u>	<u>\$ 4,279,796</u>

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

S-2. Other Income and Other Expense

The following table provides detail of APS's other income and other expense for the three and six months ended June 30, 2014 and 2013 (dollars in thousands):

	Three Months Ended June 30,		Six Months Ended June 30,	
	2014	2013	2014	2013
Other income:				
Interest income	\$ 417	\$ 403	\$ 554	\$ 1,059
Miscellaneous	2,804	545	5,429	1,232
Total other income	\$ 3,221	\$ 948	\$ 5,983	\$ 2,291
Other expense:				
Non-operating costs (a)	\$ (2,868)	\$ (2,285)	\$ (5,455)	\$ (4,605)
Asset dispositions	(285)	(1,397)	(468)	(2,661)
Miscellaneous	1,676	(1,162)	(610)	(3,874)
Total other expense	\$ (1,477)	\$ (4,844)	\$ (6,533)	\$ (11,140)

(a) As defined by the FERC, includes below-the-line non-operating utility expense (items excluded from utility rate recovery).

ARIZONA PUBLIC SERVICE COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

S-3. Changes in Accumulated Other Comprehensive Loss

The following table shows the changes in accumulated other comprehensive loss, including reclassification adjustments, net of tax, by component for the three and six months ended June 30, 2014 and 2013 (dollars in thousands):

	Three Months Ended June 30, 2014			Three Months Ended June 30, 2013		
	Derivative Instruments	Pension and Other Postretirement Benefits	Total	Derivative Instruments	Pension and Other Postretirement Benefits	Total
Beginning balance, April 1	\$ (20,364)	\$ (29,747)	\$ (50,111)	\$ (44,482)	\$ (38,621)	\$ (83,103)
OCI (loss) before reclassifications	40	(2,041)	(2,001)	(160)	(1,630)	(1,790)
Amounts reclassified from accumulated other comprehensive loss	1,954(a)	758(b)	2,712	4,322(a)	1,019(b)	5,341
Net current period OCI (loss)	1,994	(1,283)	711	4,162	(611)	3,551
Ending balance, June 30	\$ (18,370)	\$ (31,030)	\$ (49,400)	\$ (40,320)	\$ (39,232)	\$ (79,552)

- (a) These amounts represent realized gains and losses, are included in the computation of fuel and purchased power costs and are subject to the PSA. See Note 7.
- (b) These amounts primarily represent amortization of actuarial loss and are included in the computation of net periodic pension cost. See Note 4.

	Six Months Ended June 30, 2014			Six Months Ended June 30, 2013		
	Derivative Instruments	Pension and Other Postretirement Benefits	Total	Derivative Instruments	Pension and Other Postretirement Benefits	Total
Beginning balance, January 1	\$ (23,059)	\$ (30,313)	\$ (53,372)	\$ (49,592)	\$ (39,503)	\$ (89,095)
OCI (loss) before reclassifications	(381)	(2,041)	(2,422)	(102)	(1,630)	(1,732)
Amounts reclassified from accumulated other comprehensive loss	5,070(a)	1,324(b)	6,394	9,374(a)	1,901(b)	11,275
Net current period OCI (loss)	4,689	(717)	3,972	9,272	271	9,543
Ending balance, June 30	\$ (18,370)	\$ (31,030)	\$ (49,400)	\$ (40,320)	\$ (39,232)	\$ (79,552)

- (a) These amounts represent realized gains and losses and are included in the computation of fuel and purchased power costs and are subject to the PSA. See Note 7.
- (b) These amounts primarily represent amortization of actuarial loss, and are included in the computation of net periodic pension cost. See Note 4.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

INTRODUCTION

The following discussion should be read in conjunction with Pinnacle West's Condensed Consolidated Financial Statements and APS's Condensed Consolidated Financial Statements and the related Notes that appear in Item 1 of this report. For information on factors that may cause our actual future results to differ from those we currently seek or anticipate, see "Forward-Looking Statements" at the front of this report and "Risk Factors" in Part 1, Item 1A of the 2013 Form 10-K.

OVERVIEW

Pinnacle West owns all of the outstanding common stock of APS. APS is a vertically-integrated electric utility that provides either retail or wholesale electric service to most of the state of Arizona, with the major exceptions of about one-half of the Phoenix metropolitan area, the Tucson metropolitan area and Mohave County in northwestern Arizona. APS currently accounts for essentially all of our revenues and earnings.

Areas of Business Focus

Operational Performance, Reliability and Recent Developments.

Nuclear. APS operates and is a joint owner of Palo Verde. The March 2011 earthquake and tsunamis in Japan and the resulting accident at Japan's Fukushima Daiichi nuclear power station had a significant impact on nuclear power operators worldwide. In the aftermath of the accident, the NRC conducted an independent assessment to consider actions to ensure that its regulations reflect lessons learned from the Fukushima events. As a result of the Fukushima event, the NRC has directed nuclear power plants to implement the first tier recommendations of the NRC's Near Term Task Force. In response to these recommendations, Palo Verde expects to spend approximately \$120 million for capital enhancements to the plant over the next several years (APS's share is 29.1%).

Although the NRC has repeatedly affirmed its position that continued operation of U.S. commercial nuclear power plants does not impose an immediate risk to public health and safety, the NRC has proposed enhancements to U.S. commercial nuclear power plant equipment and emergency plans. APS management continues to work closely with the NRC and others in the nuclear industry to ensure that the enhancements are implemented in an organized, sequential and structured way consistent with their safety benefit and significance of the issue being addressed.

Coal and Related Environmental Matters and Transactions. APS is a joint owner of three coal-fired power plants and acts as operating agent for two of the plants. APS is focused on the impacts on its coal fleet that may result from increased regulation and potential legislation concerning GHG emissions. On June 2, 2014, EPA proposed a rule to limit carbon dioxide emissions from existing power plants. EPA expects to finalize the proposal in June 2015. EPA's proposal for Arizona would result in a shift in in-state generation from coal to natural gas and renewable generation. Such a substantial change in APS's generation portfolio could require additional capital investments and increased operating costs, and thus have a significant financial impact on the Company. APS is closely monitoring its long-range capital management plans, understanding that any resulting regulation and

legislation could impact the economic viability of certain plants, as well as the willingness or ability of power plant participants to continue participation in such plants.

Four Corners

Asset Purchase Agreement and Coal Supply Matters. On December 30, 2013, APS purchased SCE's 48% interest in each of Units 4 and 5 of Four Corners. The final purchase price for the interest was approximately \$182 million, subject to certain minor post-closing adjustments. In connection with APS's most recent retail rate case with the ACC, the ACC reserved the right to review the prudence of the Four Corners transaction for cost recovery purposes upon the closing of the transaction. On December 30, 2013, APS filed an application with the ACC to request rate adjustments prior to its next general rate case related to APS's acquisition of SCE's interest in Four Corners. If approved, these would result in an average bill impact to residential customers of approximately 2%. ACC staff and other intervenors have filed testimony in this matter with the ACC, and APS has filed rebuttal testimony. Both ACC staff and the Residential Utility Customer Office have proposed adjustments to the return to be applied to the Four Corners investments until APS's next rate case, which would result in a lower level of recovery than proposed by APS. A hearing on this matter is scheduled to begin August 4, 2014, and we anticipate a decision by the end of 2014. APS cannot predict the outcome of this matter.

Concurrently with the closing of the SCE transaction, BHP Billiton, New Mexico Coal, Inc. ("BHP Billiton"), the parent company of BHP Navajo Coal Company ("BNCC"), the coal supplier and operator of the mine that serves Four Corners, transferred its ownership of BNCC to Navajo Transitional Energy Company, LLC ("NTEC"), a company formed by the Navajo Nation to own the mine and develop other energy projects. BHP Billiton will be retained by NTEC under contract as the mine manager and operator until July 2016. Also occurring concurrently with the closing, the Four Corners' co-owners executed a long-term agreement for the supply of coal to Four Corners from July 2016, when the current coal supply agreement expires, through 2031 (the "2016 Coal Supply Agreement"). El Paso Electric Company ("EPE"), a 7% owner in Units 4 and 5 of Four Corners, did not sign the 2016 Coal Supply Agreement. Under the 2016 Coal Supply Agreement, APS has agreed to assume the 7% shortfall obligation. When APS ultimately acquires a right to EPE's interest in Four Corners, by agreement or operation of law, NTEC will have an option to purchase the interest within a certain timeframe pursuant to an option granted by APS to NTEC. The 2016 Coal Supply Agreement contains alternate pricing terms for the 7% shortfall obligations in the event NTEC does not exercise its option.

Pollution Control Investments and Shutdown of Units 1, 2 and 3. EPA, in its final regional haze rule for Four Corners, required the Four Corners' owners to elect one of two emissions alternatives to apply to the plant. On December 30, 2013, APS, on behalf of the co-owners, notified EPA that they chose the alternative BART compliance strategy requiring the permanent closure of Units 1, 2 and 3 by January 1, 2014 and installation and operation of selective catalytic reduction ("SCR") controls on Units 4 and 5 by July 31, 2018. On December 30, 2013, APS retired Units 1, 2 and 3.

Lease Extension. APS, on behalf of the Four Corners participants, negotiated amendments to an existing facility lease with the Navajo Nation, which extends the Four Corners leasehold interest from 2016 to 2041. The Navajo Nation approved these amendments in March 2011. The effectiveness of the amendments also requires the approval of the United States Department of the Interior ("DOI"), as does a related federal rights-of-way grant which the Four Corners participants are pursuing. A

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federal environmental review is underway as part of the DOI review process. In March 2014, APS received a draft of the environmental impact statement (“DEIS”) in connection with the DOI review process. As a proponent of the Four Corners Power Plant and Navajo Mine Energy Project, APS, along with other members of the public, submitted comments on the DEIS. APS will also require a Prevention of Significant Deterioration (“PSD”) permit from EPA to install SCR control technology at Four Corners. APS cannot predict whether these federal approvals will be granted, and if so on a timely basis, or whether any conditions that may be attached to them will be acceptable to the Four Corners owners.

Transmission and Delivery. APS is working closely with regulators to identify and plan for transmission needs that continue to support system reliability, access to markets and renewable energy development. The capital expenditures table presented in the “Liquidity and Capital Resources” section below includes new APS transmission projects through 2016, along with other transmission costs for upgrades and replacements. APS is also working to establish and expand smart grid technologies throughout its service territory to provide long-term benefits both to APS and its customers. APS is strategically deploying a variety of technologies that are intended to allow customers to better monitor their energy use and needs, minimize system outage durations, as well as the number of customers that experience outages, and facilitate greater cost savings to APS through improved reliability and the automation of certain distribution functions, including remote meter reading and remote connects and disconnects.

Renewable Energy . The ACC approved the RES in 2006. The renewable energy requirement is 4.5% of retail electric sales in 2014 and increases annually until it reaches 15% in 2025. In the 2009 Settlement Agreement, APS agreed to exceed the RES standards, committing to use APS’s best efforts to obtain 1,700 GWh of new renewable resources to be in service by year-end 2015, in addition to its 2008 renewable resource commitments. Taken together, APS’s commitment is currently estimated to be approximately 12% of APS’s estimated retail energy sales by year-end 2015, which is more than double the existing RES target of 5% for that year. A component of the RES targets development of distributed energy systems (generally speaking, small-scale renewable technologies that are located on customers’ properties).

On July 12, 2013, APS filed its annual RES implementation plan, covering the 2014-2018 timeframe and requesting a 2014 RES budget of approximately \$143 million. In a final order dated January 7, 2014, the ACC approved the requested budget. Also in 2013, the ACC conducted a hearing to consider APS’s proposal to establish compliance with distributed energy requirements by tracking and recording distributed energy, rather than acquiring and retiring renewable energy credits. On February 6, 2014, the ACC established a proceeding to modify the renewable energy rules to establish a process for compliance with the renewable energy requirement that is not based solely on the use of renewable energy credits. On April 4, 2014, ACC staff submitted a proposal outlining various options which could be used to determine compliance with the renewable energy rules. APS filed comments on the proposal and is awaiting the ACC’s selection of a proposal and modification of the rules to implement such proposal.

On July 1, 2014, APS filed its 2015 RES implementation plan and proposed a RES budget of approximately \$154 million.

The following table summarizes APS’s renewable energy sources in operation and under development as of July 31, 2014.

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	Net Capacity in Operation (MW)	Net Capacity Planned / Under Development (MW)
Total APS Owned: Solar (a)	169	20
Purchased Power Agreements:		
Solar (b)	310	—
Wind	289	—
Geothermal	10	—
Biomass	14	—
Biogas	6	—
Total Purchased Power Agreements	629	—
Total Distributed Energy: Solar (c)	359	34
Total Renewable Portfolio	<u><u>1,157</u></u>	<u><u>54</u></u>

- (a) Included in these numbers is 150 MW of solar resources procured through the AZ Sun Program.
 (b) Includes 250 MW from the Solana Generating Station, which achieved commercial operation in October 2013.
 (c) Distributed generation is produced in DC and is converted to AC for reporting purposes.

APS is developing owned solar resources through the ACC-approved AZ Sun Program. Under this program to date, APS estimates its investment commitment will be approximately \$690 million. Agreements for the development and completion of future resources are subject to various conditions, including successful siting, permitting and interconnection of the project to the electric grid.

On April 15, 2014, APS filed an application with the ACC requesting permission to build an additional 20 MW of APS-owned utility scale solar under the program. In a subsequent filing, APS also offered an alternative proposal to replace the 20 MW of utility scale solar with 20 MW of APS-owned residential solar.

Demand Side Management. In December 2009, Arizona regulators placed an increased focus on energy efficiency and other demand side management programs to encourage customers to conserve energy, while incentivizing utilities to aid in these efforts that ultimately reduce the demand for energy. The ACC initiated an Energy Efficiency rulemaking, with a proposed EES of 22% cumulative annual energy savings by 2020. The 22% figure represents the cumulative reduction in future energy usage through 2020 attributable to energy efficiency initiatives. This ambitious standard became effective on January 1, 2011.

On June 1, 2012, APS filed its 2013 DSM Plan. In 2013, the standards require APS to achieve cumulative energy savings equal to 5% of its 2012 retail energy sales. Later in 2012, APS filed a supplement to its plan that included a proposed budget for 2013 of \$87.6 million.

On March 11, 2014, the ACC issued an order approving APS's 2013 DSM Plan. The ACC approved a budget of \$68.9 million for each of 2013 and 2014. The ACC also approved a Resource

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Savings Initiative that allows APS to count towards compliance with the ACC Electric Energy Efficiency Standards, savings for improvements to APS's transmission and delivery system, generation and facilities that have been approved through a DSM Plan. Consistent with the ACC's March 11, 2014 order, APS intends to continue its approved DSM programs in 2015.

On June 27, 2013, the ACC voted to open a new docket investigating whether the Electric Energy Efficiency Rules should be modified. The ACC held a series of three workshops in March and April 2014 to investigate methodologies used to determine cost effective energy efficiency programs, cost recovery mechanisms, incentives, and potential changes to the Electric Energy Efficiency and Resource Planning Rules.

Rate Matters. APS needs timely recovery through rates of its capital and operating expenditures to maintain its financial health. APS's retail rates are regulated by the ACC and its wholesale electric rates (primarily for transmission) are regulated by FERC. On June 1, 2011, APS filed a rate case with the ACC. APS and other parties to the retail rate case subsequently entered into the 2012 Settlement Agreement detailing the terms upon which the parties have agreed to settle the rate case. See Note 3 for details regarding the 2012 Settlement Agreement terms and for information on APS's FERC rates.

APS has several recovery mechanisms in place that provide more timely recovery to APS of its fuel and transmission costs, and costs associated with the promotion and implementation of its demand side management and renewable energy efforts and customer programs. These mechanisms are described more fully in Note 3.

As part of APS's acquisition of SCE's interest in Units 4 and 5 of Four Corners, APS and SCE agreed, via a "Transmission Termination Agreement," that upon closing of the acquisition, the companies would terminate an existing transmission agreement ("Transmission Agreement") between the parties that provides transmission capacity on a system (the "Arizona Transmission System") for SCE to transmit its portion of the output from Four Corners to California. APS previously submitted a request to FERC related to this termination, which resulted in a FERC order denying rate recovery of \$40 million that APS agreed to pay SCE associated with the termination. APS and SCE negotiated an alternate arrangement under which SCE would assign its 1,555 MW capacity rights over the Arizona Transmission System to third parties, including 300 MW to APS's marketing and trading group. However, this alternative arrangement was not approved by FERC. In late March 2014, APS and SCE filed requests for rehearing with FERC. We are unable to predict the timing or outcome of these requests. Although APS and SCE continue to evaluate potential paths forward, it is possible that the terms of the Transmission Termination Agreement may again control. APS believes that the original denial by FERC of rate recovery under the Transmission Termination Agreement constitutes the failure of a condition that relieves APS of its obligations under that agreement. If APS and SCE were unable to determine a resolution through negotiation, the Transmission Termination Agreement requires that disputes be resolved through arbitration. APS is unable to predict the outcome of this matter if it proceeds to arbitration. If the matter proceeds to arbitration and APS is not successful, APS may be required to record a charge to its results of operations.

Deregulation. On May 9, 2013, the ACC voted to re-examine the facilitation of a deregulated retail electric market in Arizona. The ACC subsequently opened a docket for this matter and received comments from a number of interested parties on the considerations involved in establishing retail electric deregulation in the state. One of these considerations is whether various aspects of a deregulated market, including setting utility rates on a "market" basis, would be consistent with the

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requirements of the Arizona Constitution. On September 11, 2013, after receiving legal advice from the ACC staff, the ACC voted 4-1 to close the current docket and await full Arizona Constitutional authority before any further examination of this matter. The motion approved by the ACC also included opening one or more new dockets in the future to explore options to offer more rate choices to customers and innovative changes within the existing cost-of-service regulatory model that could include elements of competition. The ACC opened a new docket on November 4, 2013 to explore technological advances and innovative changes within the electric utility industry. Workshops in this docket are being held in 2014.

Net Metering. On July 12, 2013, APS filed an application with the ACC proposing a solution to fix the cost shift brought by the current net metering rules. On December 3, 2013, the ACC issued its order on APS's net metering proposal. The ACC instituted a charge on customers who install rooftop solar panels after December 31, 2013, and directed APS to provide quarterly reports on the pace of rooftop solar adoption to assist the ACC in considering further increases. The charge of \$0.70 per kilowatt became effective on January 1, 2014, and is estimated to collect \$4.90 per month from a typical future rooftop solar customer to help pay for their use of the electricity grid. The new policy will be in effect until the next APS rate case.

In making its decision, the ACC determined that the current net metering program creates a cost shift, causing non-solar utility customers to pay higher rates to cover the costs of maintaining the electrical grid. ACC staff and the state's Residential Utility Consumer Office, among other organizations, also agreed that a cost shift exists. The fixed charge does not increase APS's revenue because it is credited to the LFCR, but it will modestly reduce the impact of the cost shift on non-solar customers. The ACC acknowledged that the new charge addresses only a portion of the cost shift. The ACC also required APS to file its next rate case in June 2015, the earliest date contemplated in the 2012 Settlement Agreement.

In May 2014, the ACC began conducting a series of workshops to, among other things, evaluate the role and value of the electric grid as it relates to rooftop solar and other issues regarding net metering.

On July 22, 2014, the ACC Commissioners voted to reopen the December 2013 net metering decision for the limited purpose of deciding whether to eliminate the requirement that APS file its next rate case in June 2015. The vote included a request that parties comment in the docket about their thoughts on removing the filing date requirement and on the process for the broader discussion regarding rate design. The Commissioners stated that they plan to vote at an August 2014 open meeting on whether to eliminate the requirement that APS file a rate case in June 2015.

Financial Strength and Flexibility. Pinnacle West and APS currently have ample borrowing capacity under their respective credit facilities, and may readily access these facilities ensuring adequate liquidity for each company. Capital expenditures will be funded with internally generated cash and external financings, which may include issuances of long-term debt and Pinnacle West common stock.

El Dorado. The operations of El Dorado, our only other operating subsidiary, are not expected to have any material impact on our financial results, or to require any material amounts of capital, over the next three years.

Key Financial Drivers

In addition to the continuing impact of the matters described above, many factors influence our financial results and our future financial outlook, including those listed below. We closely monitor these factors to plan for the Company's current needs, and to adjust our expectations, financial budgets and forecasts appropriately.

Electric Operating Revenues. For the years 2011 through 2013, retail electric revenues comprised approximately 93% of our total electric operating revenues. Our electric operating revenues are affected by customer growth or decline, variations in weather from period to period, customer mix, average usage per customer and the impacts of energy efficiency programs, distributed energy additions, electricity rates and tariffs, the recovery of PSA deferrals and the operation of other recovery mechanisms. These revenue transactions are affected by the availability of excess generation or other energy resources and wholesale market conditions, including competition, demand and prices.

Customer and Sales Growth. Retail customers in APS's service territory increased 1.3% for the six-month period ended June 30 , 2014 compared with the prior-year period. For the three years 2011 through 2013, APS's customer growth averaged 1.0% per year. We currently expect annual customer growth to average about 2.5% for 2014 through 2016 based on our assessment of modestly improving economic conditions, both nationally and in Arizona. Retail electricity sales in kWh, adjusted to exclude the effects of weather variations, decreased 0.8% for the six-month period ended June 30 , 2014 compared with the prior-year period, reflecting the effects of customer conservation and energy efficiency and distributed renewable generation initiatives, partially offset by improving economic conditions and customer growth. For the three years 2011 through 2013, APS experienced annual increases in retail electricity sales averaging 0.1%, adjusted to exclude the effects of weather variations. We currently estimate that annual retail electricity sales in kWh will increase on average about 1% during 2014 through 2016, including the effects of customer conservation and energy efficiency and distributed renewable generation initiatives, but excluding the effects of weather variations. A failure of the Arizona economy to improve could further impact these estimates.

Actual sales growth, excluding weather-related variations, may differ from our projections as a result of numerous factors, such as economic conditions, customer growth, usage patterns and energy conservation, impacts of energy efficiency programs and growth in distributed generation, and responses to retail price changes. Based on past experience, a reasonable range of variation in our kWh sales projection attributable to such economic factors under normal business conditions can result in increases or decreases in annual net income of up to \$10 million.

Weather. In forecasting the retail sales growth numbers provided above, we assume normal weather patterns based on historical data. Historically, extreme weather variations have resulted in annual variations in net income in excess of \$20 million. However, our experience indicates that the more typical variations from normal weather can result in increases or decreases in annual net income of up to \$10 million.

Fuel and Purchased Power Costs. Fuel and purchased power costs included on our Condensed Consolidated Statements of Income are impacted by our electricity sales volumes, existing contracts for purchased power and generation fuel, our power plant performance, transmission availability or constraints, prevailing market prices, new generating plants being placed in service in our market areas, changes in our generation resource allocation, our hedging program for managing such costs and PSA deferrals and the related amortization.

Operations and Maintenance Expenses. Operations and maintenance expenses are impacted by customer and sales growth, power plant operations, maintenance of utility plant (including generation, transmission, and distribution facilities), inflation, outages, renewable energy and demand side management related expenses (which are offset by the same amount of operating revenues) and other factors. In the 2009 Settlement Agreement, APS committed to operational expense reductions from 2010 through 2014, and received approval to defer certain pension and other postretirement benefit cost increases incurred in 2011 and 2012, which totaled \$25 million, as a regulatory asset, until the most recent general retail rate case decision became effective on July 1, 2012. In July 2012, we began amortizing the regulatory asset over a 36-month period.

Depreciation and Amortization Expenses. Depreciation and amortization expenses are impacted by net additions to utility plant and other property (such as new generation, transmission, and distribution facilities), and changes in depreciation and amortization rates. See “Capital Expenditures” below for information regarding the planned additions to our facilities. See Note 3 regarding deferral of certain costs pursuant to an ACC order.

Property Taxes. Taxes other than income taxes consist primarily of property taxes, which are affected by the value of property in-service and under construction, assessment ratios, and tax rates. The average property tax rate in Arizona for APS, which owns essentially all of our property, was 10.5% of the assessed value for 2013 and 9.6% for 2012. We expect property taxes to increase as we add new generating units and continue with improvements and expansions to our existing generating units, transmission and distribution facilities. (See Note 3 for property tax deferrals contained in the 2012 Settlement Agreement).

Income Taxes. Income taxes are affected by the amount of pretax book income, income tax rates, certain deductions and non-taxable items, such as AFUDC. In addition, income taxes may also be affected by the settlement of issues with taxing authorities.

Interest Expense. Interest expense is affected by the amount of debt outstanding and the interest rates on that debt (see Note 2). The primary factors affecting borrowing levels are expected to be our capital expenditures, long-term debt maturities, equity issuances and internally generated cash flow. An allowance for borrowed funds used during construction offsets a portion of interest expense while capital projects are under construction. We stop accruing AFUDC on a project when it is placed in commercial operation.

RESULTS OF OPERATIONS

Pinnacle West’s only reportable business segment is our regulated electricity segment, which consists of traditional regulated retail and wholesale electricity businesses (primarily retail and wholesale sales supplied to traditional cost-based rate regulation (“Native Load”) customers) and related activities and includes electricity generation, transmission and distribution.

Operating Results — Three-month period ended June 30, 2014 compared with three-month period ended June 30, 2013.

Our consolidated net income attributable to common shareholders for the three months ended June 30, 2014 was \$132 million, compared with consolidated net income of \$131 million for the prior-year period. The results reflect an increase of approximately \$2 million for the regulated electricity segment primarily related to lower operations and maintenance expenses resulting from lower

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employee benefit costs, and higher other income. These positive factors were partially offset by lower retail sales due to changes in customer usage patterns and related pricing, and the effects of weather.

The following table presents net income attributable to common shareholders compared with the prior-year period:

	Three Months Ended June 30,			Net Change
	2014	2013 (dollars in millions)		
Regulated Electricity Segment:				
Operating revenues less fuel and purchased power expenses	\$ 615	\$ 637	\$ (22)	
Operations and maintenance	(211)	(229)	18	
Depreciation and amortization	(105)	(106)	1	
Taxes other than income taxes	(44)	(41)	(3)	
All other income and expenses, net	10	3	7	
Interest charges, net of allowance for borrowed funds used during construction	(48)	(48)	—	
Income taxes	(75)	(77)	2	
Less income related to noncontrolling interests (Note 6)	(9)	(8)	(1)	
Regulated electricity segment net income	133	131	2	
All other	(1)	—	(1)	
Net Income Attributable to Common Shareholders	\$ 132	\$ 131	\$ 1	

Operating revenues less fuel and purchased power expenses. Regulated electricity segment operating revenues less fuel and purchased power expenses were \$22 million lower for the three months ended June 30, 2014 compared with the prior-year period. The following table summarizes the major components of this change:

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	<u>Operating revenues</u>	<u>Fuel and purchased power expenses</u> (dollars in millions)	<u>Increase (Decrease)</u> <u>Net change</u>
Higher renewable energy regulatory surcharges and purchased power, offset by lower demand side management regulatory surcharges	\$ —	\$ 8	\$ (8)
Lower retail sales due to changes in customer usage patterns and related pricing, partially offset by customer growth	(12)	(5)	(7)
Effects of weather	(9)	(3)	(6)
Higher net fuel and purchased power costs, including related deferrals and higher off-system sales	9	11	(2)
Miscellaneous items, net	3	2	1
Total	\$ (9)	\$ 13	\$ (22)

Operations and maintenance. Operations and maintenance expenses decreased \$18 million for the three months ended June 30, 2014 compared with the prior-year period primarily because of:

- A decrease of \$14 million related to costs for demand-side management, renewable energy and similar regulatory programs, which were largely offset in operating revenues and purchased power;
- A decrease of \$5 million related to lower employee benefit costs; and
- An increase of \$1 million related to other miscellaneous factors.

All other income and expenses, net. All other income and expenses, net, increased \$7 million for the three months ended June 30, 2014 compared with the prior-year period primarily due to interest income and other non-operating income.

Six-month period ended June 30, 2014 compared with six-month period ended June 30, 2013.

Our consolidated net income attributable to common shareholders for the six months ended June 30, 2014 was \$148 million, compared with consolidated net income of \$156 million for the prior-year period. The results reflect a decrease of approximately \$7 million for the regulated electricity segment primarily related to the effects of weather, lower retail transmission revenues, and higher property taxes. These negative factors were partially offset by lower operations and maintenance expenses related to lower employee benefit costs, higher other income, and lower income taxes.

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The following table presents net income attributable to common shareholders compared with the prior-year period:

	Six Months Ended June 30,			Net Change
	2014	2013 (dollars in millions)		
Regulated Electricity Segment:				
Operating revenues less fuel and purchased power expenses	\$ 1,051	\$ 1,093	\$ (42)	
Operations and maintenance	(424)	(453)	29	
Depreciation and amortization	(207)	(210)	3	
Taxes other than income taxes	(90)	(81)	(9)	
All other income and expenses, net	15	7	8	
Interest charges, net of allowance for borrowed funds used during construction	(97)	(93)	(4)	
Income taxes	(81)	(90)	9	
Less income related to noncontrolling interests (Note 6)	(18)	(17)	(1)	
Regulated electricity segment net income	149	156	(7)	
All other	(1)	—	(1)	
Net Income Attributable to Common Shareholders	\$ 148	\$ 156	\$ (8)	

Operating revenues less fuel and purchased power expenses. Regulated electricity segment operating revenues less fuel and purchased power expenses were \$42 million lower for the six months ended June 30, 2014 compared with the prior-year period. The following table summarizes the major components of this change:

	Operating revenues	Increase (Decrease) Fuel and purchased power expenses (dollars in millions)	Net change
Effects of weather	\$ (45)	\$ (16)	\$ (29)
Lower retail transmission revenues	(9)	—	(9)
Higher renewable energy regulatory surcharges and purchased power, offset by lower demand side management regulatory surcharges	6	13	(7)
Lower retail sales due to changes in customer usage patterns and related pricing, partially offset by customer growth	(9)	(3)	(6)
Higher net fuel and purchased power costs, including related deferrals and higher off-system sales	38	39	(1)
Lost fixed cost recovery	7	—	7
Miscellaneous items, net	2	(1)	3
Total	\$ (10)	\$ 32	\$ (42)

Operations and maintenance. Operations and maintenance expenses decreased \$29 million for the six months ended June 30, 2014 compared with the prior-year period primarily because of:

- A decrease of \$16 million related to lower employee benefit costs; and
- A decrease of \$13 million related to costs for demand-side management, renewable energy and similar regulatory programs, which were largely offset in operating revenues and purchased power.

Taxes other than income taxes. Taxes other than income taxes were \$9 million higher for the six months ended June 30, 2014 compared with the prior-year period primarily due to higher property tax rates and higher plant balances.

All other income and expenses, net. All other income and expenses, net, were \$8 million higher for the six months ended June 30, 2014 compared with the prior-year period primarily due to interest income and other non-operating income.

Income taxes. Income taxes were \$9 million lower for the six months ended June 30, 2014 compared with the prior-year period primarily due to lower pretax income.

LIQUIDITY AND CAPITAL RESOURCES

Overview

Pinnacle West's primary cash needs are for dividends to our shareholders and principal and interest payments on our indebtedness. The level of our common stock dividends and future dividend growth will be dependent on declaration by our Board of Directors and based on a number of factors, including our financial condition, payout ratio, free cash flow and other factors.

Our primary sources of cash are dividends from APS and external debt and equity issuances. An ACC order requires APS to maintain a common equity ratio of at least 40%. As defined in the related ACC order, the common equity ratio is defined as total shareholder equity divided by the sum of total shareholder equity and long-term debt, including current maturities of long-term debt. At June 30, 2014, APS's common equity ratio, as defined, was 58%. Its total shareholder equity was approximately \$4.3 billion, and total capitalization was approximately \$7.5 billion. Under this order, APS would be prohibited from paying dividends if such payment would reduce its total shareholder equity below approximately \$3.0 billion, assuming APS's total capitalization remains the same. This restriction does not materially affect Pinnacle West's ability to meet its ongoing cash needs or ability to pay dividends to shareholders.

APS's capital requirements consist primarily of capital expenditures and maturities of long-term debt. APS funds its capital requirements with cash from operations and, to the extent necessary, external debt financing and equity infusions from Pinnacle West.

Summary of Cash Flows

The following tables present net cash provided by (used for) operating, investing and financing activities for the six months ended June 30, 2014 and 2013 (dollars in millions):

Pinnacle West Consolidated

	Six Months Ended June 30		Net Change
	2014	2013	
Net cash flow provided by operating activities	\$ 465	\$ 454	\$ 11
Net cash flow used for investing activities	(393)	(372)	(21)
Net cash flow used for financing activities	(72)	(80)	8
Net increase in cash and cash equivalents	<u>\$ —</u>	<u>\$ 2</u>	<u>\$ (2)</u>

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Arizona Public Service Company

	Six Months Ended June 30		Net Change
	2014	2013	
Net cash flow provided by operating activities	\$ 487	\$ 469	\$ 18
Net cash flow used for investing activities	(393)	(372)	(21)
Net cash flow used for financing activities	(89)	(95)	6
Net increase in cash and cash equivalents	\$ 5	\$ 2	\$ 3

Operating Cash Flows

Six-month period ended June 30, 2014 compared with six-month period ended June 30, 2013. Pinnacle West's consolidated net cash provided by operating activities was \$465 million in 2014 compared to \$454 million in 2013, an increase of \$11 million in net cash provided. The increase is primarily related to a \$135 million income tax refund received in the first quarter of 2014, partially offset by \$49 million of higher pension contributions in the six month-period ended June 30 , 2014 (approximately \$6 million of which is reflected in capital expenditures), a \$38 million change in cash collateral posted, \$35 million in higher fuel and purchased power costs, and other working capital.

Other . Pinnacle West sponsors a qualified defined benefit pension plan and a non-qualified supplemental excess benefit retirement plan for the employees of Pinnacle West and our subsidiaries. The requirements of the Employee Retirement Income Security Act of 1974 ("ERISA") require us to contribute a minimum amount to the qualified plan. We contribute at least the minimum amount required under ERISA regulations, but no more than the maximum tax-deductible amount. The minimum required funding takes into consideration the value of plan assets and our pension benefit obligations. Under ERISA, the qualified pension plan was 107% funded as of January 1, 2013 and is estimated to be approximately 103% funded as of January 1, 2014. The assets in the plan are comprised of fixed-income, equity, real estate, and short-term investments. Future year contribution amounts are dependent on plan asset performance and plan actuarial assumptions. The minimum contributions for the pension plan total \$141 million for the next three years under the Moving Ahead for Progress in the 21st Century Act (zero in 2014, \$19 million in 2015 and \$122 million in 2016). However, we expect to make voluntary contributions totaling up to \$300 million for the next three years (\$175 million in 2014, of which \$140 million was already contributed through July 2014, up to \$100 million in 2015, and up to \$25 million in 2016). The contributions to our other postretirement benefit plans for 2014, 2015 and 2016 are expected to be approximately \$10 million each year.

During the first quarter of 2014, a \$135 million cash refund was received from the IRS related to tax returns for the years ended December 31, 2008 and 2009. This refund was classified as a current income tax receivable at December 31, 2013.

Investing Cash Flows

Six-month period ended June 30, 2014 compared with six-month period ended June 30, 2013. Pinnacle West's consolidated net cash used for investing activities was \$393 million in 2014, compared to \$372 million in 2013, an increase of \$21 million in net cash used primarily related to increased capital expenditures.

Capital Expenditures. The following table summarizes the estimated capital expenditures for the next three years:

	Capital Expenditures (dollars in millions)		
	Estimated for the Year Ended December 31,		
	2014	2015	2016
APS			
Generation:			
Nuclear Fuel	\$ 75	\$ 86	\$ 88
Renewables	131	8	—
Environmental	22	58	212
New Gas Generation	2	42	129
Other Generation	220	205	227
Distribution	230	373	363
Transmission	177	213	196
Other (a)	74	41	48
Total APS	\$ 931	\$ 1,026	\$ 1,263

(a) Primarily information systems and facilities projects.

Generation capital expenditures are comprised of various improvements to APS's existing fossil and nuclear plants. Examples of the types of projects included in this category are additions, upgrades and capital replacements of various power plant equipment, such as turbines, boilers and environmental equipment. The estimated Renewables expenditures include 20 MW of utility-scale solar projects which were approved by the ACC in the 2014 RES Implementation Plan. We have not included estimated costs for Cholla's compliance with the Mercury and Air Toxics Standards or EPA's regional haze rule since we have challenged the regional haze rule judicially and are considering our future options with respect to that plant if the regional haze rule is upheld. The portion of estimated costs through 2016 for installation of pollution control equipment needed to ensure Four Corners' compliance with EPA's regional haze rules have been included in the table above. We are monitoring the status of other environmental matters, which, depending on their final outcome, could require modification to our planned environmental expenditures.

Distribution and transmission capital expenditures are comprised of infrastructure additions and upgrades, capital replacements, and new customer construction. Examples of the types of projects included in the forecast include power lines, substations, and line extensions to new residential and commercial developments.

Capital expenditures will be funded with internally generated cash and external financings, which may include issuances of long-term debt and Pinnacle West common stock.

Financing Cash Flows and Liquidity

Six-month period ended June 30, 2014 compared with six-month period ended June 30, 2013. Pinnacle West's consolidated net cash used for financing activities was \$72 million in 2014, compared to \$80 million in 2013, a decrease of \$8 million in net cash used. The decrease in net cash used for financing activities is primarily due to \$400 million in higher issuances of long-term debt and an \$86 million net change in short-term borrowings, partially offset by \$463 million in higher repayments of long-term debt (see below).

Significant Financing Activities. On June 18, 2014, the Pinnacle West Board of Directors declared a dividend of \$0.5675 per share of common stock, payable on September 2, 2014 to shareholders of record on August 1, 2014.

On July 12, 2013, APS purchased all \$33 million of the Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds, 1994 Series A, due 2029. On October 11, 2013, APS purchased all \$32 million of the City of Farmington, New Mexico Pollution Control Revenue Bonds, 1994 Series C, due 2024. On January 15, 2014, both of these series of bonds were canceled and refinanced as described below.

On January 10, 2014, APS issued \$250 million of 4.70% unsecured senior notes that mature on January 15, 2044. The proceeds from the sale were used to repay commercial paper which was used to fund the acquisition of SCE's 48% ownership interest in each of Units 4 and 5 of Four Corners and to replenish cash used in 2013 to re-acquire the two series of tax-exempt indebtedness listed above.

On May 1, 2014, APS purchased a total of \$100 million of the Maricopa County, Arizona, Pollution Control Corporation Pollution Control Revenue Refunding Bonds, 2009 Series A, D and E due 2029 in connection with the mandatory tender provisions for this indebtedness. On May 14, 2014, APS remarketed all \$36 million of the 2009 Series A Bonds, which are classified as long-term debt on our Condensed Consolidated Balance Sheets at June 30, 2014. We expect to remarket or refinance all \$64 million of the 2009 Series D Bonds and 2009 Series E Bonds within the next twelve months, which were classified as current maturities of long-term debt at December 31, 2013.

On May 30, 2014, APS purchased all \$38 million of the Navajo County, Arizona, Pollution Control Corporation Pollution Control Revenue Refunding Bonds, 2009 Series A, due 2034, and on June 1, 2014, APS purchased a total of \$64 million of the Navajo 2009 Series B Bonds and 2009 Series C Bonds, in each case, in connection with the mandatory tender provisions for this indebtedness. We expect to remarket or refinance these bonds within the next twelve months. These bonds were classified as current maturities of long-term debt on our Condensed Consolidated Balance Sheets at December 31, 2013.

On June 1, 2014, APS remarketed all \$13 million of the Coconino County, Arizona Pollution Control Corporation Pollution Control Revenue Refunding Bonds, 2009 Series A, due 2034. These bonds are classified as long-term debt on our Condensed Consolidated Balance Sheets at June 30, 2014.

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On June 18, 2014, APS issued \$250 million of 3.35% unsecured senior notes that mature on June 15, 2024. The net proceeds from the sale were used along with other funds to repay at maturity APS's \$300 million aggregate principal amount of 5.80% senior notes due June 30, 2014.

Available Credit Facilities. Pinnacle West and APS maintain committed revolving credit facilities in order to enhance liquidity and provide credit support for their commercial paper programs.

On May 9, 2014, Pinnacle West replaced its \$200 million revolving credit facility that would have matured in November 2016, with a new \$200 million facility that matures in May 2019. At June 30, 2014, the facility was available to refinance indebtedness of the Company and for other general corporate purposes, including credit support for its \$200 million commercial paper program. Pinnacle West has the option to increase the amount of the facility up to a maximum of \$300 million upon the satisfaction of certain conditions and with the consent of the lenders. At June 30, 2014, Pinnacle West had commercial paper borrowings of \$4 million, no outstanding borrowings under its credit facility and no letters of credit outstanding.

On May 9, 2014, APS replaced its \$500 million revolving credit facility that would have matured in November 2016, with a new \$500 million facility that matures in May 2019.

At June 30, 2014, APS had two credit facilities totaling \$1 billion, including a \$500 million credit facility that matures in April 2018 and the \$500 million facility that matures in May 2019 (see above). APS may increase the amount of each facility up to a maximum of \$700 million upon the satisfaction of certain conditions and with the consent of the lenders. APS will use these facilities to refinance indebtedness and for other general corporate purposes. Interest rates are based on APS's senior unsecured debt credit ratings.

The facilities described above are available to support APS's \$250 million commercial paper program, for bank borrowings or for issuances of letters of credit. At June 30, 2014, APS had \$173 million of commercial paper borrowings and no outstanding borrowings or outstanding letters of credit under these credit facilities.

See "Financial Assurances" in Note 9 for a discussion of APS's separate outstanding letters of credit.

Other Financing Matters.

See Note 3 for information regarding the PSA approved by the ACC.

See Note 7 for information related to the change in our margin and collateral accounts.

Debt Provisions

Pinnacle West's and APS's debt covenants related to their respective bank financing arrangements include maximum debt to capitalization ratios. Pinnacle West and APS comply with this covenant. For both Pinnacle West and APS, this covenant requires that the ratio of consolidated debt to total consolidated capitalization not exceed 65%. At June 30, 2014, the ratio was approximately 46% for Pinnacle West and 45% for APS. Failure to comply with such covenant levels would result in an event of default which, generally speaking, would require the immediate repayment of the debt subject to the covenants and could "cross-default" other debt. See further discussion of "cross-default" provisions below.

Neither Pinnacle West's nor APS's financing agreements contain "rating triggers" that would result in an acceleration of the required interest and principal payments in the event of a rating downgrade. However, our bank credit agreements contain a pricing grid in which the interest rates we pay for borrowings thereunder are determined by our current credit ratings.

All of Pinnacle West's loan agreements contain "cross-default" provisions that would result in defaults and the potential acceleration of payment under these loan agreements if Pinnacle West or APS were to default under certain other material agreements. All of APS's bank agreements contain "cross-default" provisions that would result in defaults and the potential acceleration of payment under these bank agreements if APS were to default under certain other material agreements. Pinnacle West and APS do not have a material adverse change restriction for credit facility borrowings.

See Note 2 for further discussions of liquidity matters.

Credit Ratings

The ratings of securities of Pinnacle West and APS as of July 25, 2014 are shown below. We are disclosing these credit ratings to enhance understanding of our cost of short-term and long-term capital and our ability to access the markets for liquidity and long-term debt. The ratings reflect the respective views of the rating agencies, from which an explanation of the significance of their ratings may be obtained. There is no assurance that these ratings will continue for any given period of time. The ratings may be revised or withdrawn entirely by the rating agencies if, in their respective judgments, circumstances so warrant. Any downward revision or withdrawal may adversely affect the market price of Pinnacle West's or APS's securities and/or result in an increase in the cost of, or limit access to, capital. Such revisions may also result in substantial additional cash or other collateral requirements related to certain derivative instruments, insurance policies, natural gas transportation, fuel supply, and other energy-related contracts. At this time, we believe we have sufficient available liquidity resources to respond to a downward revision to our credit ratings.

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	Moody's	Standard & Poor's	Fitch
Pinnacle West			
Corporate credit rating	Baa1	A-	BBB+
Commercial paper	P-2	A-2	F2
Outlook	Stable	Stable	Positive
APS			
Corporate credit rating	A3	A-	BBB+
Senior unsecured	A3	A-	A-
Secured lease obligation bonds	A3	A-	A-
Commercial paper	P-2	A-2	F2
Outlook	Stable	Stable	Positive

Off-Balance Sheet Arrangements

See Note 6 for a discussion of the impacts on our financial statements of consolidating certain VIEs.

Contractual Obligations

There have been no material changes, as of June 30, 2014, outside the normal course of business in contractual obligations from the information provided in our 2013 Form 10-K. See Note 2 for discussion regarding changes in our long-term debt obligations.

On July 7, 2014, APS notified the Palo Verde sale leaseback lessor trust entities of APS's intent to exercise fixed rate lease renewal options. Under the extended lease terms, APS will be required to make lease payments to the lessors of approximately \$23 million annually for the period 2016 through 2023, and about \$16 million annually for the period 2024 through 2033. See Note 6.

CRITICAL ACCOUNTING POLICIES

In preparing the financial statements in accordance with GAAP, management must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting period. Some of those judgments can be subjective and complex, and actual results could differ from those estimates. There have been no changes to our critical accounting policies since our 2013 Form 10-K. See "Critical Accounting Policies" in Item 7 of the 2013 Form 10-K for further details about our critical accounting policies.

OTHER ACCOUNTING MATTERS

During 2014, we adopted new accounting guidance relating to the balance sheet presentation of certain unrecognized tax benefits. In addition, we are currently evaluating new revenue recognition guidance that we will be adopting on January 1, 2017. See Note 14.

MARKET AND CREDIT RISKS

Market Risks

Our operations include managing market risks related to changes in interest rates, commodity prices and investments held by our nuclear decommissioning trust fund and benefit plan assets.

Interest Rate and Equity Risk

We have exposure to changing interest rates. Changing interest rates will affect interest paid on variable-rate debt and the market value of fixed income securities held by our nuclear decommissioning trust fund (see Note 12 and Note 13) and benefit plan assets. The nuclear decommissioning trust fund and benefit plan assets also have risks associated with the changing market value of their equity and other non-fixed income investments. Nuclear decommissioning and benefit plan costs are recovered in regulated electricity prices.

Commodity Price Risk

We are exposed to the impact of market fluctuations in the commodity price and transportation costs of electricity and natural gas. Our risk management committee, consisting of officers and key management personnel, oversees company-wide energy risk management activities to ensure compliance with our stated energy risk management policies. We manage risks associated with these market fluctuations by utilizing various commodity instruments that may qualify as derivatives, including futures, forwards, options and swaps. As part of our risk management program, we use such instruments to hedge purchases and sales of electricity and fuels. The changes in market value of such contracts have a high correlation to price changes in the hedged commodities.

The following table shows the net pretax changes in mark-to-market of our derivative positions for the six months ended June 30, 2014 and 2013 (dollars in millions):

	Six Months Ended June 30,	
	2014	2013
Mark-to-market of net positions at beginning of year	\$ (73)	\$ (122)
Decrease (increase) in regulatory asset/liability	21	(3)
Recognized in OCI:		
Mark-to-market losses realized during the period	8	16
Change in valuation techniques	—	—
Mark-to-market of net positions at end of year	\$ (44)	\$ (109)

The table below shows the fair value of maturities of our derivative contracts (dollars in millions) at June 30, 2014 by maturities and by the type of valuation that is performed to calculate the fair values, classified in their entirety based on the lowest level of input that is significant to the fair value measurement. See Note 1, "Derivative Accounting" and "Fair Value Measurements," in Item 8 of our 2013 Form 10-K and Note 12 for more discussion of our valuation methods.

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Source of Fair Value	2014	2015	2016	2017	2018	Years thereafter	Total fair value
Observable prices provided by other external sources	\$ (2)	\$ (1)	\$ (1)	\$ 1	\$ —	\$ —	\$ (3)
Prices based on unobservable inputs	\$ (7)	\$ (14)	\$ (9)	\$ (4)	\$ (3)	\$ (4)	\$ (41)
Total by maturity	\$ (9)	\$ (15)	\$ (10)	\$ (3)	\$ (3)	\$ (4)	\$ (44)

The table below shows the impact that hypothetical price movements of 10% would have on the market value of our risk management assets and liabilities included on Pinnacle West's Condensed Consolidated Balance Sheets at June 30, 2014 and December 31, 2013 (dollars in millions):

	June 30, 2014 Gain (Loss)		December 31, 2013 Gain (Loss)	
	Price Up 10%	Price Down 10%	Price Up 10%	Price Down 10%
Mark-to-market changes reported in:				
Earnings (a)	\$ —	\$ —	\$ —	\$ —
Natural gas	\$ —	\$ —	\$ —	\$ —
Regulatory asset (liability) or OCI (b)	3	(3)	6	(6)
Electricity	37	(37)	26	(26)
Natural gas	\$ 40	\$ (40)	\$ 32	\$ (32)
Total				

(a) Represents the amounts reflected in income after the effect of PSA deferrals.

(b) These contracts are economic hedges of our forecasted purchases of natural gas and electricity. The impact of these hypothetical price movements would substantially offset the impact that these same price movements would have on the physical exposures being hedged. To the extent the amounts are eligible for inclusion in the PSA, the amounts are recorded as either a regulatory asset or liability.

Credit Risk

We are exposed to losses in the event of non-performance or non-payment by counterparties. See Note 7 for a discussion of our credit valuation adjustment policy.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

See “Key Financial Drivers” and “Market and Credit Risks” in Item 2 above for a discussion of quantitative and qualitative disclosures about market risks.

Item 4. CONTROLS AND PROCEDURES

(a) Disclosure Controls and Procedures

The term “disclosure controls and procedures” means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Securities Exchange Act of 1934, as amended (the “Exchange Act”) (15 U.S.C. 78a *et seq.*), is recorded, processed, summarized and reported, within the time periods specified in the SEC’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to a company’s management, including its principal executive and principal financial officers, or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

Pinnacle West’s management, with the participation of Pinnacle West’s Chief Executive Officer and Chief Financial Officer, have evaluated the effectiveness of Pinnacle West’s disclosure controls and procedures as of June 30, 2014. Based on that evaluation, Pinnacle West’s Chief Executive Officer and Chief Financial Officer have concluded that, as of that date, Pinnacle West’s disclosure controls and procedures were effective.

APS’s management, with the participation of APS’s Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of APS’s disclosure controls and procedures as of June 30, 2014. Based on that evaluation, APS’s Chief Executive Officer and Chief Financial Officer have concluded that, as of that date, APS’s disclosure controls and procedures were effective.

(b) Changes in Internal Control Over Financial Reporting

The term “internal control over financial reporting” (defined in SEC Rule 13a-15(f)) refers to the process of a company that is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP.

No change in Pinnacle West’s or APS’s internal control over financial reporting occurred during the fiscal quarter ended June 30, 2014 that materially affected, or is reasonably likely to materially affect, Pinnacle West’s or APS’s internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. **LEGAL PROCEEDINGS**

See “Environmental Matters” in Item 5 below and “Business of Arizona Public Service Company — Environmental Matters” in Item 1 of the 2013 Form 10-K with regard to pending or threatened litigation and other disputes.

See Note 3 for ACC and FERC-related matters.

See Note 9 for information regarding environmental matters, Superfund-related matters, matters related to a September 2011 power outage and a New Mexico tax matter.

Item 1A. **RISK FACTORS**

In addition to the other information set forth in this report, you should carefully consider the factors discussed in Part I, Item 1A — Risk Factors in the 2013 Form 10-K, which could materially affect the business, financial condition, cash flows or future results of Pinnacle West and APS. The risks described in the 2013 Form 10-K are not the only risks facing Pinnacle West and APS. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially adversely affect the business, financial condition, cash flows and/or operating results of Pinnacle West and APS. The risk factor below is an update to our 2013 Form 10-K.

APS faces physical and operational risks related to climate change, and potential financial risks resulting from climate change litigation and legislative and regulatory efforts to limit GHG emissions.

Concern over climate change has led to significant legislative and regulatory efforts to limit CO₂, which is a major byproduct of the combustion of fossil fuel, and other GHG emissions.

Financial Risks — Potential Greenhouse Gas Regulation. On June 2, 2014, EPA proposed a rule to limit carbon dioxide emissions from existing power plants. EPA expects to finalize the proposal in June 2015. EPA’s proposal for Arizona would result in a shift in in-state generation from coal to natural gas and renewable generation. Such a substantial change in APS’s generation portfolio could require additional capital investments and increased operating costs, and thus have a significant financial impact on the Company.

Physical and Operational Risks. Weather extremes such as drought and high temperature variations are common occurrences in the Southwest’s desert area, and these are risks that APS considers in the normal course of business in the engineering and construction of its electric system. Large increases in ambient temperatures could require evaluation of certain materials used within its system and represent a greater challenge.

Item 2. **UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

Issuer Purchases of Equity Securities

There were no issuer purchases of equity securities during the second quarter of 2014.

Item 5. OTHER INFORMATION

Physical Security Standards

On March 7, 2014, FERC issued an order requiring NERC to act within 90 days to develop standards that will require utilities to take steps, or to demonstrate that they have taken steps, to address physical security risks and vulnerabilities related to the reliable operation of the bulk-power system. On May 23, 2014, NERC filed a petition with FERC for approval of the proposed Physical Security Reliability Standard CIP-014-1. The proposed Physical Security Reliability Standard requires transmission owners and operators to protect those critical transmission stations and substations and their associated primary control centers that if rendered inoperable or damaged as a result of a physical attack could result in widespread instability, uncontrolled separation or cascading within an interconnection. Until the NERC standards have been approved by FERC, we cannot predict the extent of any financial or operational impacts on APS.

Union Contract

As previously disclosed in Part I, Item 1 “Business — Other Information” in the 2013 Form 10-K, APS and union representatives from the United Security Professionals of America, the union representing Palo Verde security personnel, were engaged in negotiations over the terms of a new collective bargaining agreement. On June 1, 2014, the union members ratified a three-year contract, which will expire on May 31, 2017. The contract provides an average wage increase of 1.65% for the first year, 1.98% for the second year and 2.35% for the third year.

Environmental Matters

Climate Action Plan and Greenhouse Gas Emissions

As previously reported, consistent with President Obama’s June 2013 Climate Action Plan addressing his plans to reduce GHG emissions in the United States, pursuant to its endangerment finding and its authority under Section 111(b) of the Clean Air Act, on September 20, 2013, EPA issued a proposed rule, which would establish New Source Performance Standards (“NSPS”) for new fossil-fired power plants. The President directed EPA to finalize the greenhouse gas NSPS for electric utilities in a timely fashion. Once finalized, APS does not expect that the standards will have any material impact on its current operations.

Also in accordance with the Climate Action Plan, on June 2, 2014, EPA issued two additional proposed rules to regulate GHG emissions from existing fossil fuel-fired power plants and modified and reconstructed electric generating units. Exercising its authority under Section 111(d) of the Clean Air Act, EPA’s proposed “Clean Power Plan” rule proposes state-specific goals or targets to achieve reductions in CO₂ emissions measured from a 2012 baseline. EPA’s proposed emission rates would not apply directly to specific electric generating units, but must be met on a state-wide basis. As proposed, each state’s goal is an emissions rate—a single number for the future carbon intensity of that state. The proposed rule provides guidelines to states to help develop their plans for meeting the interim (2020-2029) and final (2030 and beyond) emission rates set forth in the proposal. States would be required to submit their plans to EPA by June 2016, although states may be eligible for one or two year extensions, provided they submit detailed explanations by April 2016 that contain specified information required by EPA. As for sources in Indian country (which are not subject to state plans), including Four Corners and the Navajo Plant, EPA stated that it intends to publish a supplemental proposal at a later date to develop a federal plan establishing standards of performance for these sources. EPA explained that it would finalize this federal plan by June 2015.

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EPA's proposal for Arizona would result in in-state coal-fired generation (with the exception of coal-fired generation located in Indian country) shifting to natural gas combined cycle and renewable generation. Such a substantial change in APS's generation portfolio could require additional capital investments and increased operating costs, and thus have a significant financial impact on the Company. APS will continue to monitor these standards as they are developed.

On June 2, 2014, EPA also issued a proposal to regulate CO₂ emissions from modified and reconstructed power plants pursuant to Section 111(b) of the Clean Air Act. The proposed rule would require modified and reconstructed fossil fuel-fired electric generating units to meet CO₂ performance standards based on a combination of best operating practices and equipment upgrades. The rule would also require existing electric generating units that are modified or reconstructed after becoming subject to state or federal standards of performance for existing power plants under Section 111(d) of the Clean Air Act to continue to meet those requirements. President Obama directed EPA to finalize both rules by June 1, 2015. We cannot currently predict the shape of any final rules or standards for modified and reconstructed fossil-fired power plants or assess how they might potentially impact the Company.

Cooling Water Intake Structures

EPA issued its final cooling water intake structures rule on May 19, 2014, which establishes national standards applicable to certain cooling water intake structures at existing power plants and other facilities pursuant to Section 316(b) of the Clean Water Act. The standards are intended to protect fish and other aquatic organisms by minimizing impingement mortality (the capture of aquatic wildlife on intake structures or against screens) and entrainment mortality (the capture of fish or shellfish in water flow entering and passing through intake structures). The rule requires all affected sources to submit source water baseline characterization data to the permitting authority. To minimize impingement mortality, the rule requires facilities, such as Four Corners and the Navajo Plant, to meet one of seven impingement mortality standards. To minimize entrainment mortality, the rule requires the permit writer to consider an array of factors, including social costs and benefits, and choose the "best technology available."

Compliance deadlines under the rule are tied to permit renewal and will be subject to a schedule of compliance established by the permitting authority. APS is currently in discussions with EPA Region 9, the National Pollutant Discharge Elimination System permit writer for Four Corners, to determine the scope of the impingement and entrainment requirements, which will, in turn, determine APS's costs to comply with the rule. APS does not expect such costs to be material.

Climate Change - Regulatory Initiatives Update

In 2009, EPA determined that GHG emissions endanger public health and welfare. This determination was made in response to a 2007 United States Supreme Court ruling that GHGs fit within the Clean Air Act's broad definition of "air pollutant" and, as a result, EPA has the authority to regulate GHG emissions of new motor vehicles under the Clean Air Act. As a result of this "endangerment finding," EPA determined that the Clean Air Act required new regulatory requirements for new and modified major GHG emitting sources, including power plants. (See "Climate Action Plan" discussion above.) EPA issued a rule under the Clean Air Act, known as the "tailoring rule," establishing new GHG emission thresholds that determine when sources, including power plants, must obtain air operating permits or New Source Review permits. "New Source Review," or "NSR," is a pre-construction permitting program under the Clean Air Act that requires analysis of pollution controls prior to building a new stationary source or making major modifications to an existing stationary source. The tailoring rule became applicable to power plants in January 2011. Several groups filed lawsuits challenging EPA's endangerment finding and the tailoring rule, but the D.C. Circuit upheld these rules. Petitioners asked the United States Supreme Court to reverse all or

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part of the appeals court's decision upholding EPA's GHG rules. On October 15, 2013, the Supreme Court granted these petitions limiting the question it would review to whether EPA permissibly determined that its regulation of GHG emissions from new motor vehicles triggered permitting requirements under the Clean Air Act for stationary sources that emit such gasses, including power plants.

On June 23, 2014, the Supreme Court issued its decision holding that while GHG emissions alone cannot trigger an obligation to obtain a pre-construction permit, EPA can require a source to obtain a pre-construction permit limiting GHG emissions if it is required to obtain such permit for any other pollutant regulated under the Clean Air Act (so-called "anyway" sources). Because APS expects that most projects it will undertake at its power plants will be "anyway" projects, APS does not expect that the Supreme Court's decision will have a significant impact on APS's current operations. APS will be required to consider the impact of GHG emissions as part of its traditional NSR analysis for new sources and major modifications to existing plants.

Regional Haze Rules — Four Corners BART FIP Challenge

On October 22, 2012, WildEarth Guardians filed a petition for review in the United States Court of Appeals for the Ninth Circuit alleging that EPA violated the Endangered Species Act when it promulgated the final Four Corners BART FIP (see Note 9 for additional discussion of the Regional Haze Rules). The court granted APS's motion for leave to intervene as a defendant and subsequently transferred the case to the Tenth Circuit. On July 23, 2014, the court affirmed EPA's action and denied WildEarth Guardians' petition for review. APS is unable to predict whether WildEarth Guardians will file a petition for rehearing or otherwise appeal the decision.

Pinnacle West Transmission

On July 31, 2014, Pinnacle West announced its creation of a wholly-owned subsidiary, Bright Canyon Energy Corporation ("BCE"). BCE will focus on new growth opportunities that leverage the Company's core expertise in the electric energy industry. BCE's first initiative, also announced on July 31, 2014, is a joint venture with MidAmerican Transmission, LLC. The joint venture intends to focus on transmission opportunities within the Western Electricity Coordinating Council, excluding the retail service territories of the venture partners' affiliates. The joint venture intends to bid into California Independent System Operator's ("CAISO") competitive solicitation process to design, build and own a new 500 kV transmission line between Arizona and California, the Delaney to Colorado River Transmission Line. The winner of the bidding process is expected to be announced in 2015. This transmission line will connect a planned Delaney substation near Palo Verde in Arizona, and the existing Colorado River substation, located just west of Blythe, California.

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Item 6. EXHIBITS

(a) Exhibits

Exhibit No.	Registrant(s)	Description
10.1*	Pinnacle West APS	Second Amendment to the Pinnacle West Capital Corporation Savings Plan
10.2	Pinnacle West APS	Amendment No. 3, dated July 10, 2014, to Facility Lease, dated as of December 15, 1986 between U.S. Bank National Association, successor to State Street Bank and Trust Company, as successor to the First National Bank of Boston, as Lessor, and APS, as Lessee
10.3	Pinnacle West APS	Five-Year Credit Agreement dated as of May 9, 2014, among APS, as Borrower, Barclays Bank PLC, as Agent and Issuing Bank, and the lenders and other parties thereto
10.4	Pinnacle West	Five-Year Credit Agreement, dated as of May 9, 2014, among Pinnacle West, as Borrower, Barclays Bank PLC, as Agent and Issuing Bank, and the lenders and other parties thereto
12.1	Pinnacle West	Ratio of Earnings to Fixed Charges
12.2	APS	Ratio of Earnings to Fixed Charges
12.3	Pinnacle West	Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividend Requirements
31.1	Pinnacle West	Certificate of Donald E. Brandt, Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2	Pinnacle West	Certificate of James R. Hatfield, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended

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Exhibit No.	Registrant(s)	Description
31.3	APS	Certificate of Donald E. Brandt, Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.4	APS	Certificate of James R. Hatfield, Executive Vice President and Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1**	Pinnacle West	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2**	APS	Certification of Chief Executive Officer and Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS	Pinnacle West APS	XBRL Instance Document
101.SCH	Pinnacle West APS	XBRL Taxonomy Extension Schema Document
101.CAL	Pinnacle West APS	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB	Pinnacle West APS	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	Pinnacle West APS	XBRL Taxonomy Extension Presentation Linkbase Document
101.DEF	Pinnacle West APS	XBRL Taxonomy Definition Linkbase Document

*Management contract or compensatory plan or arrangement to be filed as an exhibit pursuant to Item 6 of Form 10-Q.

**Furnished herewith as an Exhibit.

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In addition, Pinnacle West and APS hereby incorporate the following Exhibits pursuant to Exchange Act Rule 12b-32 and Regulation §229.10(d) by reference to the filings set forth below:

Exhibit No.	Registrant(s)	Description	Previously Filed as Exhibit(1)	Date Filed
3.1	Pinnacle West	Pinnacle West Capital Corporation Bylaws, amended as of May 19, 2010	3.1 to Pinnacle West/APS June 30, 2010 Form 10-Q Report, File Nos. 1-8962 and 1-4473	8-3-10
3.2	Pinnacle West	Articles of Incorporation, restated as of May 21, 2008	3.1 to Pinnacle West/APS June 30, 2008 Form 10-Q Report, File Nos. 1-8962 and 1-4473	8-7-08
3.3	APS	Articles of Incorporation, restated as of May 25, 1988	4.2 to APS's Form S-3 Registration Nos. 33-33910 and 33-55248 by means of September 24, 1993 Form 8-K Report, File No. 1-4473	9-29-93
3.4	APS	Amendment to the Articles of Incorporation of Arizona Public Service Company, amended May 16, 2012	3.1 to Pinnacle West/APS May 22, 2012 Form 8-K Report, File Nos. 1-8962 and 1-4473	5-22-12
3.5	APS	Arizona Public Service Company Bylaws, amended as of December 16, 2008	3.4 to Pinnacle West/APS December 31, 2008 Form 10-K, File Nos. 1-8962 and 1-4473	2-20-09

(1) Reports filed under File Nos. 1-4473 and 1-8962 were filed in the office of the Securities and Exchange Commission located in Washington, D.C.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, each registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

PINNACLE WEST CAPITAL CORPORATION
(Registrant)

Dated: July 31, 2014

By: /s/ James R. Hatfield
James R. Hatfield
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and
Officer Duly Authorized to sign this Report)

ARIZONA PUBLIC SERVICE COMPANY
(Registrant)

Dated: July 31, 2014

By: /s/ James R. Hatfield
James R. Hatfield
Executive Vice President and
Chief Financial Officer
(Principal Financial Officer and
Officer Duly Authorized to sign this Report)

**SECOND AMENDMENT TO
THE PINNACLE WEST CAPITAL CORPORATION
SAVINGS PLAN**

Pinnacle West Capital Corporation (the “Company”) previously established the Pinnacle West Capital Corporation Savings Plan (the “Plan”). The Plan has been amended and restated on a number of occasions. Most recently, the Plan was amended and restated effective January 1, 2011. The Plan was subsequently amended on one occasion. By this instrument, the Company desires to amend the Plan to: (i) comply with federal guidance regarding the definition of the term “Spouse;” (ii) eliminate references to Participant default into the Professional Account Management Program; and (iii) clarify the allocation of the annual recordkeeping fee charged by the Recordkeeper.

1. Section 2.43 (Definitions — Spouse) of the Plan is hereby amended and restated in its entirety to read as follows:

2.43 Spouse.

Effective June 26, 2013, “Spouse” means an individual who is married to a Participant, of the opposite or same sex, if the marriage was validly entered into in a state whose laws authorize the marriage of the two individuals even if the married couple is domiciled in a state that does not recognize the validity of the marriage. For purposes of this definition, “state” means any domestic or foreign jurisdiction having the legal authority to sanction marriages.

2. Effective as of June 28, 2014, Section 8.1B (Allocation and Investments — Professional Account Management Program) of the Plan is hereby amended and restated in its entirety to read as follows:

8.1.B Professional Account Management Program.

Under the Professional Account Management Program, Participants may relinquish control over the investment of their Accounts to a Professional Account Manager selected by the Investment Management Committee in accordance with the provisions of the trust agreement. Each Employee who is a Participant in the Plan, may elect to participate in the Professional Account Management Program in accordance with the rules and

procedures established by the Administrative Committee. Participants who participate in the Professional Account Management Program will not be able to direct the investment of their accounts pursuant to Section 8.2 (Participant Directed Individual Account Plan) unless and until such Participants' participation in the Professional Account Management Program has been terminated in the manner prescribed by the Administrative Committee.

3. Effective as of January 1, 2014, Section 16.1(f) (Administrative Committee and Investment Management Committee — Compensation and Expenses) of the Plan is hereby amended by deleting the third paragraph and replacing it with the following new paragraph:

The annual recordkeeping fee charged by the Recordkeeper shall be in a uniform dollar amount charged directly and solely to the account of each Participant or beneficiary and shall be deducted pro-rata from the respective Accounts on a quarterly basis.

IN WITNESS WHEREOF, the Company has caused this Second Amendment to be executed by one of its duly authorized officers on this 19th day of June, 2014.

PINNACLE WEST CAPITAL CORPORATION

By /s/ Donald E. Brandt

Its Chairman of the Board, Chief Executive Officer & President

When Recorded, Return to:

Shirley A. Baum
Associate General Counsel
Pinnacle West Capital Corporation, Law Department
400 North Fifth Street, Station 8695
Phoenix, AZ 85004
Phone 602.250.3706
Fax 602.250.3393

AMENDMENT NO. 3

Dated as of July 10, 2014 to

FACILITY LEASE (Unit 2)
dated as of December 15, 1986,
as heretofore amended,

between

U.S. BANK NATIONAL ASSOCIATION
(successor to State Street Bank and Trust Company, successor to
The First National Bank of Boston), not in its individual capacity,
but solely as Owner Trustee under a Trust
Agreement, dated as of December 15, 1986,
with PV2—APS 150 Corporation
(assignee of Chase Manhattan Realty Leasing Corporation),
Lessor

and

ARIZONA PUBLIC SERVICE COMPANY,
Lessee

**A 3.3758701% UNDIVIDED INTEREST IN
PALO VERDE NUCLEAR GENERATING STATION UNIT 2 AND
A 1.1252900% UNDIVIDED INTEREST IN
CERTAIN COMMON FACILITIES**

Original Facility Lease recorded December 19, 1986, as Instrument No. 86-703291, and Amendment No. 1, recorded August 14, 1987, as
Instrument No. 87-514747, and Amendment No. 2, recorded March 22, 1993, as Instrument No. 93-165878, all in the Maricopa County,
Arizona Recorder's Office

AMENDMENT NO. 3, dated as of July 10, 2014 (“Amendment No. 3”), to the Facility Lease dated as of December 15, 1986, as heretofore amended, between U.S. BANK NATIONAL ASSOCIATION (successor to State Street Bank and Trust Company, successor to The First National Bank of Boston), not in its individual capacity, but solely as Owner Trustee under a Trust Agreement, dated as of December 15, 1986, with PV2—APS 150 Corporation (assignee of Chase Manhattan Realty Leasing Corporation), (the “Lessor”), and ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation (the “Lessee”).

WITNESSETH

WHEREAS, the Lessee and the Lessor have heretofore entered into a Facility Lease dated as of December 15, 1986, as heretofore amended (the “Facility Lease”), providing for the lease by the Lessor to the Lessee of the Undivided Interest and the Real Property Interest (capitalized terms used in this Amendment No. 3 without definition having the respective meanings assigned thereto in Appendix A to the Facility Lease);

WHEREAS, the Lessee has given notice of its exercise of the renewal option permitted in Section 12(a) of the Facility Lease upon expiration of the Basic Lease Term, which notice is irrevocable as to the Lessee as provided in Section 13(a) of the Facility Lease;

WHEREAS, the Lessee and the Lessor have agreed that, subject to the terms and conditions hereof, the Fixed Rate Renewal Term shall end on December 31, 2023;

WHEREAS, there are no Notes that are Outstanding under the Indenture, the Nonrecourse Refunding Notes, Refunding Series 1993 having been paid in full when the final installment of the 8.00% note of such series due June 30, 2013 was paid in full on June 30, 2013; and

WHEREAS, the Lessee and the Lessor desire to amend the Facility Lease effective as of the end of the Basic Lease Term as set forth in Section 1 hereof in order to implement the foregoing;

NOW, THEREFORE, in consideration of the premises and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

SECTION 1. Acknowledgements; Amendments.

The parties acknowledge and agree that:

- (x) the Lessee has given notice of its exercise of the renewal option permitted in Section 12(a) of the Facility Lease upon expiration of the Basic Lease Term, which notice is irrevocable as to the Lessee as provided in Section 13(a) of the Facility Lease; and
- (y) the Maximum Option Period is the period ending on December 31, 2023.

The Lessee and the Lessor hereby amend the Facility Lease effective as of the end of the Basic Lease Term in order to implement the foregoing as follows:

- (a) Section 3(a)(iv) of the Facility Lease shall be amended and restated in its entirety as follows:

“(iv) on June 30, 2016 and on each Basic Rent Payment date thereafter to and including December 31, 2023, an amount equal to \$3,423,462.”

(b) Section 12(a) of the Facility Lease (captioned “Fixed Rate Renewal Term”) shall be amended and restated in its entirety as follows:

“Lessee has irrevocably elected to exercise its rights to renew this Facility Lease for the Fixed Rate Renewal Term. Such renewal shall only take effect provided that no Default, Event of Default, Event of Loss or Deemed Loss Event has occurred that is not waived by the Lessor.”

(c) The definition of “Maximum Option Period” in Appendix A to the Facility Lease shall be amended and restated in its entirety as follows:

“Maximum Option Period shall mean the period ending on December 31, 2023.”

(d) The definition of “Casualty Value” in Appendix A to the Facility Lease shall be amended and restated in its entirety as follows:

“Casualty Value, as of any Basic Rent Payment Date during

(i) the Basic Lease Term, shall mean the percentage of Facility Cost set forth opposite such Basic Rent Payment Date in Schedule 1 to the Facility Lease;

(ii) the Fixed Rate Renewal Term, shall mean the percentage of Facility Cost set forth opposite such Basic Rent Payment Date in Schedule 4-Fixed Rate Renewal Term Casualty Values to the Facility Lease, attached hereto (“Schedule 4”); and

(iii) the Fair Market Renewal Term, shall mean the unamortized portion, as of such Basic Rent Payment Date, of the Fair Market Sales Value of the Undivided Interest, determined by the straight-line amortization of such Fair Market Sales Value at the commencement of the Fair Market Value Renewal Term over the period from such commencement date through the then remaining term of the License, determined pursuant to the Appraisal Procedure.”

The Lessee and the Lessor each acknowledges and agrees that the calculation of the Casualty Values for the Fixed Rate Renewal Term set forth in Schedule 4 hereto were separately negotiated by the parties as a liquidated amount calculated to reimburse Lessor for the loss of the Undivided Interest and the Real Property Interest due to the occurrence of an Event of Loss. The Lessee and the Lessor each further acknowledges and agrees that such Casualty Values are not intended to be indicative of any current or future Fair Market Sales Value and shall not affect or be taken into account in determining Fair Market Sales Value in the event the Lessee exercises its purchase option pursuant to Section 13(c) of the Facility Lease at the end of the Fixed Rate Renewal Term or the Fair Market Renewal Term.

(f) The definition of “Special Casualty Value” in Appendix A to the Facility Lease shall be amended and restated in its entirety as follows:

“Special Casualty Value, as of any monthly date during

- (i) the Basic Lease Term, shall mean the percentage of Facility Cost set forth opposite such monthly date in Schedule 2 to the Facility Lease;
- (ii) the Fixed Rate Renewal Term, shall mean the percentage of Facility Cost set forth opposite such monthly date in Schedule 5-Fixed Rate Renewal Term Special Casualty Values to the Facility Lease, attached hereto ("Schedule 5"); and
- (iii) the Fair Market Renewal Term, shall mean the amount determined by amortizing ratably the Fair Market Sales Value of the Undivided Interest as of the day following the last day of the Fixed Rate Renewal Term in monthly steps over the remaining life of the License determined pursuant to Section 13(a) of the Facility Lease.

The Lessee and the Lessor each acknowledges and agrees that the calculation of the Special Casualty Values for the Fixed Rate Renewal Term set forth in Schedule 5 hereto were separately negotiated by the parties as a liquidated amount calculated to reimburse Lessor for the loss of the Undivided Interest and the Real Property Interest due to the occurrence of a Deemed Loss Event. The Lessee and the Lessor each further acknowledges and agrees that such Special Casualty Values are not intended to be indicative of any current or future Fair Market Sales Value and shall not affect or be taken into account in determining Fair Market Sales Value in the event the Lessee exercises its purchase option pursuant to Section 13(c) of the Facility Lease at the end of the Fixed Rate Renewal Term or the Fair Market Renewal Term.

(g) The Facility Lease shall be supplemented and amended to include as Schedule 4 and Schedule 5 thereto Schedule 4 and Schedule 5 attached hereto and designated as such (there being no Schedule 1, 2 or 3 hereto).

SECTION 2. Miscellaneous.

(a) Representations of the Lessee. The Lessee hereby represents and warrants to the Owner Participant as follows:

- (i) the License Expiration Date is April 24, 2046; and
- (ii) based on current market conditions and the current operation and maintenance of Unit 2 and the Common Facilities, it is reasonably expected that:

(1) on the last day of the Fixed Rate Renewal Term, the residual value of the Undivided Interest shall be equal to at least 20% of Facility Cost (without regard to inflation or deflation from the Closing Date) determined by taking into consideration the obligation of the Lessee to pay decommissioning costs pursuant to Section 10(b)(3)(viii) of the Participation Agreement, the existence and effect of the Assignment and Assumption, the ANPP Participation Agreement and the License;

(2) the period from the Closing Date through the end of the Fixed Rate Renewal Term does not exceed 80% of the economic useful life of the Undivided Interest from the Closing Date; and

(3) on the last day of the Fixed Rate Renewal Term, taking into consideration the existence and effect of the Assignment and Assumption, the ANPP Participation Agreement and the License, the use of the Undivided Interest by any User (in a transaction pursuant to which the Owner Participant could realize the amount referred to in clause (1) above) will be feasible from an engineering and economic point of view and will be commercially reasonable.

The foregoing representations and warranties are intended by the Lessee as representations and warranties made by the Lessee in an agreement delivered by the Lessee in connection with the Facility Lease for all purposes of the Facility Lease (including, without limitation Section 15 (vi) of the Facility Lease).

(b) No Inference, Etc. Schedule 4 and Schedule 5 hereto have been agreed to by the parties with each party utilizing certain assumptions and projections (which assumptions and projections may or may not be assumptions and projections used in common with the other party) concerning the Fair Market Sales Value of the Undivided Interest at the commencement of the Fixed Rate Renewal Term. The parties intend that such assumptions and projections shall not be used for any purpose (including, but without limitation, establishing a Fair Market Sales Value for the Undivided Interest or a Fair Market Sales Value of any property or service, or supporting or rebutting any calculation, determination or position concerning any Fair Market Sale Value, at any time, whether for purposes of option exercise, exercise of remedies, post-lease term operation and support or any other matter or circumstance) other than the specific purposes for which provision is made by this Amendment No. 3.

(c) Effective Date of Amendments. The amendments set forth in Section 1 hereof shall be and become effective upon the satisfaction and discharge of the Indenture by the parties thereto; provided, however, notwithstanding anything to the contrary contained herein, the commencement of the Fixed Rate Renewal Term shall be conditioned upon no Default, Event of Default, Event of Loss or Deemed Loss Event having occurred and being continuing at the end of the Basic Lease Term.

(d) Counterpart Execution. This Amendment No. 3 may be executed in any number of counterparts and by each of the parties hereto on separate counterparts; all such counterparts shall together constitute but one and the same instrument.

(e) Governing Law. This Amendment No. 3 shall be governed by, and be construed in accordance with, the laws of the state of New York, except to the extent that pursuant to the law of the State of Arizona such law is mandatorily applicable hereto.

(f) Concerning USBNA. U.S. Bank National Association (“USBNA”) is entering into this Amendment No. 3 solely as successor Owner Trustee under the Trust Agreement and not in its individual capacity. Anything herein or in the Facility Lease to the contrary notwithstanding, all and each of the representations, warranties, undertakings and agreements herein or in the Facility Lease made on the part of the Owner Trustee are made and intended not as personal representations, warranties, undertakings and agreements by or for the purpose or with the intention of binding USBNA personally but are made and intended for the purpose of binding only the Trust Estate. This Amendment No. 3 is executed and delivered by the Owner Trustee solely in the exercise of the powers expressly conferred upon it as trustee under the Trust Agreement; and no personal liability or responsibility is assumed hereunder by or shall at any time be enforceable against USBNA or any successor in trust or the Owner Participant on account of any representation, warranty, undertaking or agreement hereunder or under

the Facility Lease of the Owner Trustee, either expressed or implied, all such personal liability, if any, being expressly waived by the Lessee, except that the Lessee or any Person claiming by, through or under it, making claim hereunder or under the Facility Lease, may look to the Trust Estate for satisfaction of the same and the Owner Trustee or its successor in trust, as applicable, shall be personally liable for its own gross negligence or willful misconduct. If a further successor owner trustee is appointed in accordance with the terms of the Trust Agreement, such successor owner trustee shall, without any further act, succeed to all the rights, duties, immunities and obligations of the Owner Trustee hereunder and the predecessor owner trustee shall be released from all further duties and obligations hereunder and under the Facility Lease.

(g) Disclosure. Pursuant to Arizona Revised Statutes Section 33-404, the beneficiary of the Trust Agreement is PV2—APS 150 Corporation. The address of the beneficiary is PV2—APS 150 Corporation, c/o J.P. Morgan, 10 S. Dearborn, 12th Fl., Mail Code IL1-0502, Chicago, IL 60603-2003, Attn: Jeremy Reinhard. A copy of the Trust Agreement is available for inspection at the offices of the Owner Trustee at U.S. Bank National Association, Corporate Trust Services, One Federal Street, 3rd Floor, Boston, MA 02110, Attn: Todd DiNezza.

IN WITNESS WHEREOF, each of the parties hereto has caused this Amendment No. 3 to Facility Lease to be duly executed by an officer thereunto duly authorized.

Signature page for Amendment No. 3 to Facility Lease (Lessor)

U.S. BANK NATIONAL ASSOCIATION (successor to State Street Bank and Trust Company, successor to The First National Bank of Boston), not in its individual capacity, but solely as Owner Trustee under a Trust Agreement dated as of December 15, 1986, with PV2—APS 150 Corporation (assignee of Chase Manhattan Realty Leasing Corporation)

By: /s/ Todd R. DiNezza

Name: Todd R. DiNezza

Title: Assistant Vice President

ACKNOWLEDGMENT

COMMONWEALTH OF MASSACHUSETTS)
) ss.
COUNTY OF SUFFOLK)

On this 10th day of July, 2014, before me, the undersigned notary public, personally appeared Todd R. DiNezza as Asst. Vice President of U.S. Bank National Association, proved to me through satisfactory evidence of identification, which was RI Driver's License to be the person whose name is signed on the attached document and acknowledged to me that he signed it voluntarily for its stated purpose.

Notary Public

Name of Notary: /s/ James M. Coolidge

Notary Public

My Comm. Expires _____

Commonwealth of Massachusetts

ARIZONA PUBLIC SERVICE COMPANY

By: /s/ Lee R. Nickloy

Name: Lee R. Nickloy

Title: Vice President & Treasurer

ACKNOWLEDGMENT

STATE OF ARIZONA)
)
) ss.
COUNTY OF MARACOPA)

This instrument was acknowledged before me this 10th day of July, 2014, by Lee R. Nickloy, Vice President & Treasurer of ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation, on behalf of said corporation.

/s/ Cynthia M. Crawford

Name:

Notary Public

My commission expires: March 21, 2018

SCHEDULE 4-Fixed Rate Renewal Term Casualty Values

Rent Payment Date	% of Facility Cost	Rent Payment Date	% of Facility Cost
6/30/2016	50.05953%	6/30/2020	43.38493%
12/30/2016	49.22521%	12/30/2020	42.55060%
6/30/2017	48.39088%	6/30/2021	41.71628%
12/30/2017	47.55656%	12/30/2021	40.88195%
6/30/2018	46.72223%	6/30/2022	40.04763%
12/30/2018	45.88791%	12/30/2022	39.21330%
6/30/2019	45.05358%	6/30/2023	38.37898%
12/30/2019	44.21925%	12/30/2023	37.54465%

SCHEDULE 5-Fixed Rate Renewal Term Special Casualty Values

2016	% of Facility Cost		% of Facility Cost		% of Facility Cost		% of Facility Cost	
	2017	2018	2019	2020	2021	2022	2023	2024
1-30	50.74519%	1-30	49.06766%	1-30	47.39014%	1-30	45.71261%	
2-28	50.60540%	2-28	48.92787%	2-28	47.25034%	2-28	45.57281%	
3-30	50.46560%	3-30	48.78807%	3-30	47.11055%	3-30	45.43302%	
4-30	50.32581%	4-30	48.64828%	4-30	46.97075%	4-30	45.29323%	
5-30	50.18601%	5-30	48.50849%	5-30	46.83096%	5-30	45.15343%	
6-30	50.04622%	6-30	48.36869%	6-30	46.69117%	6-30	45.01364%	
7-30	49.90643%	7-30	48.22890%	7-30	46.55137%	7-30	44.87384%	
8-30	49.76663%	8-30	48.08910%	8-30	46.41158%	8-30	44.73405%	
9-30	49.62684%	9-30	47.94931%	9-30	46.27178%	9-30	44.59426%	
10-30	49.48704%	10-30	47.80952%	10-30	46.13199%	10-30	44.45446%	
11-30	49.34725%	11-30	47.66972%	11-30	45.99220%	11-30	44.31467%	
12-30	49.20746%	12-30	47.52993%	12-30	45.85240%	12-30	44.17488%	
2020	% of Facility Cost		% of Facility Cost		% of Facility Cost		% of Facility Cost	
	2021	2022	2023	2024	2025	2026	2027	2028
1-30	44.03508%	1-30	42.35755%	1-30	40.68003%	1-30	39.00250%	
2-28	43.89529%	2-28	42.21776%	2-28	40.54023%	2-28	38.86271%	
3-30	43.75549%	3-30	42.07797%	3-30	40.40044%	3-30	38.72291%	
4-30	43.61570%	4-30	41.93817%	4-30	40.26065%	4-30	38.58312%	
5-30	43.47591%	5-30	41.79838%	5-30	40.12085%	5-30	38.44333%	
6-30	43.33611%	6-30	41.65859%	6-30	39.98106%	6-30	38.30353%	
7-30	43.19632%	7-30	41.51879%	7-30	39.84126%	7-30	38.16374%	
8-30	43.05652%	8-30	41.37900%	8-30	39.70147%	8-30	38.02394%	
9-30	42.91673%	9-30	41.23920%	9-30	39.56168%	9-30	37.88415%	
10-30	42.77694%	10-30	41.09941%	10-30	39.42188%	10-30	37.74436%	
11-30	42.63714%	11-30	40.95962%	11-30	39.28209%	11-30	37.60456%	
12-30	42.49735%	12-30	40.81982%	12-30	39.14229%	12-30	37.46477%	

U.S. \$500,000,000

FIVE-YEAR CREDIT AGREEMENT

Dated as of May 9, 2014

among

ARIZONA PUBLIC SERVICE COMPANY,
as Borrower.

THE LENDERS PARTY HERETO,

BARCLAYS BANK PLC ,
as Agent and Issuing Bank,

THE ROYAL BANK OF SCOTLAND PLC
as Syndication Agent,

THE ROYAL BANK OF SCOTLAND PLC,
BANK OF AMERICA, N.A.,
JPMORGAN CHASE BANK, N.A.,
SUNTRUST BANK

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Issuing Banks.

BANK OF AMERICA, N.A.,
JPMORGAN CHASE BANK, N.A.,
SUNTRUST BANK

and

WELLS FARGO BANK, NATIONAL ASSOCIATION ,
as Co-Documentation Agents,

BARCLAYS BANK PLC
RBS SECURITIES INC.

J.P. MORGAN SECURITIES LLC

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
SUNTRUST ROBINSON HUMPHREY, INC.

and

WELLS FARGO SECURITIES, LLC ,
as Joint Lead Arrangers and Joint Book Runners

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FIVE-YEAR CREDIT AGREEMENT

Dated as of May 9, 2014

ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation (the “Borrower”), the banks, financial institutions and other institutional lenders (the “Initial Lenders”) and initial issuing banks (the “Initial Issuing Banks”) listed on the signature pages hereof, the other Lenders (as hereinafter defined), BARCLAYS BANK PLC, as Agent for the Lenders (as hereinafter defined), THE ROYAL BANK OF SCOTLAND PLC, as Syndication Agent and BANK OF AMERICA, N.A., JPMORGAN CHASE BANK, N.A., SUNTRUST BANK and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Co-Documentation Agents, agree as follows:

The Borrower has requested that the Lenders provide a revolving credit facility for the purposes set forth herein, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.01 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

“2013 Order” means Decision No. 73659, dated February 6, 2013, of the Arizona Corporation Commission.

“Additional Commitment Lender” has the meaning specified in Section 2.18(d).

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Agent.

“Advance” means a Revolving Advance or a Swingline Advance.

“Affected Lender” means any Lender, as reasonably determined by the Agent or if the Agent is the Affected Lender, by the Required Lenders, that (a) has failed to (i) fund all or any portion of any Revolving Advance within three (3) Business Days of the date such Revolving Advances were required to be funded hereunder unless such Lender notifies the Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in writing) has not been satisfied, or (ii) pay to the Agent, any Issuing Bank, the Swingline Lender, if any, or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit and funding obligations in respect of Swingline Advances) within three (3) Business Days of the date when due, (b) has notified the Borrower, the Agent, any Issuing Bank or any Lender in writing of its intention not to fund any Revolving Advance or any of its other funding obligations under this Agreement, (c) has failed, within three Business Days after written request by the Agent, or if the Agent is the Affected Lender, by the Required Lenders, to confirm that it will comply with the terms of this Agreement relating to its obligations to fund prospective Revolving Advances and other funding obligations under this Agreement or (d) shall (or whose parent company shall) generally not

pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or shall have had any proceeding instituted by or against such Lender (or its parent company) seeking to adjudicate it as bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian for, it or for any substantial part of its property) shall occur, or shall take (or whose parent company shall take) any corporate action to authorize any of the actions set forth above in this subsection (e), provided that a Lender shall not be deemed to be an Affected Lender solely by virtue of the ownership or acquisition of any equity interest in any Lender or any Person that directly or indirectly controls such Lender by a Governmental Authority or an instrumentality thereof.

“Affiliate” means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term “control” (including the terms “controlling”, “controlled by” and “under common control with”) of a Person means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

“Agent” means Barclays in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

“Agent’s Account” means the account of the Agent designated on Schedule 8.02 under the heading “Agent’s Account” or such other account as the Agent may designate to the Lenders and the Borrower from time to time.

“Agent’s Office” means the Agent’s address and, as appropriate, the Agent’s Account, or such other address or account as the Agent may from time to time notify the Borrower and the Lenders.

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the Borrower or its Subsidiaries from time to time concerning or relating to bribery or corruption.

“Applicable Lending Office” means, with respect to each Lender, such Lender’s Domestic Lending Office in the case of a Base Rate Advance and such Lender’s Eurodollar Lending Office in the case of a Eurodollar Rate Advance.

“Applicable Rate” means, from time to time, the following percentages per annum determined by reference to the Public Debt Rating as set forth below:

Public Debt Rating S&P/Moody's	Eurodollar Rate Advances	Base Rate Advances	Commitment Fee
Level 1 A+/A1 or above	0.875%	0.000%	0.075%
Level 2 < Level 1 but \geq A/A2	1.000%	0.000%	0.100%
Level 3 < Level 2 but \geq A-/A3	1.125%	0.125%	0.125%
Level 4 < Level 3 but \geq BBB+/Baa1	1.250%	0.250%	0.175%
Level 5 < Level 4 but \geq BBB/Baa2	1.500%	0.500%	0.225%
Level 6 < Level 5	1.750%	0.750%	0.275%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of any entity that administers or manages a Lender.

“Arrangers” means, collectively, Barclays, RBS Securities Inc., Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC and SunTrust Robinson Humphrey, Inc.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

“Assuming Lender” has the meaning specified in Section 2.18(d).

“Assumption Agreement” has the meaning specified in Section 2.18(d)(ii).

“Authorized Officer” means the chairman of the board, chief executive officer, chief operating officer, chief financial officer, chief accounting officer, president, any vice president, treasurer, controller or any assistant treasurer of the Borrower.

“Available Amount” of any Letter of Credit means, at any time, the maximum amount available to be drawn under such Letter of Credit at such time (assuming compliance at such time with all conditions to drawing).

“Barclays” means Barclays Bank PLC.

“Base Rate” means for any day a fluctuating rate per annum equal to the highest of:

- (a) the rate of interest in effect for such day as publicly announced from time to time by the Agent as its “prime rate”;

(b) the Federal Funds Rate plus 0.50%; and

(c) an amount equal to (i) the Eurodollar Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus (ii) 1%.

“Prime rate” means the rate of interest in effect for such day as publicly announced from time to time by the Agent as its “prime rate.” The “prime rate” is a rate set by the Agent based upon various factors including the Agent’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in the “prime rate” announced by the Agent shall take effect at the opening of business on the day specified in the public announcement of such change.

“Base Rate Advance” means a Revolving Advance that bears interest as provided in Section 2.07(a)(i).

“Borrower” has the meaning given to such term in the introductory paragraph hereof.

“Borrower Information” has the meaning specified in Section 8.08.

“Borrowing” means (a) a borrowing consisting of simultaneous Revolving Advances of the same Type made by each of the Lenders pursuant to Section 2.01(a) or (b) Swingline Advances.

“Business Day” means a day of the year on which banks are not required or authorized by Law to close in New York City or Phoenix, Arizona and, if the applicable Business Day relates to any Advance in which interest is calculated by reference to the Eurodollar Rate, on which dealings are carried on in the London interbank market.

“Capital Lease Obligations” means as to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real and/or personal property, which obligations are required to be classified and accounted for as a capital lease on the balance sheet of such Person under GAAP and, for the purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption of any Law, (b) any change in any Law or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided, however, that notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements and directives thereunder, issued in connection therewith or in implementation thereof, and (ii) all requests, rules, guidelines, requirements and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed a “Change in Law” regardless of the date enacted, adopted, issued or implemented.

“Commitment” means a Revolving Credit Commitment or a Letter of Credit Commitment.

“Commitment Date” has the meaning specified in Section 2.18(b).

“Commitment Increase” has the meaning specified in Section 2.18(a).

“Consolidated” refers to the consolidation of accounts in accordance with GAAP.

“Consolidated Indebtedness” means, at any date, the Indebtedness of the Borrower and its Consolidated Subsidiaries determined on a Consolidated basis as of such date; provided, however, that so long as the creditors of the VIE Lessor Trusts have no recourse to the assets of the Borrower, “Consolidated Indebtedness” shall not include any Indebtedness or other obligations of the VIE Lessor Trusts.

“Consolidated Net Worth” means, at any date, the sum as of such date of (a) the par value (or value stated on the books of the Borrower) of all classes of capital stock of the Borrower and its Subsidiaries, excluding the Borrower’s capital stock owned by the Borrower and/or its Subsidiaries, *plus* (or *minus* in the case of a surplus deficit) (b) the amount of the Consolidated surplus, whether capital or earned, of the Borrower, determined in accordance with GAAP as of the end of the most recent calendar month (excluding the effect on the Borrower’s accumulated other comprehensive income/loss of the ongoing application of Accounting Standards Codification Topic 815).

“Consolidated Subsidiary” means, at any date, any Subsidiary or other entity the accounts of which would be Consolidated with those of the Borrower on its Consolidated financial statements if such financial statements were prepared as of such date; provided that in no event will Consolidated Subsidiaries include the VIE Lessor Trusts.

“Controlled Affiliate” has the meaning specified in Section 4.01(n).

“Convert”, “Conversion” and “Converted” each refers to a conversion of Revolving Advances of one Type into Revolving Advances of the other Type pursuant to Section 2.08, Section 2.09 or Section 2.12.

“Credit Extension” means each of the following: (a) a Borrowing and (b) the issuance of a Letter of Credit.

“Debtor Relief Laws” means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States of America or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

“Dollars” or “\$” means dollars of the United States of America.

“Domestic Lending Office” means, with respect to any Lender, the office of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Agent.

“Effective Date” has the meaning specified in Section 3.01.

“Eligible Assignee” means any Person that meets the requirements to be an assignee under Section 8.07(b)(iii), (v), (vi) and (vii) (subject to such consents, if any, as may be required under Section 8.07(b)(iii)).

“Environmental Action” means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment and relating to any Environmental Law, including, without limitation, (a) by any Governmental Authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any Governmental Authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

“Environmental Law” means any federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, judgment, decree or judicial or agency interpretation, policy or guidance relating to pollution or protection of the environment, natural resources or, to the extent relating to exposure to Hazardous Materials, human health or safety, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

“Environmental Permit” means any permit, approval, identification number, license or other authorization required under any Environmental Law.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Internal Revenue Code (and Sections 414(m) and (o) of the Internal Revenue Code for purposes of provisions relating to Section 412 of the Internal Revenue Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

“Eurodollar Lending Office” means, with respect to any Lender, the office of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Agent.

“Eurodollar Rate” means:

(a) for any Interest Period with respect to a Eurodollar Rate Advance, the London interbank offered rate administered by ICE Benchmark Administration (or any other Person that takes over the administration of such rate for Dollars) (“ICE LIBOR”), as published by Reuters (or other commercially

available source providing quotations of ICE LIBOR as designated by the Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the "Eurodollar Rate" for such Interest Period shall be the rate per annum determined by the Agent to be the rate at which deposits in dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Advance being made, continued or converted by the Agent and with a term equivalent to such Interest Period would be offered by the Agent to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period; and

(b) for any interest rate calculation with respect to a Base Rate Advance, the rate per annum equal to (i) ICE LIBOR, at approximately 11:00 a.m., London time, two Business Days prior to the date of determination (provided that if such day is not a Business Day in London, the next preceding Business Day in London) for Dollar deposits being delivered in the London interbank market for a term of one month commencing that day or (ii) if such published rate is not available at such time for any reason, the rate determined by the Agent to be the rate at which deposits in Dollars for delivery on the date of determination in same day funds in the approximate amount of the Base Rate Advance being made, continued or converted by the Agent and with a term equal to one month would be offered by the Agent's London Branch to major banks in the London interbank Eurodollar market at their request at the date and time of determination.

"Eurodollar Rate Advance" means a Revolving Advance that bears interest at a rate based on the Eurodollar Rate (other than a Base Rate Advance bearing interest at a rate based on the Eurodollar Rate).

"Events of Default" has the meaning specified in Section 6.01.

"Excluded Taxes" means, with respect to the Agent, any Lender, any Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the United States of America or the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or does business or in which its principal office is located or, in the case of any Lender, in which its Applicable Lending Office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located, (c) any backup withholding tax that is required by the Internal Revenue Code to be withheld from amounts payable to a Lender that has failed to comply with clause (A) of Section 2.14(e)(ii), (d) in the case of a Foreign Lender (other than as agreed to between any assignee and the Borrower pursuant to a request by the Borrower under Section 2.20), any United States of America withholding tax that (i) is required to be imposed on amounts payable to such Foreign Lender pursuant to the Laws in force at the time such Foreign Lender becomes a party hereto (or designates a new Applicable Lending Office) or (ii) is attributable to such Foreign Lender's failure or inability (other than as a result of a Change in Law) to comply with clause (B) of Section 2.14(e)(ii), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Applicable Lending Office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.14(a)(i) or (ii) and (v) any United States withholding tax imposed by FATCA.

"Executive Order" has the meaning specified in Section 4.01(p).

“Existing Credit Agreement” means that certain Five-Year Credit Agreement, dated as of November 4, 2011 by and among the Borrower, the Lenders from time to time party thereto and the Agent.

“Existing Termination Date” has the meaning specified in Section 2.18(d).

“Extending Lender” has the meaning specified in Section 2.18(d).

“Extension Date” has the meaning specified in Section 2.18(d).

“FATCA” means Section 1471 through 1474 of the Internal Revenue Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b)(1) of the Internal Revenue Code.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to the Agent on such day on such transactions as determined by the Agent, and (c) solely for purposes for determining the Money Market Rate, any such other publication or means of determining the rate for federal funds as agreed to between the Borrower and Swingline Lender.

“Fee Letters” means (a) each of the following letters to the Borrower dated April 16, 2014: (i) the letter from Barclays and RBS Securities Inc., (ii) the letter from Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC, SunTrust Bank and SunTrust Robinson Humphrey, Inc. and (iii) the agent fee letter from Barclays, as Agent, each relating to certain fees payable by the Borrower to such parties in respect of the transactions contemplated by this Agreement and (b) any letter between the Borrower and any Issuing Bank other than an Initial Issuing Bank relating to certain fees payable to such Issuing Bank in its capacity as such, each as amended, modified, restated or supplemented from time to time.

“Foreign Lender” means any Lender that is organized under the Laws of a jurisdiction other than that in which the Borrower is resident for tax purposes (including such a Lender when acting in the capacity of an Issuing Bank or a Swingline Lender). For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“Four Corners Acquisition” means the acquisition by the Borrower from Southern California Edison Company (“SCE”) of SCE’s interests in Units 4 and 5 of the Four Corners Power Plant near Farmington, New Mexico, pursuant to the Purchase and Sale Agreement, dated as of November 8, 2010, by and between SCE and the Borrower.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

“GAAP” has the meaning specified in Section 1.03.

“Governmental Authority” means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supranational bodies such as the European Union or the European Central Bank) and any group or body charged with setting financial accounting or regulatory capital rules or standards (including, without limitation, the Financial Accounting Standards Board, the Bank for International Settlements or the Basel Committee on Banking Supervision or any successor or similar authority to any of the foregoing).

“Government Official” shall mean (a) an executive, official, employee or agent of a governmental department, agency or instrumentality, (b) a director, officer, employee or agent of a wholly or partially government-owned or -controlled company or business, (c) a political party or official thereof, or candidate for political office or (d) an executive, official, employee or agent of a public international organization (e.g., the International Monetary Fund or the World Bank).

“Guarantee” means as to any Person, any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Indebtedness of any other Person or in any manner providing for the payment of any Indebtedness of any other Person or otherwise protecting the holder of such Indebtedness against loss (whether by virtue of partnership arrangements, agreements to keep well, to purchase assets, goods, securities or services, or to take-or-pay or otherwise), provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hazardous Materials” means (a) petroleum and petroleum products, byproducts or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

“Hedge Agreement” means any interest rate swap, cap or collar agreement, interest rate future or option contract, currency swap agreement, currency future or option contract, commodity future or option contract, commodity forward contract or other similar agreement.

“Increase Date” has the meaning specified in Section 2.18(a).

“Increasing Lender” has the meaning specified in Section 2.18(b).

“Indebtedness” means as to any Person at any date (without duplication): (a) indebtedness created, issued, incurred or assumed by such Person for borrowed money or evidenced by bonds, debentures, notes or similar instruments; (b) all obligations of such Person to pay the deferred purchase price of property or services, excluding, however, trade accounts payable (other than for borrowed money) arising in, and accrued expenses incurred in, the ordinary course of business of such Person so long as such trade accounts payable are paid within 180 days (unless subject to a good faith dispute) of the date incurred; (c) all Indebtedness secured by a lien on any asset of such Person, to the extent such Indebtedness has been assumed by, or is a recourse obligation of, such Person; (d) all Guarantees by such Person; (e) all Capital Lease Obligations of such Person; and (f) the amount of all reimbursement obligations of such Person (whether contingent or otherwise) in respect of letters of credit, bankers’ acceptances, surety or other bonds and similar instruments in support of Indebtedness.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Initial Issuing Banks” has the meaning given to such term in the introductory paragraph hereof.

“Initial Lenders” has the meaning given to such term in the introductory paragraph hereof.

“Interest Period” means, for each Eurodollar Rate Advance comprising part of the same Borrowing, the period commencing on the date such Eurodollar Rate Advance is disbursed or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months, as the Borrower may, upon notice received by the Agent not later than 12:00 noon on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

(a) the Borrower may not select any Interest Period that ends after the Termination Date;

(b) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Borrowing shall be of the same duration;

(c) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(d) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

“ISP” means, with respect to any Letter of Credit, the “International Standby Practices 1998” published by the Institute of International Banking Law & Practice, Inc. (or such later version thereof as may be in effect at the time of issuance).

“Issuing Bank” means the Initial Issuing Banks or any other Lender approved by the Borrower that may agree to issue Letters of Credit pursuant to an Assignment and Assumption or other agreement in form satisfactory to the Borrower and the Agent, so long as such Lender expressly agrees to perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as an Issuing Bank and notifies the Agent of its Applicable Lending Office (which information shall be recorded by the Agent in the Register), for so long as such Initial Issuing Bank or Lender, as the case may be, shall have a Letter of Credit Commitment.

“L/C Advance” means, with respect to each Lender, such Lender’s funding of its participation in any L/C Borrowing in accordance with its Ratable Share.

“L/C Borrowing” means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made nor refinanced as a Base Rate Advance.

“L/C Cash Deposit Account” means an interest bearing cash deposit account to be established and maintained by the Agent, over which the Agent shall have sole dominion and control, upon terms as may be satisfactory to the Agent.

“L/C Obligations” means, as at any date of determination, the aggregate Available Amount of all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be “outstanding” in the amount so remaining available to be drawn.

“L/C Related Documents” means with respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by any Issuing Bank and the Borrower or in favor of any Issuing Bank and relating to such Letter of Credit.

“Laws” means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, licenses, authorizations and permits of, and agreements with, any Governmental Authority.

“Lender Notice Date” has the meaning specified in Section 2.18(d).

“Lenders” means the Initial Lenders, each Issuing Bank, the Swingline Lender, if any, each Assuming Lender that shall become a party hereto pursuant to Section 2.18 and each Person that shall become a party hereto pursuant to Section 8.07.

“Letter of Credit” has the meaning specified in Section 2.01(b).

“Letter of Credit Application” means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by any Issuing Bank.

“Letter of Credit Commitment” means, with respect to each Issuing Bank, the obligation of such Issuing Bank to issue Letters of Credit for the account of the Borrower from time to time in an aggregate amount equal to (a) for each of the Initial Issuing Banks, \$83,333,333.33 and (b) for any other Issuing Bank, as separately agreed to by such Issuing Bank and the Borrower. The Letter of Credit Commitment is part of, and not in addition to, the Revolving Credit Commitments.

“Letter of Credit Expiration Date” means the day that is five Business Days prior to the Termination Date.

“Lien” means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge or other security interest or preferential arrangement that has the practical effect of creating a security interest, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property, and any capital lease having substantially the same economic effect as any of the foregoing.

“Loan Documents” mean this Agreement, each Note, each L/C Related Document and the Fee Letters.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition, operations, business or property of the Borrower and its Subsidiaries taken as a whole, (b) the rights and remedies of the Agent or any Lender under this Agreement or any Note or (c) the ability of the Borrower to perform its obligations under this Agreement or any Note.

“Material Subsidiary” means, at any time, a Subsidiary of the Borrower which as of such time meets the definition of a “significant subsidiary” included as of the date hereof in Regulation S-X of the Securities and Exchange Commission or whose assets at such time exceed 10% of the assets of the Borrower and the Subsidiaries (on a consolidated basis).

“Money Market Rate” means (a) the Federal Funds Rate plus (b) the Applicable Rate for Eurodollar Rate Advances.

“Money Market Rate Advance” means a Swingline Advance that bears interest at a rate based on the Money Market Rate.

“Moody’s” means Moody’s Investors Service, Inc.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Non-Extending Lender” has the meaning specified in Section 2.18(d).

“Note” means a promissory note of the Borrower payable to the order of any Lender, delivered pursuant to a request made under Section 2.16 in substantially the form of Exhibit A hereto.

“Notice of Borrowing” has the meaning specified in Section 2.02(a).

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower arising under any Loan Document or otherwise with respect to any Revolving Advance, Swingline Advance or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue under any Loan Document after the commencement by or against the Borrower of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

“OFAC” means Office of Foreign Assets Control of the United States Department of the Treasury.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“PBGC” means the Pension Benefit Guaranty Corporation.

Pension Plan means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

Permitted Lien of the Borrower or any Material Subsidiary means any of the following:

- (i) Liens for taxes, assessments or other governmental charges or levies not at the time delinquent or thereafter payable without penalty or being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been made;
- (ii) Liens imposed by or arising by operation of law, such as Liens of carriers, warehousemen, mechanics, materialmen and landlords incurred in the ordinary course of business, including, without limitation, landlord's liens arising under Arizona Law under leases entered into by the Borrower in the 1986 sale and leaseback transactions with respect to PVNGS Unit 2 and securing the payment of rent under such leases, in each case, for sums not overdue for a period of more than 30 days or being contested in good faith by appropriate proceedings and for which adequate reserves in accordance with GAAP shall have been made;
- (iii) Liens incurred in the ordinary course of business in connection with worker's compensation, unemployment insurance or other forms of governmental insurance or benefits or other similar statutory obligations;
- (iv) Liens to secure obligations on surety or appeal bonds;
- (v) Liens on cash deposits in the nature of a right of setoff, banker's lien, counterclaim or netting of cash amounts owed arising in the ordinary course of business on deposit accounts, commodity accounts or securities accounts;
- (vi) easements, restrictions, reservations, licenses, covenants, and other defects of title that are not, in the aggregate, materially adverse to the use of such property for the purpose for which it is used;
- (vii) Liens securing claims against or other obligations of any Person other than the Borrower or any Subsidiary of the Borrower neither assumed nor guaranteed by the Borrower or any Subsidiary of the Borrower nor on which the Borrower or any Subsidiary of the Borrower customarily pays interest, existing upon real estate or rights in or relating to real estate acquired by the Borrower or any Subsidiary of the Borrower for use in the operation of the business of the Borrower or any Subsidiary of the Borrower, including, without limitation, for the generation, transmission or distribution of electric energy, transportation, telephonic, telegraphic, radio, wireless or other electronic communication or any other purpose;
- (viii) rights reserved to or vested in and Liens on assets arising out of obligations or duties to any municipality or public authority with respect to any right, power, franchise, grant, license or permit, or by any provision of Law;
- (ix) rights reserved to or vested in others to take or receive any part of the power pursuant to firm power commitment contracts, purchased power contracts, tolling agreements and

similar agreements, coal, gas, oil or other minerals, timber or other products generated, developed, manufactured or produced by, or grown on, or acquired with, any property of the Borrower;

(x) rights reserved to or vested in any municipality or public authority to control or regulate any property of the Borrower, or to use such property in a manner that does not materially impair the use of such property for the purposes for which it is held by the Borrower;

(xi) security interests granted in favor of the lessors in the Borrower's Decommissioning Trust Agreement (PVNGS Unit 2) dated as of January 31, 1992 (such agreement, as amended or otherwise modified from time to time, being the "Unit 2 Trust Agreement") entered into in connection with the PVNGS Unit 2 sale leaseback transaction to secure the Borrower's obligations in respect of the decommissioning of PVNGS Unit 2 or related facilities;

(xii) Liens that may exist with respect to the Unit 2 Trust Agreement (other than as described in paragraph (xi) above) or with respect to either of the Borrower's Decommissioning Trust Agreement (PVNGS Unit 1) or Decommissioning Trust Agreement (PVNGS Unit 3), each dated as of July 1, 1991, as amended or otherwise modified from time to time, relating to the Borrower's obligation to set aside funds for the decommissioning and retirement from service of such Units;

(xiii) pledges of pollution control bonds and related rights to secure the Borrower's reimbursement obligations in respect of letters of credit, bond insurance, and other credit or liquidity enhancements supporting pollution control bond transactions, provided that such pollution control bonds are not secured by any other assets of the Borrower or any Material Subsidiary;

(xiv) rights and interests of Persons other than the Borrower or any Material Subsidiary (including, without limitation, acquisition rights), related obligations of the Borrower or any Material Subsidiary and restrictions on it or its property arising out of contracts, agreements and other instruments to which the Borrower or any Material Subsidiary is a party that relate to the common ownership or joint use of property or other use of property for the benefit of one or more third parties or that allow a third party to purchase property of the Borrower or any Material Subsidiary and all Liens on the interests of Persons other than the Borrower or any Material Subsidiary in such property;

(xv) transfers of operational or other control of facilities to a regional transmission organization or other similar body and Liens on such facilities to cover expenses, fees and other costs of such an organization or body;

(xvi) Liens established on specified bank accounts of the Borrower to secure the Borrower's reimbursement obligations in respect of letters of credit supporting commercial paper issued by the Borrower and similar arrangements for collateral security with respect to refinancings or replacements of the same;

(xvii) rights of transmission users or any regional transmission organizations or similar entities in transmission facilities;

(xviii) Liens on property of the Borrower sold in a transaction permitted by Section 5.02(a) to another Person pursuant to a conditional sales agreement where the Borrower retains title;

(xix) Liens created under this Agreement;

(xx) Liens on cash or cash equivalents not to exceed \$200,000,000 (A) deposited in margin accounts with or on behalf of futures contract brokers or paid over to other contract counterparties or (B) pledged or deposited as collateral to a contract counterparty to secure obligations with respect to (1) contracts (other than for Indebtedness) for commercial and trading activities in the ordinary course of business for the purchase, transmission, distribution, sale, storage, lease or hedge of any energy or energy related commodity or (2) Hedge Agreements;

(xxi) Liens granted on cash or cash equivalents to defease Indebtedness of the Borrower or any of its Subsidiaries;

(xxii) Liens granted on cash or cash equivalents constituting proceeds from any sale or disposition of assets that is not prohibited by Section 5.02(c) deposited in escrow accounts or otherwise withheld or set aside to secure obligations of the Borrower or any Subsidiary providing for indemnification, adjustment of purchase price or any similar obligations, in each case, in an amount not to exceed the amount of gross proceeds received by the Borrower or any Subsidiary in connection with such sale or disposition;

(xxiii) Liens, deposits and similar arrangements to secure the performance of bids, tenders or contracts (other than contracts for borrowed money), public or statutory obligations, performance bonds and other obligations of a like nature incurred in the ordinary course of business by the Borrower or any of its Subsidiaries;

(xxiv) rights of lessees arising under leases entered into by the Borrower or any of its Subsidiaries as lessor, in the ordinary course of business;

(xxv) any Liens on or reservations with respect to governmental and other licenses, permits, franchises, consents and allowances;

(xxvi) Liens on property which is the subject of a Capital Lease Obligation designating the Borrower or any of its Subsidiaries as lessee and all right, title and interest of the Borrower or any of its Subsidiaries in and to such property and in, to and under such lease agreement, whether or not such lease agreement is intended as a security;

(xxvii) licenses of intellectual property entered into in the ordinary course of business;

(xxviii) Liens solely on any cash earnest money deposits made by the Borrower or any of its Subsidiaries in connection with any letter of intent or purchase agreement permitted hereunder;

(xxix) deposits or funds established for the removal from service of operating facilities and coal mines and related facilities or other similar facilities used in connection therewith; and

(xxx) Liens on cash deposits used to secure letters of credit under defaulting lender provisions in credit or reimbursement facilities;

provided, however, that no Lien in favor of the PBGC shall, in any event, be a Permitted Lien.

“Person” means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

“Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by the Borrower or, with respect to any such plan that is subject to Section 412 of the Internal Revenue Code or Title IV of ERISA, any ERISA Affiliate.

“Prohibited Person” means any Person (a) listed in the Annex to the Executive Order or identified pursuant to Section 1 of the Executive Order; (b) that is owned or controlled by, or acting for or on behalf of, any Person listed in the Annex to the Executive Order or identified pursuant to the provisions of Section 1 of the Executive Order; (c) with whom a Lender is prohibited from dealing or otherwise engaging in any transaction by any terrorism or anti-laundering law, including the Executive Order; (d) who commits, threatens, conspires to commit, or support “terrorism” as defined in the Executive Order; (e) who is named as a “Specially designated national or blocked person” on the most current list published by the OFAC at its official website, at <http://www.treas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf> or any replacement website or other replacement official publication of such list; or (f) who is owned or controlled by a Person listed above in clause (c) or (e).

“Public Debt Rating” means, as of any date, the rating that has been most recently announced by either S&P or Moody’s, as the case may be, for any class of non-credit enhanced long-term senior unsecured debt issued by the Borrower or, if any such rating agency shall have issued more than one such rating, the lowest such rating issued by such rating agency. For purposes of the foregoing, (a) if only one of S&P and Moody’s shall have in effect a Public Debt Rating, the Applicable Rate shall be determined by reference to the available rating; (b) except as set forth in the proviso at the end of this definition, if neither S&P nor Moody’s shall have in effect a Public Debt Rating, the Applicable Rate will be set in accordance with Level 6 under the definition of “Applicable Rate”; (c) if the ratings established by S&P and Moody’s shall fall within different levels, the Applicable Rate shall be based upon the higher rating unless such ratings differ by two or more levels, in which case the applicable level will be deemed to be one level below the higher of such levels; and (d) if any rating established by S&P or Moody’s shall be changed (other than as a result of a change in the basis on which ratings are established), such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; provided that if the Public Debt Rating system of S&P or Moody’s shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Lenders shall negotiate in good faith to amend the definition of “Applicable Rate” to reflect such changed rating system or the unavailability of ratings from such rating agency and, pending the effectiveness of any such amendment, the Applicable Rate will be set in accordance with the level most recently in effect under the definition of “Applicable Rate” prior to such change or cessation.

“PVNGS” means the Palo Verde Nuclear Generating Station.

“PWCC” means Pinnacle West Capital Corporation, an Arizona corporation.

“Ratable Share” of any amount means, with respect to any Lender at any time but subject to the provisions of Section 2.19, the product of such amount times a fraction the numerator of which is the amount of such Lender’s Revolving Credit Commitment at such time (or, if the Revolving Credit Commitments shall have been terminated pursuant to Section 2.05 or 6.01, such Lender’s Revolving Credit Commitment as in effect immediately prior to such termination) and the denominator of which is

the aggregate amount of all Revolving Credit Commitments at such time (or, if the Revolving Credit Commitments shall have been terminated pursuant to Section 2.05 or 6.01, the aggregate amount of all Revolving Credit Commitments as in effect immediately prior to such termination).

“Register” has the meaning specified in Section 8.07(c).

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees and advisors of such Person and of such Person’s Affiliates.

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30-day notice period has been waived under the final regulations issued under Section 4043, as in effect as of the date of this Agreement (the “Section 4043 Regulations”). Any changes made to the Section 4043 Regulations that become effective after the Effective Date shall have no impact on the definition of Reportable Event as used herein unless otherwise amended by the Borrower and the Required Lenders.

“Required Lenders” means, at any time, but subject to Section 2.19, Lenders holding in the aggregate more than 50% of (a) the Revolving Credit Commitments or (b) if the Revolving Credit Commitments have been terminated, the Total Outstandings.

“Revolving Advance” means an advance by a Lender to the Borrower as part of a Borrowing, including a Base Rate Advance made pursuant to Section 2.03(c), but excluding any L/C Advance made as part of an L/C Borrowing and any Swingline Advance, and refers to a Base Rate Advance or a Eurodollar Rate Advance (each of which shall be a Type of Revolving Advance).

“Revolving Credit Commitment” means, as to any Lender, its obligation to (a) make Revolving Advances to the Borrower pursuant to Section 2.01 and 2.03(c), (b) purchase participations in L/C Obligations and (c) make Revolving Advances pursuant to Section 2.03A(c) for the purpose of repaying Swingline Advances, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender’s name on Schedule 1.01 under the column “Revolving Credit Commitment” or if such Lender has become a Lender hereunder pursuant to an Assumption Agreement or if such Lender has entered into any Assignment and Assumption, the amount set forth for such Lender in the Register, in each case as such amount may be reduced pursuant to Section 2.05 or increased pursuant to Section 2.18.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

“Sale Leaseback Obligation Bonds” means PVNGS II Funding Corp.’s (a) 8.00% Secured Lease Obligation Bonds, Series 1993, due 2015; (b) any other bonds issued by or on behalf of the Borrower in connection with a sale/leaseback transaction; and (c) any refinancing or refunding of the obligations specified in subclauses (a) and (b) above.

“Sanctions” means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by OFAC and any similar economic or financial sanctions or trade embargoes of the type described in Sections 4.01(n) through (q) and imposed, administered or enforced from time to time by the U.S. government, including the U.S. Department of State.

“SEC Reports” means the Borrower’s (i) Form 10-K Report for the year ended December 31, 2013, (ii) Form 10-Q Report for the quarter ended March 31, 2014 and (ii) Form 8-K Reports filed on January 9, 2014, January 24, 2014 and February 21, 2014.

“Subsequent Order” means any decision, order or ruling of the Arizona Corporation Commission issued after the Effective Date relating to the incurrence or maintenance of Indebtedness by the Borrower and that amends, supersedes or otherwise modifies the 2013 Order or any successor decision, order or ruling.

“Subsidiary” of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding Voting Stock, (b) the interest in the capital or profits of such limited liability company, partnership or joint venture or (c) the beneficial interest in such trust or estate, is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person’s other Subsidiaries; provided that in no event will Subsidiaries include the VIE Lessor Trusts.

“Swingline Advance” means an advance made by the Swingline Lender, if any, to the Borrower pursuant to Section 2.03A.

“Swingline Eurodollar Rate Advance” means a Swingline Advance that bears interest at a rate equivalent to (a) clause (b) under the definition of Eurodollar Rate, plus (b) the Applicable Rate for Eurodollar Rate Advances.

“Swingline Exposure” means, at any time, the aggregate principal amount of all Swingline Advances outstanding at such time. The Swingline Exposure of any Lender shall be its Ratable Share of the total Swingline Exposure at such time.

“Swingline Lender” means, upon notice to the Agent by such Lender and the Borrower, any Lender approved by the Borrower and the Agent from time to time that may agree to fund Swingline Advances.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Termination Date” means the earlier of (a) May 9, 2019, subject to extension (in the case of, and solely with respect to, each Lender consenting thereto) as provided in Section 2.21 in which case one or more different Termination Dates may exist which shall relate to individual Lender Commitments and (b) the date of termination in whole of the Commitments pursuant to Section 2.05 or 6.01.

“Total Outstandings” means the sum of (a) the aggregate principal amount of all Revolving Advances plus (b) all L/C Obligations outstanding plus (c) the aggregate Swingline Exposure.

“Type” means a Base Rate Advance or a Eurodollar Rate Advance.

“Unreimbursed Amount” has the meaning specified in Section 2.03(c)(i).

“Unissued Letter of Credit Commitment” means, with respect to any Issuing Bank, the obligation of such Issuing Bank to issue Letters of Credit for the account of the Borrower in an amount equal to the

excess of (a) the amount of its Letter of Credit Commitment over (b) the aggregate Available Amount of all Letters of Credit issued by such Issuing Bank.

“Unused Commitment” means, with respect to each Lender at any time, (a) such Lender’s Revolving Credit Commitment at such time minus (b) the sum of (i) the aggregate principal amount of all Revolving Advances made by such Lender (in its capacity as a Lender) and outstanding at such time and (ii) such Lender’s Ratable Share of the aggregate L/C Obligations and, other than for the purposes of calculation of the commitment fees, such Lender’s Ratable Share of the aggregate Swingline Exposure outstanding at such time.

“USA PATRIOT Act” has the meaning specified in Section 8.13.

“VIE Lessor Trusts” means the three (3) separate variable-interest entity lessor trusts that purchased from, and leased back to, the Borrower certain interests in the PVNGS Unit 2 and related common facilities, as described in Note 6 of Notes to Condensed Consolidated Financial Statements in the Borrower’s Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.

“Voting Stock” means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

Section 1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s permitted successors and permitted assigns, (iii) the words “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including;” the words “to” and “until” each mean “to but excluding;” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

Section 1.03 Accounting Terms. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the most recent audited Consolidated financial statements of the Borrower delivered to the Agent ("GAAP"). If at any time any change in GAAP or in the interpretation thereof would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Required Lenders shall so request, the Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP or in the interpretation thereof (subject to the approval of the Required Lenders); provided that, unless and until so amended, such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein.

Section 1.04 Rounding. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

Section 1.05 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES AND LETTERS OF CREDIT

Section 2.01 The Revolving Advances and Letters of Credit.

(a) The Revolving Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Advances in Dollars to the Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an amount not to exceed such Lender's Unused Commitment. Each Borrowing (other than a Swingline Advance) shall be in an aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and shall consist of Revolving Advances of the same Type made on the same day by the Lenders ratably according to their respective Revolving Credit Commitments. Within the limits of each Lender's Revolving Credit Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01(a), prepay pursuant to Section 2.10 and reborrow under this Section 2.01(a). Any Swingline Advance shall be made and repaid in accordance with the procedures set forth in Section 2.03A.

(b) Letters of Credit. Each Issuing Bank agrees, on the terms and conditions hereinafter set forth, in reliance upon the agreements of the other Lenders set forth in this Agreement, to issue standby letters of credit (each a "Letter of Credit") for the account of the Borrower from time to time on any Business Day during the period from the Effective Date until 30 days before the Termination Date in an aggregate Available Amount for all Letters of Credit issued by each Issuing Bank not to exceed at any time such Issuing Bank's Letter of Credit Commitment, provided that after giving effect to the issuance of

any Letter of Credit, (i) the Total Outstandings shall not exceed the aggregate Revolving Credit Commitments and (ii) each Lender's Ratable Share of the Total Outstandings shall not exceed such Lender's Revolving Credit Commitment. No Letter of Credit shall have an expiration date (including all rights of the Borrower or the beneficiary to require renewal) later than the Letter of Credit Expiration Date. Within the limits referred to above, the Borrower may from time to time request the issuance of Letters of Credit under this Section 2.01(b). The terms "issue", "issued", "issuance" and all similar terms, when applied to a Letter of Credit, shall include any renewal, extension or amendment thereof.

Section 2.02 Making the Revolving Advances .

(a) Except as otherwise provided in Section 2.03(c), each Borrowing (other than a Swingline Advance) shall be made on notice, given not later than (x) 12:00 noon on the third Business Day prior to the date of the proposed Borrowing in the case of a Borrowing consisting of Eurodollar Rate Advances or (y) 12:00 noon on the date of the proposed Borrowing in the case of a Borrowing consisting of Base Rate Advances, by the Borrower to the Agent, which shall give to each Lender prompt notice thereof by facsimile. Each such notice of a Borrowing (a " Notice of Borrowing ") shall be in writing or by facsimile in substantially the form of Exhibit B hereto, specifying therein the requested (i) date of such Borrowing, (ii) Type of Revolving Advances comprising such Borrowing, (iii) aggregate amount of such Borrowing, and (iv) in the case of a Borrowing consisting of Eurodollar Rate Advances, initial Interest Period for each such Revolving Advance. Each Lender shall, in the case of a Borrowing consisting of Base Rate Advances, before 2:00 p.m. on the date of such Borrowing, and in the case of a Borrowing consisting of Eurodollar Rate Advances, before 11:00 a.m. on the date of such Borrowing, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's Ratable Share of such Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower at the Agent's address referred to in Section 8.02 or as requested by the Borrower in the applicable Notice of Borrowing.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrower may not select Eurodollar Rate Advances for any Borrowing if the aggregate amount of such Borrowing is less than \$5,000,000 or if the obligation of the Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.08 or 2.12 and (ii) at no time shall there be more than fifteen different Interest Periods outstanding for Eurodollar Rate Advances.

(c) Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Borrowing that the related Notice of Borrowing specifies is to be comprised of Eurodollar Rate Advances, the Borrower shall indemnify each Lender against any loss, cost or expense reasonably incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Advance to be made by such Lender as part of such Borrowing when such Revolving Advance, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from a Lender prior to the time of the applicable Borrowing that such Lender will not make available to the Agent such Lender's Ratable Share of such Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such Ratable Share available to the Agent, such Lender and the Borrower severally agree to repay to the Agent within one Business Day after

demand for such Lender and within three Business Days after demand for the Borrower such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at the time to Revolving Advances comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If the Borrower and such Lender shall pay such interest to the Agent for the same or an overlapping period, the Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's Revolving Advance as part of such Borrowing for purposes of this Agreement.

(e) The failure of any Lender to make the Revolving Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Revolving Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Revolving Advance to be made by such other Lender on the date of any Borrowing.

Section 2.03 Letters of Credit.

(a) General.

(i) No Issuing Bank shall issue any Letter of Credit, if the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all the Lenders have approved such expiry date.

(ii) No Issuing Bank shall be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain such Issuing Bank from issuing such Letter of Credit, or any Law applicable to such Issuing Bank or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over such Issuing Bank shall prohibit, or request that such Issuing Bank refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Bank with respect to such Letter of Credit any restriction, reserve or capital and liquidity requirement (for which such Issuing Bank is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Bank any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which, in each such case, such Issuing Bank in good faith deems material to it;

(B) except as otherwise agreed by the Borrower and such Issuing Bank, such Letter of Credit is in an initial stated amount less than \$100,000;

(C) such Letter of Credit is to be denominated in a currency other than Dollars;

(D) such Letter of Credit contains any provisions for automatic reinstatement of the stated amount after any drawing thereunder;

(E) subject to Section 2.03(b)(iii), the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance or last extension; or

(F) any Lender is at such time an Affected Lender hereunder, unless the applicable Issuing Bank is satisfied that the related exposure will be 100% covered by the Commitments of the non-Affected Lenders or, if not so covered, until such Issuing Bank has entered into arrangements satisfactory to it in its sole discretion with the Borrower or such Affected Lender to eliminate such Issuing Bank's risk with respect to such Affected Lender, and participating interests in any such newly issued Letter of Credit shall be allocated among non-Affected Lenders in a manner consistent with Section 2.19(c) (i) (and Affected Lenders shall not participate therein).

(iii) No Issuing Bank shall amend any Letter of Credit if such Issuing Bank would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof.

(iv) No Issuing Bank shall be under any obligation to amend any Letter of Credit if (A) such Issuing Bank would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the applicable Issuing Bank (with a copy to the Agent) in the form of a Letter of Credit Application appropriately completed and signed by an Authorized Officer of the Borrower, together with agreed-upon draft language for such Letter of Credit reasonably acceptable to the applicable Issuing Bank. Such Letter of Credit Application must be received by such Issuing Bank and the Agent not later than 11:00 a.m. at least two Business Days (or such later date and time as the Agent and such Issuing Bank may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the applicable Issuing Bank: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; (G) the purpose and nature of the requested Letter of Credit; and (H) such other matters as such Issuing Bank may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the applicable Issuing Bank (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as such Issuing Bank may require. Additionally, the Borrower shall furnish to the applicable Issuing Bank and the Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any L/C Related Documents, as the applicable Issuing Bank or the Agent may require. In the event and to the extent that the provisions of any Letter of Credit Application or other L/C Related Document shall conflict with this Agreement, the provisions of this Agreement shall govern. Without limitation of the immediately preceding sentence, to the extent that any such Letter of Credit Application or other L/C Related Document shall impose any additional conditions on the maintenance of a Letter of Credit, any additional default provisions, collateral requirements or other obligations of the Borrower to any Issuing Bank, other than as stated in this Agreement, such additional conditions, provisions, requirements or other obligations shall not have effect so

long as this Agreement shall be in effect, except to the extent as expressly agreed to by the Borrower and such Issuing Bank.

(ii) Promptly after receipt of any Letter of Credit Application, the applicable Issuing Bank will confirm with the Agent (by telephone or in writing) that the Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, such Issuing Bank will provide the Agent with a copy thereof. Unless the applicable Issuing Bank has received written notice from the Required Lenders, the Agent or the Borrower, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Article III shall not then be satisfied, then, subject to the terms and conditions hereof and any applicable Letter of Credit Application, such Issuing Bank shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with such Issuing Bank's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from such Issuing Bank a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Ratable Share times the amount of such Letter of Credit.

(iii) If the Borrower so requests in any applicable Letter of Credit Application, the applicable Issuing Bank may, in its sole and absolute discretion, agree to issue a Letter of Credit that has automatic extension provisions (each, an "Auto-Extension Letter of Credit"); provided that any such Auto-Extension Letter of Credit must permit such Issuing Bank to prevent any such extension at least once in each twelve-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Extension Notice Date") in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the applicable Issuing Bank, the Borrower shall not be required to make a specific request to the applicable Issuing Bank for any such extension. Once an Auto-Extension Letter of Credit has been issued, the Lenders shall be deemed to have authorized (but may not require) the applicable Issuing Bank to permit the extension of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the applicable Issuing Bank shall not permit any such extension (or may issue a Notice of Non-Extension) if (A) such Issuing Bank has determined that it would not be permitted at such time to issue such Letter of Credit in its revised form (as extended) by reason of the provisions of clause (i) of Section 2.03(a) (or would have no obligation to issue such Letter of Credit by reason of the provisions of clause (ii) of Section 2.03(a)), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is seven Business Days before the Non-Extension Notice Date (1) from the Agent that the Required Lenders have elected not to permit such extension pursuant to Section 6.02 or (2) from the Agent, the Required Lenders or the Borrower that one or more of the applicable conditions specified in Section 3.02 is not then satisfied, and in each such case directing such Issuing Bank not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the applicable Issuing Bank will also deliver to the Borrower and the Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Subject to the provisions below, not later than 2:30 p.m. on the date (the "Honor Date") that any Issuing Bank makes any payment on a drawing on any Letter of Credit, if the

Borrower shall have received notice of such payment prior to 11:30 a.m. on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 2:30 p.m. on the next Business Day, the Borrower shall reimburse such Issuing Bank through the Agent in an amount equal to the amount of such drawing together with interest thereon. If the Borrower fails to so reimburse such Issuing Bank by such time, unless the Borrower shall have advised the Agent that it does not meet the conditions specified in either clause (B) or (C) below, the Agent shall promptly notify each Lender of the Honor Date, the amount of the unreimbursed drawing (the “Unreimbursed Amount”), and the amount of such Lender’s Ratable Share thereof. In such event, the Borrower shall be deemed to have requested a Base Rate Advance to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.01(a) or the delivery of a Notice of Borrowing but subject to (A) the amount of the aggregate Unused Commitments, (B) no Event of Default having occurred and be continuing, or resulting therefrom, and (C) the conditions specified in Sections 3.02(c) and (d) being satisfied on and as of the date of the applicable Base Rate Advance and, to the extent so financed, the Borrower’s obligation to satisfy the reimbursement obligation created by such payment by the Issuing Bank on the Honor Date shall be discharged and replaced by the resulting Base Rate Advance. Any notice given by any Issuing Bank or the Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender shall upon any notice pursuant to Section 2.03(c)(i) make funds available to the Agent for the account of the applicable Issuing Bank at the Agent’s Office in an amount equal to its Ratable Share of the Unreimbursed Amount not later than 4:00 p.m. on the Business Day specified in such notice by the Agent, whereupon, subject to the provisions of Section 2.03(c)(iii), each Lender that so makes funds available shall be deemed to have made a Base Rate Advance to the Borrower in such amount. The Agent shall remit the funds so received to the applicable Issuing Bank.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Base Rate Advance because any of the conditions set forth in clauses (A), (B) or (C) of Section 2.03(c)(i) cannot be satisfied or for any other reason, then not later than 2:30 p.m. on the next Business Day after the day notice of the drawing is given to the Borrower, in the case of a failure to meet any such condition, or in any other case, after notice of the event resulting in the outstanding Unreimbursed Amount, the Borrower shall reimburse such Issuing Bank through the Agent in an amount equal to the amount of such outstanding Unreimbursed Amount with interest thereon. If the Borrower fails to so reimburse such Issuing Bank by such time, the Borrower shall be deemed to have incurred from the applicable Issuing Bank an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time plus 2% per annum. In such event, each Lender’s payment to the Agent for the account of the applicable Issuing Bank pursuant to Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 2.03.

(iv) Until each Lender funds its Base Rate Advance or L/C Advance pursuant to this Section 2.03(c) to reimburse the applicable Issuing Bank for any amount drawn under any Letter of Credit, interest in respect of such Lender’s Ratable Share of such amount shall be solely for the account of the applicable Issuing Bank.

(v) Each Lender's obligation to make Base Rate Advances or L/C Advances to reimburse the applicable Issuing Bank for amounts drawn under Letters of Credit, as contemplated by this Section 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against such Issuing Bank, the Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Base Rate Advances pursuant to this Section 2.03(c) is subject to the conditions set forth in Section 2.03 (c)(i). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the applicable Issuing Bank for the amount of any payment made by such Issuing Bank under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to the Agent for the account of the applicable Issuing Bank any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c) (ii), such Issuing Bank shall be entitled to recover from such Lender (acting through the Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to such Issuing Bank at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by such Issuing Bank in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by such Issuing Bank in connection with the foregoing. If such Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Lender's Base Rate Advance included in the relevant Borrowing or L/C Advance in respect of the relevant L/C Borrowing, as the case may be. A certificate of the applicable Issuing Bank submitted to any Lender (through the Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after the applicable Issuing Bank has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 2.03(c), if the Agent receives for the account of such Issuing Bank any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of Cash Collateral (as defined in Section 2.03(h)) applied thereto by the Agent), the Agent will distribute to such Lender its Ratable Share thereof in the same funds as those received by the Agent.

(ii) If any payment received by the Agent for the account of the applicable Issuing Bank pursuant to Section 2.03(c) (i) is required to be returned under any of the circumstances described in Section 8.12 (including pursuant to any settlement entered into by such Issuing Bank in its discretion), each Lender shall pay to the Agent for the account of such Issuing Bank its Ratable Share thereof on demand of the Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Failure to Make Revolving Advances. The failure of any Lender to make the Revolving Advance to be made by it on the date specified in Section 2.03(c) or any L/C Advance shall not relieve any other Lender of its obligation hereunder to make its Revolving Advance or L/C Advance, as the case may be, to be made by such other Lender on such date.

(f) Obligations Absolute. The obligation of the Borrower to reimburse the applicable Issuing Bank for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), any Issuing Bank or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the applicable Issuing Bank under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the applicable Issuing Bank under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower.

provided, however, that nothing in this Section 2.03(f) shall limit the rights of the Borrower under Section 2.03(g).

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity that is known to the Borrower in connection with any draw under such Letter of Credit of which the Borrower has reasonable notice, the Borrower will immediately notify the applicable Issuing Bank. To the extent allowed by applicable Law, Borrower shall be conclusively deemed to have waived any such claim against the applicable Issuing Bank and its correspondents unless such notice is given as aforesaid. Nothing herein shall require the Borrower to make any determination as to whether the drawing is in accordance with the requirements of the Letter of Credit, provided that the Borrower may waive any discrepancies in the drawing on any such Letter of Credit.

(g) Role of Issuing Bank. Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, the applicable Issuing Bank shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the applicable Issuing Bank, the Agent, any of their respective Related Parties nor any correspondent, participant or assignee of such Issuing Bank

shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or L/C Related Document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at Law or under any other agreement. None of the applicable Issuing Bank, the Agent, any of their respective Related Parties nor any correspondent, participant or assignee of such Issuing Bank shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.03(f); provided, however, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the applicable Issuing Bank, and such Issuing Bank may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by such Issuing Bank's willful misconduct or gross negligence or such Issuing Bank's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the applicable Issuing Bank may accept documents that appear on its face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and such Issuing Bank shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(h) Cash Collateral. Upon the request of the Agent or the applicable Issuing Bank, if, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Borrower shall, in each case, immediately Cash Collateralize the then outstanding L/C Obligations. Section 6.02 sets forth certain additional requirements to deliver Cash Collateral hereunder. For purposes of this Section 2.03, Section 2.10(b)(ii), Section 2.19(c) (ii), (iv) and (v) and Section 6.02, "Cash Collateralize" means to pledge and deposit with or deliver to the Agent, for the benefit of the Issuing Banks and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Agent and each Issuing Bank (which documents are hereby consented to by the Lenders) in an amount equal to 100% of the amount of the L/C Obligations as of such date plus any accrued and unpaid interest and fees thereon. Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Agent, for the benefit of the Issuing Banks and the Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash Collateral shall be maintained in blocked, non-interest bearing deposit accounts with the Agent.

(i) Letter of Credit Reports. Each Issuing Bank shall furnish (A) to the Agent on the first Business Day of each month a written report summarizing issuance and expiration dates of Letters of Credit issued by such Issuing Bank during the preceding month and drawings during such month under all such Letters of Credit and (B) to the Agent on the first Business Day of each calendar quarter a written report setting forth the average daily aggregate Available Amount during the preceding calendar quarter of all Letters of Credit issued by such Issuing Bank.

(j) Interim Interest. Except as provided in Section 2.03(c)(ii) with respect to Unreimbursed Amounts refinanced as Base Rate Advances and Section 2.03(c)(iii) with respect to L/C Borrowings, unless the Borrower shall reimburse each payment by an Issuing Bank pursuant to a Letter of Credit in full on the Honor Date, the Unreimbursed Amount thereof shall bear interest, for each day from and including the Honor Date to but excluding the date that the Borrower reimburses such Issuing Bank for

the Unreimbursed Amount in full, at the rate per annum equal to (i) the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time, to but excluding the next Business Day after the Honor Date and (ii) from and including the next Business Day after the Honor Date, the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time plus 2% per annum.

Section 2.03A Swingline Advances.

(a) Amount of Swingline Advances. Subject to the terms and conditions set forth herein, the Swingline Lender will make Swingline Advances in Dollars to the Borrower from time to time during the period from the Effective Date until the Termination Date, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of all outstanding Swingline Advances exceeding \$50,000,000 (or such lesser amount as agreed between the Borrower and the Swingline Lender) or (ii) the Total Outstanding exceeding the aggregate Revolving Credit Commitment. Each Swingline Advance shall be in an aggregate amount of \$500,000 or an integral multiple of \$100,000 in excess thereof or such greater amounts as agreed between the Borrower and the Swingline Lender. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Swingline Advances. The Swingline Lender shall be under no obligation to make a Swingline Advance if any Lender is at such time an Affected Lender hereunder, unless the Swingline Lender is satisfied that the related exposure will be 100% covered by the Commitments of the non-Affected Lenders or, if not so covered, until the Swingline Lender has entered into arrangements satisfactory to it in its sole discretion with the Borrower or such Affected Lender to eliminate the Swingline Lender's risk with respect to such Affected Lender, and participating interests in any such newly made Swingline Advance shall be allocated among non-Affected Lenders in a manner consistent with Section 2.19(c)(i) (and Affected Lenders shall not participate therein).

(b) Borrowing Notice and Making of Swingline Advances. To request a Swingline Advance, the Borrower shall notify the Swingline Lender and the Agent of such request by telephone (confirmed by facsimile), not later than 2:00 p.m. (or such later time as the Swingline Lender may determine in its sole discretion), on the day of such Swingline Advance. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Advance. The Swingline Lender shall promptly notify the Borrower and the Agent (and the Agent shall promptly notify each Lender) and the Swingline Lender shall make each Swingline Advance available to the Borrower by 2:30 p.m. (or such later time as may be agreed by the Swingline Lender and the Borrower) on the requested date of such Swingline Advance in a manner agreed upon by the Borrower and the Swingline Lender. Each Swingline Advance shall bear interest at the Base Rate, or, at the option of the Borrower and subject to prior agreement between the Borrower and the Swingline Lender, shall be a Swingline Eurodollar Rate Advance or a Money Market Rate Advance.

(c) Repayment of Swingline Advances. Each Swingline Advance shall be paid in full by the Borrower on the earlier of (x) on or before the fourteenth (14th) Business Day after the date such Swingline Advance was made by the Swingline Lender or (y) the Termination Date. A Swingline Advance may not be repaid with the proceeds from another Swingline Advance. In addition, the Swingline Lender (i) may at any time in its sole discretion with respect to any outstanding Swingline Advance, or (ii) shall, on the fourteenth (14th) Business Day after the date any Swingline Advance is made and which has not been otherwise repaid, require each Lender (including the Swingline Lender) to make a Revolving Advance in the amount of such Lender's Ratable Share of such Swingline Advance (including, without limitation, any interest accrued and unpaid thereon), for the purpose of repaying such Swingline Advance. Not later than 2:00 p.m. on the date of any notice received pursuant to this Section 2.03A(c), each Lender shall make available to the Agent its required Revolving Advance, in immediately available funds in the same manner as provided in Section 2.02(a) with respect to Revolving Advances.

made by such Lender. Revolving Advances made pursuant to this Section 2.03A(c) shall initially be Base Rate Advances and thereafter may be continued as Base Rate Advances or converted into Eurodollar Rate Advances in the manner provided in Section 2.09 and subject to the other conditions and limitations set forth in this Article II. Each Lender's obligation to make Revolving Advances pursuant to this Section 2.03A(c) to repay Swingline Advances shall be unconditional, continuing, irrevocable and absolute and shall not be affected by any circumstances, including, without limitation, (a) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Agent, the Swingline Lender or any other Person, (b) the occurrence or continuance of a Default or an Event of Default, (c) any adverse change in the condition (financial or otherwise) of the Borrower, or (d) any other circumstance, happening or event whatsoever. In the event that any Lender fails to make payment to the Agent of any amount due under this Section 2.03A(c), the Agent shall be entitled to receive, retain and apply against such obligation the principal and interest otherwise payable to such Lender hereunder until the Agent receives such payment from such Lender or such obligation is otherwise fully satisfied. In addition to the foregoing, if for any reason any Lender fails to make payment to the Agent of any amount due under this Section 2.03A(c), such Lender shall be deemed, at the option of the Agent, to have unconditionally and irrevocably purchased from the Swingline Lender without recourse or warranty, an undivided interest and participation in the applicable Swingline Advance in the amount of such Revolving Advance, and such interest and participation may be recovered from such Lender together with interest thereon at the Federal Funds Rate for each day during the period commencing on the date of demand and ending on the date such amount is received.

(d) Swingline Advances Reports. The Swingline Lender shall furnish to the Agent on each Business Day a written report summarizing outstanding Swingline Advances made by the Swingline Lender and the due date for the repayment of such Swingline Advances; provided that if no Swingline Advances are outstanding, no such report shall be required to be delivered.

(e) Successor Swingline Lender. Subject to the appointment and acceptance of a successor Swingline Lender as provided in this paragraph, the Borrower may, upon not less than ten (10) Business Days prior notice to the Agent and the Lenders, replace the existing Swingline Lender with the consent of the Agent (which consent shall not unreasonably be withheld). Upon the acceptance of its appointment as Swingline Lender hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the replaced Swingline Lender, and the replaced Swingline Lender shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Swingline Lender shall be as agreed between the Borrower and such successor. After the Swingline Lender's replacement hereunder, the provisions of this Article and Section 8.04 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Swingline Lender.

Section 2.04 Fees.

(a) Commitment Fee. The Borrower agrees to pay to the Agent for the account of each Lender a commitment fee on such Lender's Unused Commitment (provided that, for the avoidance of doubt, and without duplication, such Lender's Unused Commitment shall be calculated exclusive of such Lender's Swingline Exposure and, if such Lender is the Swingline Lender, without giving effect to the Swingline Advances, and in no event shall the aggregate of such commitment fees exceed an amount calculated based on the product of (a) the aggregate Revolving Credit Commitments minus the aggregate principal amount of all Revolving Advances and aggregate L/C Obligations and (b) the Applicable Rate for commitment fees) from the Effective Date in the case of each Initial Lender and from the effective date specified in the Assumption Agreement or in the Assignment and Assumption pursuant to which it became a Lender in the case of each other Lender until the Termination Date at a rate per annum equal to the Applicable Rate for commitment fees in effect from time to time, payable in arrears quarterly on the

last day of each March, June, September and December, commencing June 30, 2014, and on the Termination Date, provided that no commitment fee shall accrue with respect to the Unused Commitment of an Affected Lender so long as such Lender shall be an Affected Lender.

(b) Letter of Credit Fees.

(i) The Borrower shall pay to the Agent for the account of each Lender a commission on such Lender's Ratable Share of the average daily aggregate Available Amount of all Letters of Credit outstanding from time to time at a rate per annum equal to the Applicable Rate for Eurodollar Rate Advances in effect from time to time, during such calendar quarter, payable in arrears quarterly on the last day of each March, June, September and December, commencing with the quarter ended June 30, 2014, and on the Termination Date; provided that the Applicable Rate for Eurodollar Rate Advances shall be 2% above such Applicable Rate in effect upon the occurrence and during the continuation of an Event of Default if the Borrower is required to pay default interest pursuant to Section 2.07(b).

(ii) The Borrower shall pay to each Issuing Bank, for its own account, a fronting fee with respect to each Letter of Credit issued by such Issuing Bank, payable in the amounts and at the times specified in the applicable Fee Letter between the Borrower and such Issuing Bank, and such other commissions, issuance fees, transfer fees and other fees and charges in connection with the issuance or administration of each Letter of Credit as the Borrower and such Issuing Bank shall agree promptly following receipt of an invoice therefor.

(c) Agent's Fees. The Borrower shall pay to the Agent for its own account such fees as are agreed between the Borrower and the Agent pursuant to the Fee Letter between the Borrower and the Agent.

Section 2.05 Optional Termination or Reduction of the Commitments.

(a) The Borrower shall have the right, upon at least three Business Days' notice to the Agent, to terminate in whole or permanently reduce ratably in part the Unused Commitments or the Unissued Letter of Credit Commitments, provided that each partial reduction shall be in the aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof.

(b) So long as no Default or Event of Default shall be continuing, the Borrower shall have the right, at any time, upon at least ten Business Days' notice to an Affected Lender (with a copy to the Agent), to terminate in whole such Lender's Revolving Credit Commitment and, if applicable, its Letter of Credit Commitment, without affecting the Commitments of any other Lender. Such termination shall be effective, (x) with respect to such Lender's Unused Commitment, on the date set forth in such notice, provided, however, that such date shall be no earlier than ten Business Days after receipt of such notice and (y) with respect to each Revolving Advance outstanding to such Lender, in the case of Base Rate Advances, on the date set forth in such notice and, in the case of Eurodollar Rate Advances, on the last day of the then current Interest Period relating to such Revolving Advance. Upon termination of a Lender's Commitments under this Section 2.05(b), the Borrower will pay or cause to be paid all principal of, and interest accrued to the date of such payment on, Revolving Advances (and if such Lender is the Swingline Lender, the Swingline Advances) owing to such Lender and, subject to Section 2.19, pay any accrued commitment fees or Letter of Credit fees payable to such Lender pursuant to the provisions of Section 2.04, and all other amounts payable to such Lender hereunder (including, but not limited to, any increased costs or other amounts owing under Section 2.11 and any indemnification for Taxes under Section 2.14); and, if such Lender is an Issuing Bank, shall pay to such Issuing Bank for deposit in an escrow account an amount equal to the Available Amount of all Letters of Credit issued by such Issuing

Bank, whereupon all Letters of Credit issued by such Issuing Bank shall be deemed to have been issued outside of this Agreement on a bilateral basis and shall cease for all purposes to constitute a Letter of Credit issued under this Agreement, and upon such payments, except as otherwise provided below, the obligations of such Lender hereunder shall, by the provisions hereof, be released and discharged; provided, however, that (i) such Lender's rights under Sections 2.11, 2.14 and 8.04, and, in the case of an Issuing Bank, Section 8.04(c), and its obligations under Section 8.04 and 8.08, in each case in accordance with the terms thereof, shall survive such release and discharge as to matters occurring prior to such date and (ii) such escrow agreement shall be in a form reasonably agreed to by the Borrower and such Issuing Bank, but in no event shall either the Borrower or such Issuing Bank require any waivers, covenants, events of default or other provisions that are more restrictive than or inconsistent with the provisions of this Agreement. Subject to Section 2.18, the aggregate amount of the Commitments of the Lenders once reduced pursuant to this Section 2.05(b) may not be reinstated. The termination of the Commitments of an Affected Lender pursuant to this Section 2.05(b) will not be deemed to be a waiver of any right that the Borrower, the Agent, any Issuing Bank, the Swingline Lender or any other Lender may have against the Affected Lender that arose prior to the date of such termination. Upon any such termination, the Ratable Share of each remaining Lender will be revised.

Section 2.06 Repayment of Advances. The Borrower shall repay to the Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Revolving Advances made by such Lender and then outstanding. The Borrower shall repay Swingline Advances in accordance with Section 2.03A(c).

Section 2.07 Interest on Advances.

(a) Scheduled Interest. The Borrower shall pay interest on the unpaid principal amount of each Advance owing to each Lender (including the Swingline Lender) from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Revolving Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Rate for Base Rate Advances in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December during such periods and on the date such Base Rate Advance shall be Converted or paid in full.

(ii) Eurodollar Rate Advances. During such periods as such Revolving Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Advance to the sum of (x) the Eurodollar Rate for such Interest Period for such Revolving Advance plus (y) the Applicable Rate for Eurodollar Rate Advances in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(iii) Swingline Advances. During such period as such Swingline Advance remains outstanding, the Base Rate or, as agreed to by the Swingline Lender and the Borrower, the Money Market Rate or the Eurodollar Rate, payable on the date such Swingline Advance is required to be repaid.

(b) Default Interest. Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), the Agent may, and upon the request of the Required Lenders shall, require the Borrower to pay interest ("Default Interest") on (i) the unpaid principal amount of each Advance owing to

each Lender, payable in arrears on the dates referred to in clause (a)(i), (a)(ii) or (a)(iii) above, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Advance pursuant to clause (a)(i), (a)(ii) or (a)(iii) above and (ii) to the fullest extent permitted by Law, the amount of any interest, fee or other amount payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on Base Rate Advances pursuant to clause (a)(i) above, provided, however, that following acceleration of the Advances pursuant to Section 6.01, Default Interest shall accrue and be payable hereunder whether or not previously required by the Agent.

(c) Interest Rate Limitation. Nothing contained in this Agreement or in any other Loan Document shall be deemed to establish or require the payment of interest to any Lender at a rate in excess of the maximum rate permitted by applicable Law. If the amount of interest payable for the account of any Lender on any interest payment date would exceed the maximum amount permitted by applicable Law to be charged by such Lender, the amount of interest payable for its account on such interest payment date shall be automatically reduced to such maximum permissible amount. In the event of any such reduction affecting any Lender, if from time to time thereafter the amount of interest payable for the account of such Lender on any interest payment date would be less than the maximum amount permitted by applicable Law to be charged by such Lender, then the amount of interest payable for its account on such subsequent interest payment date shall be automatically increased to such maximum permissible amount, provided that at no time shall the aggregate amount by which interest paid for the account of any Lender has been increased pursuant to this sentence exceed the aggregate amount by which interest paid for its account has theretofore been reduced pursuant to the previous sentence.

Section 2.08 Interest Rate Determination.

(a) The Agent shall give prompt notice to the Borrower and the Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.07(a).

(b) If the Required Lenders determine that for any reason in connection with any request for a Eurodollar Rate Advance or a Conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Advance, (b) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Advance, or (c) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Advance does not adequately and fairly reflect the cost to such Lenders of funding such Revolving Advance, the Agent will promptly so notify the Borrower and each Lender, whereupon each Eurodollar Rate Advance will automatically on the last day of the then existing Interest Period therefor Convert into a Base Rate Advance. Thereafter, the obligation of the Lenders to make or maintain Eurodollar Rate Advances shall be suspended until the Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, Conversion to or continuation of Eurodollar Rate Advances or, failing that, will be deemed to have Converted such request into a request for a Base Rate Advance in the amount specified therein.

(c) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify the Borrower and the Lenders and such Revolving Advances will automatically, on the last day of the then existing Interest Period therefor, Convert into Base Rate Advances.

(d) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances comprising any Borrowing shall be reduced, by payment or prepayment or otherwise, to less than \$5,000,000, such Revolving Advances shall automatically Convert into Base Rate Advances.

(e) Upon the occurrence and during the continuance of any Event of Default,

(i) with respect to Eurodollar Rate Advances, each such Revolving Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance (or if such Revolving Advance is then a Base Rate Advance, will continue as a Base Rate Advance); and

(ii) the obligation of the Lenders to make Eurodollar Rate Advances or to Convert Revolving Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

Section 2.09 Optional Conversion of Revolving Advances. The Borrower may on any Business Day, upon notice given to the Agent not later than 12:00 noon on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.08 and 2.12, Convert all Revolving Advances of one Type comprising the same Borrowing into Revolving Advances of the other Type; provided, however, that (a) any Conversion of Eurodollar Rate Advances into Base Rate Advances shall be made only on the last day of an Interest Period for such Eurodollar Rate Advances, (b) any Conversion of Base Rate Advances into Eurodollar Rate Advances shall be in an amount not less than the minimum amount specified in Section 2.02(b), (c) no Conversion of any Revolving Advances shall result in more separate Borrowings than permitted under Section 2.02(b) and (d) no Swingline Advances may be converted. Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Revolving Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for each such Revolving Advance. Each notice of Conversion shall be irrevocable and binding on the Borrower.

Section 2.10 Prepayments of Advances .

(a) Optional. At any time and from time to time, the Borrower shall have the right to prepay any Advance, in whole or in part, without premium or penalty (except as provided in clause (y) below), upon notice at least two Business Days' prior to the date of such prepayment, in the case of Eurodollar Rate Advances, and not later than 11:00 a.m. on the date of such prepayment in the case of Base Rate Advances and Swingline Advances, to the Agent (and, in the case of prepayment a Swingline Advance, the Swingline Lender) specifying the proposed date of such prepayment and the aggregate principal amount and Type of the Advance to be prepaid (and, in the case of Eurodollar Rate Advances, the Interest Period of the Borrowing pursuant to which made); provided, however, that (x) each partial prepayment shall be in an aggregate principal amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, and shall be accompanied by accrued interest to the date of prepayment on the principal amount prepaid, and (y) in the event of any such prepayment of a Eurodollar Rate Advance, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 8.04(e).

(b) Mandatory.

(i) The Borrower shall prepay the aggregate principal amount of the Advances, together with accrued interest to the date of prepayment on the principal amount prepaid, without requirement of demand therefor, or shall pay or prepay any other Indebtedness then outstanding at any time, when and to the extent required to comply with applicable Laws of any

Governmental Authority, including the 2013 Order and/or any Subsequent Order, or applicable resolutions of the Board of Directors of the Borrower.

(ii) If for any reason the Total Outstandings at any time exceed the aggregate Revolving Credit Commitments then in effect, the Borrower shall, within one Business Day after notice thereof, prepay Advances and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however, that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.10(b) unless, after the prepayment in full of the Advances, the Total Outstandings exceed the aggregate Revolving Credit Commitments then in effect.

Section 2.11 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement contemplated by Section 2.11(e)) or any Issuing Bank; or

(ii) impose on any Lender or any Issuing Bank or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Advances made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Rate Advance (or of maintaining its obligation to make any such Revolving Advance), or to increase the cost to such Lender or such Issuing Bank of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or such Issuing Bank hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or such Issuing Bank, the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or any Issuing Bank determines that any Change in Law affecting such Lender or such Issuing Bank or any Applicable Lending Office of such Lender or such Lender's or such Issuing Bank's holding company, if any, regarding capital and liquidity requirements has or would have the effect of reducing the rate of return on such Lender's or such Issuing Bank's capital or on the capital of such Lender's or such Issuing Bank's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Advances made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by such Issuing Bank, to a level below that which such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or such Issuing Bank's policies and the policies of such Lender's or such Issuing Bank's holding company with respect to capital adequacy and liquidity), then from time to time the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender or an Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or such Issuing Bank or its holding

company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower shall be conclusive and binding upon all parties absent manifest error. The Borrower shall pay such Lender or such Issuing Bank, as the case may be, the amount shown as due on any such certificate within 30 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or any Issuing Bank to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's or such Issuing Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or an Issuing Bank pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than three months prior to the date that such Lender or such Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or such Issuing Bank's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the three-month period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Reserves on Eurodollar Rate Advances. The Borrower shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each Eurodollar Rate Advance equal to the actual costs of such reserves allocated to such Revolving Advance by such Lender (as determined by such Lender in good faith, which determination shall be conclusive absent manifest error), which shall be due and payable on each date on which interest is payable on such Eurodollar Rate Advance, provided the Borrower shall have received at least 30 days' prior notice (with a copy to the Agent) of such additional interest from such Lender. If a Lender fails to give notice 30 days prior to the relevant interest payment date, such additional interest shall be due and payable 30 days from receipt of such notice.

Section 2.12 Illegality. If any Lender shall have determined in good faith that the introduction of or any change in any applicable Law or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance with any guideline or request from any such Governmental Authority (whether or not having the force of law), for any Lender or its Applicable Lending Office to make, maintain or fund Eurodollar Rate Advances, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower through the Agent, any obligation of such Lender to make or continue Eurodollar Rate Advances or to convert Base Rate Advances to Eurodollar Rate Advances shall be suspended until such Lender notifies the Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from such Lender (with a copy to the Agent), prepay or, if applicable, convert all Eurodollar Rate Advances of such Lender to Base Rate Advances, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Advances to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Advances. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

Section 2.13 Payments and Computations.

(a) All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. The Borrower shall make each payment hereunder not later than 1:00 p.m. on the day when due in U.S. dollars to the Agent at the Agent's Account in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment

of principal, interest, fees or commissions ratably (other than amounts payable pursuant to Section 2.05(b), 2.11, 2.12, 2.14, 2.20 or 8.04(e)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon any Assuming Lender becoming a Lender hereunder as a result of a Commitment Increase pursuant to Section 2.18, and upon the Agent's receipt of such Lender's Assumption Agreement and recording of the information contained therein in the Register, from and after the applicable Increase Date, the Agent shall make all payments hereunder and under any Notes issued in connection therewith in respect of the interest assumed thereby to the Assuming Lender. Upon its acceptance of an Assignment and Assumption and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Assumption, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Assumption shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) All computations of interest based on (i) the Prime rate (as defined in the definition of "Base Rate" in Section 1.01) shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be and (ii) the Federal Funds Rate, the Eurodollar Rate and of fees and Letter of Credit commissions shall be made by the Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest, fees or commissions are payable. Interest on Swingline Advances shall be calculated on the basis of a year of 360 days or such other basis agreed to by the Swingline Lender and the Borrower, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. Each determination by the Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest, fees or commissions, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

Section 2.14 Taxes.

(a) Payments Free of Taxes; Obligation to Withhold; Payments on Account of Taxes.

(i) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall to the extent permitted by applicable Laws be made free and clear of and without reduction or withholding for any Taxes. If, however,

applicable Laws require the Borrower or the Agent to withhold or deduct any Tax, such Tax shall be withheld or deducted in accordance with such Laws as determined by the Borrower or the Agent, as the case may be, upon the basis of the information and documentation to be delivered pursuant to subsection (e) below.

(ii) If the Borrower or the Agent shall be required by the Internal Revenue Code to withhold or deduct any Taxes, including both United States of America Federal backup withholding and withholding taxes, from any payment, then (A) the Agent shall withhold or make such deductions as are determined by the Agent to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B) the Agent shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with the Internal Revenue Code, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes or Other Taxes, the sum payable by the Borrower shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section) the Agent, Lender or Issuing Bank, as the case may be, receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of subsection (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable Laws.

(c) Tax Indemnifications.

(i) Without limiting the provisions of subsection (a) or (b) above, the Borrower shall, and does hereby, indemnify the Agent, each Lender and each Issuing Bank, and shall make payment in respect thereof within 30 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) withheld or deducted by the Borrower or the Agent or paid by the Agent, such Lender or such Issuing Bank, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. The Borrower shall also, and does hereby, indemnify the Agent, and shall make payment in respect thereof within 10 days after demand therefor, for any amount which a Lender or an Issuing Bank for any reason fails to pay indefeasibly to the Agent as required by clause (ii) of this subsection. A certificate as to the amount of any such payment or liability delivered to the Borrower by a Lender or an Issuing Bank (with a copy to the Agent), or by the Agent on its own behalf or on behalf of a Lender or an Issuing Bank, shall be conclusive absent manifest error.

(ii) Without limiting the provisions of subsection (a) or (b) above, each Lender and each Issuing Bank shall, and does hereby, indemnify the Borrower and the Agent, and shall make payment in respect thereof within 30 days after demand therefor, against any and all Taxes and any and all related losses, claims, liabilities, penalties, interest and expenses (including the fees, charges and disbursements of any counsel for the Borrower or the Agent) incurred by or asserted against the Borrower or the Agent by any Governmental Authority as a result of the failure by such Lender or such Issuing Bank, as the case may be, to deliver, or as a result of the inaccuracy, inadequacy or deficiency of, any documentation required to be delivered by such Lender or such Issuing Bank, as the case may be, to the Borrower or the Agent pursuant to subsection (e). Each Lender and each Issuing Bank hereby authorizes the Agent to set off and apply any and all amounts at any time owing to such Lender or such Issuing Bank, as the case may be, under this

Agreement or any other Loan Document against any amount due to the Agent under this clause (ii). The agreements in this clause (ii) shall survive the resignation and/or replacement of the Agent, any assignment of rights by, or the replacement of, a Lender or an Issuing Bank, the termination of the Commitments and the repayment, satisfaction or discharge of all other Obligations.

(d) Evidence of Payments. Upon request by the Borrower or the Agent, as the case may be, after any payment of Taxes by the Borrower or by the Agent to a Governmental Authority as provided in this 2.14, the Borrower shall deliver to the Agent or the Agent shall deliver to the Borrower, as the case may be, the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Laws to report such payment or other evidence of such payment reasonably satisfactory to the Borrower or the Agent, as the case may be.

(e) Status of Lenders; Tax Documentation.

(i) Each Lender shall deliver to the Borrower and to the Agent, at the time or times prescribed by applicable Laws or when reasonably requested by the Borrower or the Agent, such properly completed and executed documentation prescribed by applicable Laws or by the taxing authorities of any jurisdiction and such other reasonably requested information as will permit the Borrower or the Agent, as the case may be, to determine (A) whether or not payments made hereunder or under any other Loan Document are subject to Taxes, (B) if applicable, the required rate of withholding or deduction, and (C) such Lender's entitlement to any available exemption from, or reduction of, applicable Taxes in respect of all payments to be made to such Lender by the Borrower pursuant to this Agreement or otherwise to establish such Lender's status for withholding tax purposes in the applicable jurisdiction.

(ii) Without limiting the generality of the foregoing, if the Borrower is resident for tax purposes in the United States of America,

(A) any Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Agent executed originals of Internal Revenue Service Form W-9 or such other documentation or information prescribed by applicable Laws or reasonably requested by the Borrower or the Agent as will enable the Borrower or the Agent, as the case may be, to determine whether or not such Lender is subject to backup withholding or information reporting requirements; and

(B) each Foreign Lender that is entitled under the Internal Revenue Code or any applicable treaty to an exemption from or reduction of withholding tax with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower and the Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(1) executed originals of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States of America is a party,

(2) executed originals of Internal Revenue Service Form W-8ECI,

(3) supporting documentation, executed originals of Internal Revenue Service Form W-8IMY and all required

(4) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Internal Revenue Code, (x) a certificate to the effect that such Foreign Lender is not (A) a “bank” within the meaning of section 881(c)(3)(A) of the Internal Revenue Code, (B) a “10 percent shareholder” of the Borrower within the meaning of section 881(c)(3)(B) of the Internal Revenue Code, or (C) a “controlled foreign corporation” described in section 881(c)(3)(C) of the Internal Revenue Code and (y) executed originals of Internal Revenue Service Form W-8BEN, or

(5) executed originals of any other form prescribed by applicable Laws as a basis for claiming exemption from or a reduction in United States of America Federal withholding tax together with such supplementary documentation as may be prescribed by applicable Laws to permit the Borrower or the Agent to determine the withholding or deduction required to be made.

(iii) Each Lender shall promptly (A) notify the Borrower and the Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction, and (B) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Lender, and as may be reasonably necessary (including the re-designation of its Applicable Lending Office) to avoid any requirement of applicable Laws of any jurisdiction that the Borrower or the Agent make any withholding or deduction for taxes from amounts payable to such Lender.

(iv) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to each of the Borrower and the Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Agent as may be necessary for the Borrower and the Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender’s obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (iv), “FATCA” shall include any amendments made to FATCA after the date of this Agreement.

(f) Treatment of Certain Refunds. Unless required by applicable Laws, at no time shall the Agent have any obligation to file for or otherwise pursue on behalf of a Lender or an Issuing Bank, or have any obligation to pay to any Lender or any Issuing Bank, any refund of Taxes withheld or deducted from funds paid for the account of such Lender or such Issuing Bank, as the case may be. If the Agent, any Lender or any Issuing Bank determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by

the Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses incurred by the Agent, such Lender or such Issuing Bank, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Agent, such Lender or such Issuing Bank, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Agent, such Lender or such Issuing Bank in the event the Agent, such Lender or such Issuing Bank is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Agent, any Lender or any Issuing Bank to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

(g) **Payments**. Failure or delay on the part of the Agent, any Lender or any Issuing Bank to demand compensation pursuant to the foregoing provisions of this Section 2.14 shall not constitute a waiver of the Agent's, such Lender's or such Issuing Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate the Agent, a Lender or an Issuing Bank pursuant to the foregoing provisions of this Section 2.14 for any Indemnified Taxes or Other Taxes imposed or asserted by the relevant Governmental Authority more than three months prior to the date that the Agent, such Lender or such Issuing Bank, as the case may be, claims compensation with respect thereto (except that, if a Change in Law giving rise to such Indemnified Taxes or Other Taxes is retroactive, then the three-month period referred to above shall be extended to include the period of retroactive effect thereof).

(h) Each of the Agent, any Issuing Bank or any Lender agrees to cooperate with any reasonable request made by the Borrower in respect of a claim of a refund in respect of Indemnified Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.14 if (i) the Borrower has agreed in writing to pay all of the Agent's or such Issuing Bank's or such Lender's reasonable out-of-pocket costs and expenses relating to such claim, (ii) the Agent or such Issuing Bank or such Lender determines, in its good faith judgment, that it would not be disadvantaged, unduly burdened or prejudiced as a result of such claim and (iii) the Borrower furnishes, upon request of the Agent, or such Issuing Bank or such Lender, an opinion of tax counsel (such opinion, which can be reasoned, and such counsel to be reasonably acceptable to such Lender, or such Issuing Bank or the Agent) that the Borrower is likely to receive a refund or credit.

Section 2.15 **Sharing of Payments, Etc.**. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Advances or L/C Advances owing to it (other than pursuant to Section 2.05(b), 2.11, 2.12, 2.14, 2.20 or 8.04(e) or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Advances or participations in Letters of Credit to any assignee or participant, other than to the Borrower or any Subsidiary thereof if permitted hereby (as to which the provisions of this Section 2.15 shall apply) in excess of its Ratable Share of payments on account of the Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders (for cash at face value) such participations in the Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's Ratable Share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.15 may, to the fullest extent permitted by

Law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

Section 2.16 Evidence of Debt.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Advance owing to such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder in respect of Advances. The Borrower agrees that upon notice by any Lender (including the Swingline Lender) to the Borrower (with a copy of such notice to the Agent) to the effect that a Note is required or appropriate in order for such Lender to evidence (whether for purposes of pledge, enforcement or otherwise) the Advances owing to, or to be made by, such Lender, the Borrower shall promptly execute and deliver to such Lender a Note payable to the order of such Lender in a principal amount up to the Revolving Credit Commitment of such Lender.

(b) The Register maintained by the Agent pursuant to Section 8.07(c) shall include a control account, and a subsidiary account for each Lender, in which accounts (taken together) shall be recorded (i) the date and amount of each Borrowing made hereunder, the Type of Advances comprising such Borrowing and, if appropriate, the Interest Period applicable thereto, (ii) the terms of each Assumption Agreement and each Assignment and Assumption delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iv) the amount of any sum received by the Agent from the Borrower hereunder and each Lender's share thereof.

(c) Entries made in good faith by the Agent in the Register pursuant to subsection (b) above, and by each Lender in its account or accounts pursuant to subsection (a) above, shall be prima facie evidence of the amount of principal and interest due and payable or to become due and payable from the Borrower to, in the case of the Register, each Lender and, in the case of such account or accounts, such Lender, under this Agreement, absent manifest error; provided, however, that the failure of the Agent or such Lender to make an entry, or any finding that an entry is incorrect, in the Register or such account or accounts shall not limit or otherwise affect the obligations of the Borrower under this Agreement.

Section 2.17 Use of Proceeds. The proceeds of the Advances and issuances of Letters of Credit shall be available (and the Borrower agrees that it shall use such proceeds) solely to refinance Indebtedness of the Borrower from time to time and for other general corporate purposes of the Borrower, subject to such restrictions that are imposed in the 2013 Order and/or any Subsequent Order.

Section 2.18 Increase in the Aggregate Revolving Credit Commitments.

(a) The Borrower may, at any time prior to the Termination Date, by notice to the Agent, request that the aggregate amount of the Revolving Credit Commitments be increased by an amount of \$10,000,000 or an integral multiple thereof (each a " Commitment Increase ") to be effective as of a date that is at least 90 days prior to the Termination Date (the " Increase Date ") as specified in the related notice to the Agent; provided, however that (i) in no event shall the aggregate amount of the Revolving Credit Commitments at any time exceed \$700,000,000 or the aggregate amount of Commitment Increases exceed \$200,000,000 and (ii) on the date of any request by the Borrower for a Commitment Increase and on the related Increase Date, the applicable conditions set forth in this Section 2.18 shall be satisfied.

(b) The Agent shall promptly notify the Lenders of a request by the Borrower for a Commitment Increase, which notice shall include (i) the proposed amount of such requested Commitment Increase, (ii) the proposed Increase Date and (iii) the date by which Lenders wishing to participate in the

Commitment Increase must commit to an increase in the amount of their respective Revolving Credit Commitments (the “Commitment Date”). Each Lender that is willing to participate in such requested Commitment Increase (each an “Increasing Lender”) shall, in its sole discretion, give written notice to the Agent on or prior to the Commitment Date of the amount by which it is willing to increase its Revolving Credit Commitment. If the Lenders notify the Agent that they are willing to increase the amount of their respective Revolving Credit Commitments by an aggregate amount that exceeds the amount of the requested Commitment Increase, the requested Commitment Increase shall be allocated among the Lenders willing to participate therein in such amounts as are agreed between the Borrower and the Agent. Each Increasing Lender shall be subject to such applicable consents as may be required under Section 8.07(b)(iii) (including, but not limited to, the consent of each Issuing Bank and the Swingline Lender).

(c) Promptly following each Commitment Date, the Agent shall notify the Borrower as to the amount, if any, by which the Lenders are willing to participate in the requested Commitment Increase. If the aggregate amount by which the Lenders are willing to participate in any requested Commitment Increase on any such Commitment Date is less than the requested Commitment Increase, then the Borrower may extend offers to one or more Eligible Assignees to participate in any portion of the requested Commitment Increase that has not been committed to by the Lenders as of the applicable Commitment Date; provided, however, that the Revolving Credit Commitment of each such Eligible Assignee shall be in an amount of not less than \$10,000,000.

(d) On each Increase Date, each Eligible Assignee that accepts an offer to participate in a requested Commitment Increase in accordance with Section 2.18(c) (each such Eligible Assignee, an “Assuming Lender”) shall become a Lender party to this Agreement as of such Increase Date and the Revolving Credit Commitment of each Increasing Lender for such requested Commitment Increase shall be so increased by the amount by which the Increasing Lender agreed to increase its Revolving Credit Commitment (or by the amount allocated to such Lender pursuant to the next to last sentence of Section 2.18(b)) as of such Increase Date; provided, however, that the Agent shall have received on or before such Increase Date the following, each dated such date:

(i) (A) certified copies of resolutions of the Board of Directors of the Borrower approving the Commitment Increase and the corresponding modifications to this Agreement, (B) an opinion of counsel for the Borrower (which may be in-house counsel), in form and substance reasonably acceptable to the Required Lenders and (C) a certificate from a duly authorized officer of the Borrower, stating that the conditions set forth in Section 3.02(a) and (b) are satisfied;

(ii) an assumption agreement from each Assuming Lender, if any, in form and substance satisfactory to the Borrower and the Agent (each an “Assumption Agreement”), duly executed by such Assuming Lender, the Agent, the Borrower and each other Person required to consent thereto, as applicable under Section 8.07(b)(iii); and

(iii) confirmation from each Increasing Lender of the increase in the amount of its Revolving Credit Commitment in a writing satisfactory to the Borrower and the Agent.

On each Increase Date, upon fulfillment of the conditions set forth in the immediately preceding sentence of this Section 2.18(d), the Agent shall notify the Lenders (including, without limitation, each Assuming Lender) and the Borrower, on or before 1:00 p.m., by telecopier, of the occurrence of the Commitment Increase to be effected on such Increase Date and shall record in the Register the relevant information with respect to each Increasing Lender and each Assuming Lender on such date. Each Increasing Lender and each Assuming Lender shall, before 2:00 p.m. on the Increase Date, make available for the account of its Applicable Lending Office to the Agent at the Agent’s Account, in same day funds, in the case of such Assuming Lender, an amount equal to such Assuming Lender’s Ratable Share of the Borrowings then

outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase) and, in the case of such Increasing Lender, an amount equal to the excess of (i) such Increasing Lender's Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase) over (ii) such Increasing Lender's Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment (without giving effect to the relevant Commitment Increase) as a percentage of the aggregate Revolving Credit Commitments (without giving effect to the relevant Commitment Increase)). After the Agent's receipt of such funds from each such Increasing Lender and each such Assuming Lender, the Agent will promptly thereafter cause to be distributed like funds to the other Lenders for the account of their respective Applicable Lending Offices in an amount to each other Lender such that the aggregate amount of the outstanding Advances owing to each Lender after giving effect to such distribution equals such Lender's Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase).

Section 2.19 Affected Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes an Affected Lender, then the following provisions shall apply for so long as such Lender is an Affected Lender:

- (a) fees shall cease to accrue on the Unused Commitment of such Affected Lender pursuant to Section 2.04(a);
- (b) the Revolving Credit Commitment and Advances of such Affected Lender shall not be included in determining whether the Required Lenders have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 8.01), other than any waiver, amendment or modification requiring the consent of all Lenders or of each Lender affected;
- (c) if (x) there shall be any Available Amount under any outstanding Letter of Credit or (y) any Swingline Exposure shall exist during any time a Lender is an Affected Lender, then:
 - (i) so long as no Default or Event of Default has occurred and is continuing, all or any part of the Available Amount of all such Letters of Credit and Swingline Exposure shall be reallocated among the non-Affected Lenders in accordance with their respective Ratable Shares (disregarding any Affected Lender's Revolving Credit Commitment) but only to the extent that with respect to each non-Affected Lender the sum of (A) the aggregate principal amount of all Revolving Advances made by such non-Affected Lender (in its capacity as a Lender) and outstanding at such time plus (B) such non-Affected Lender's Ratable Share (after giving effect to the reallocation contemplated in this Section 2.19(c)(i)) of the outstanding L/C Obligations plus (C) such non-Affected Lender's Ratable Share (after giving effect to the reallocation contemplated in this Section 2.19(c)(i)) of the outstanding Swingline Exposure, does not exceed such non-Affected Lender's Revolving Credit Commitment;
 - (ii) if the reallocation described in clause (i) above cannot, or can only partially, be effected, the Borrower shall within one (1) Business Day following notice by the Agent (x) first, prepay such unallocable Swingline Exposure and (y) second, Cash Collateralize for the benefit of the applicable Issuing Bank only the Borrower's obligations corresponding to such Affected Lender's Ratable Share of the Available Amount of outstanding Letters of Credit (after giving effect to any partial reallocation pursuant to clause (i) above) (the "Affected Lender Share") in accordance with the procedures set forth in Section 2.03(h) for so long as such there shall be any Available Amount of outstanding Letters of Credit;

- (iii) if the Ratable Share of the Available Amount of outstanding Letters of Credit and the Swingline Exposure of the non-Affected Lenders is reallocated pursuant to this Section 2.19(c), then the fees payable to the Lenders pursuant to Section 2.04(a) and Section 2.04(b) shall be adjusted in accordance with such non-Affected Lenders' Ratable Shares;
- (iv) if any Affected Lender Share is not reallocated pursuant to clause (i) above and if the Borrower fails to Cash Collateralize any portion of such Affected Lender Share pursuant to clause (ii) above, then, without prejudice to any rights or remedies of any Issuing Bank or any Lender hereunder, the fee payable under Section 2.04(b) with respect to such Affected Lender Share shall be payable to the Issuing Bank until such Affected Lender Share is reallocated; and

(v) if the Borrower Cash Collateralizes any portion of any Affected Lender Share pursuant to clause (ii) above, the Borrower shall not be required to pay any fees to such Affected Lender pursuant to Section 2.04(b)(i) or the applicable Issuing Bank pursuant to Section 2.04(b)(ii) (solely with respect to any fronting fee) with respect to such Affected Lender's Affected Lender Share during the period such Affected Lender's Affected Lender Share is Cash Collateralized;

(d) to the extent the Agent receives any payments or other amounts for the account of an Affected Lender under this Agreement, such Affected Lender shall be deemed to have requested that the Agent use such payment or other amount to fulfill such Affected Lender's previously unsatisfied obligations to fund a Revolving Advance under Section 2.03(c) or Section 2.03A(c) or L/C Advance or any other unfunded payment obligation of such Affected Lender under this Agreement; and

(e) for the avoidance of doubt, the Borrower, each Issuing Bank, the Swingline Lender, the Agent and each other Lender shall retain and reserve its other rights and remedies respecting each Affected Lender.

In the event that the Agent, the Borrower, the Swingline Lender and the Issuing Banks each agrees that an Affected Lender has adequately remedied all matters that caused such Lender to be an Affected Lender, then the Ratable Shares of the Lenders shall be readjusted to reflect the inclusion of such Lender's Revolving Credit Commitment and on such date such Lender shall purchase at par such of the Revolving Advances of the other Lenders as the Agent shall determine may be necessary in order for such Lender to hold such Revolving Advances in accordance with its Ratable Share. In addition, at such time as the Affected Lender is replaced by another Lender pursuant to Section 2.20, the Ratable Shares of the Lenders will be readjusted to reflect the inclusion of the replacing Lender's Commitment in accordance with Section 2.20. In either such case, this Section 2.19 will no longer apply.

Section 2.20 Replacement of Lenders. If any Lender requests compensation under Section 2.11, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, or if any Lender is an Affected Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 8.07), all of its interests, rights and obligations under this Agreement and the related Loan Documents to one or more assignees that shall assume such obligations (which any such assignee may be another Lender, if a Lender accepts such assignment), provided that:

- (a) the Borrower shall have paid to the Agent the assignment fee specified in Section 8.07(b);

(b) such Lender shall have received payment of an amount equal to the outstanding principal of its Revolving Advances and L/C Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 8.04(e)) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 2.11 or payments required to be made pursuant to Section 2.14, such assignment will result in a reduction in such compensation or payments thereafter; and

(d) such assignment does not conflict with applicable Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

Section 2.21 Extension of Termination Date

(a) The Borrower may at any time from time to time not more than ninety (90) days and not less than thirty (30) days prior to any anniversary of the Effective Date, by notice to the Agent (who shall promptly notify the Lenders) not later than 10 Business Days prior to the date on which the Lenders are requested to respond thereto (each such date, a “Lender Notice Date”), request that each Lender extend (each such date on which such extension occurs, an “Extension Date”) such Lender’s Termination Date to the date that is one year after the Termination Date then in effect for such Lender (the “Existing Termination Date”).

(b) Each Lender, acting in its sole and individual discretion, shall, by notice to the Agent given not later than the applicable Lender Notice Date, advise the Agent whether or not such Lender agrees to such extension (each Lender that determines to so extend its Termination Date, an “Extending Lender”). Each Lender that determines not to so extend its Termination Date (a “Non-Extending Lender”) shall notify the Agent of such fact promptly after such determination (but in any event no later than the Lender Notice Date), and any Lender that does not so advise the Agent on or before the Lender Notice Date shall be deemed to be a Non-Extending Lender. The election of any Lender to agree to such extension shall not obligate any other Lender to so agree, and it is understood and agreed that no Lender shall have any obligation whatsoever to agree to any request made by the Borrower for extension of the Termination Date.

(c) The Agent shall promptly notify the Borrower of each Lender’s determination under this Section.

(d) The Borrower shall have the right, but shall not be obligated, on or before the applicable Termination Date for any Non-Extending Lender to replace such Non-Extending Lender with, and add as “Lenders” under this Agreement in place thereof, one or more financial institutions that are Eligible Assignees (each, an “Additional Commitment Lender”) approved by the Agent, each Issuing Bank and the Swingline Lender in accordance with the procedures provided in Section 8.07, each of which Additional Commitment Lenders shall have entered into an Assignment and Assumption (in accordance with and subject to the restrictions contained in Section 8.07, with the Borrower obligated to pay any applicable processing or recordation fee) with such Non-Extending Lender, pursuant to which such Additional Commitment Lenders shall, effective on or before the Termination Date for such Non-Extending Lender, assume a Revolving Credit Commitment (and, if any such Additional Commitment Lender is already a Lender, its Revolving Credit Commitment shall be in addition to such Lender’s

Revolving Credit Commitment hereunder on such date). The Agent may effect such amendments to this Agreement as are reasonably necessary to provide for any such extensions with the consent of the Borrower but without the consent of any other Lenders.

(e) If (and only if) the total of the Revolving Credit Commitments of the Lenders that have agreed to extend their Termination Date and the additional Revolving Credit Commitments of the Additional Commitment Lenders is more than 50% of the aggregate amount of the Revolving Credit Commitments in effect immediately prior to the applicable Extension Date, then, effective as of the applicable Extension Date, the Termination Date of each Extending Lender and of each Additional Commitment Lender shall be extended to the date that is one year after the Existing Termination Date (except that, if such date is not a Business Day, such Termination Date as so extended shall be the next preceding Business Day) and each Additional Commitment Lender shall thereupon become a “Lender” for all purposes of this Agreement and shall be bound by the provisions of this Agreement as a Lender hereunder and shall have the obligations of a Lender hereunder.

(f) Notwithstanding the foregoing, (x) no more than two (2) extensions of the Termination Date shall be permitted hereunder and (y) any extension of any Termination Date pursuant to this Section 2.21 shall not be effective with respect to any Extending Lender unless as of the applicable Extension Date and immediately after giving effect thereto:

- (i) there shall exist no Default;
- (ii) the representations and warranties made by the Borrower contained herein shall be true and correct; and
- (iii) the Agent shall have received a certificate from the Borrower signed by an Authorized Officer of the Borrower (A) certifying the accuracy of the foregoing clauses (i) and (ii) and (B) certifying and attaching the resolutions adopted by the Borrower approving or consenting to such extension.

(g) On the Termination Date of each Non-Extending Lender, (i) the Revolving Credit Commitment of each Non-Extending Lender shall automatically terminate and (ii) the Borrower shall repay such Non-Extending Lender in accordance with Section 2.06 (and shall pay to such Non-Extending Lender all of the other obligations owing to it under this Agreement) and after giving effect thereto shall prepay any Revolving Advances outstanding on such date (and pay any additional amounts required pursuant to Section 2.02) to the extent necessary to keep outstanding Revolving Advances ratable with any revised Ratable Share of the respective Lenders effective as of such date, and the Agent shall administer any necessary reallocation of the outstanding Advances (without regard to any minimum borrowing, pro rata borrowing and/or pro rata payment requirements contained elsewhere in this Agreement).

(h) This Section shall supersede any provisions in Section 2.02 or Section 8.01 to the contrary.

ARTICLE III

CONDITIONS PRECEDENT

Section 3.01 **Conditions Precedent to Effectiveness**. This Agreement shall become effective on and as of the first date (the “Effective Date”) on which the following conditions precedent have been satisfied:

(a) The Lenders shall have been given such access to the management, records, books of account, contracts and properties of the Borrower and its Subsidiaries as they shall have requested.

(b) The Borrower shall have paid all accrued fees and agreed expenses of the Agent, the Arrangers and the Lenders and the reasonable accrued fees and expenses of counsel to the Agent that have been invoiced at least one Business Day prior to the Effective Date.

(c) On the Effective Date, the following statements shall be true and the Agent shall have received a certificate signed by a duly authorized officer of the Borrower, dated the Effective Date, stating that:

(i) The representations and warranties contained in Section 4.01 are true and correct on and as of the Effective Date,
and

(ii) No event has occurred and is continuing that constitutes a Default.

(d) The Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to the Agent and the Lenders:

(i) Receipt by the Agent of executed counterparts of this Agreement properly executed by a duly authorized officer of the Borrower and by each Lender.

(ii) The Notes, payable to the order of the Lenders to the extent requested by any Lender pursuant to Section 2.16.

(iii) The articles of incorporation of the Borrower certified to be true and complete as of a recent date by the appropriate governmental authority of the state or other jurisdiction of its incorporation and certified by a secretary, assistant secretary or associate secretary of the Borrower to be true and correct as of the Effective Date.

(iv) The bylaws of the Borrower certified by a secretary, assistant secretary or associate secretary of the Borrower to be true and correct as of the Effective Date.

(v) Certified copies of the resolutions of the Board of Directors of the Borrower approving this Agreement and the Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.

(vi) A certificate of the secretary, assistant secretary or associate secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.

(vii) A certificate as of a recent date from the Borrower's state of incorporation evidencing that the Borrower is in good standing in its state of organization or formation.

(viii) A favorable opinion of counsel for the Borrower, in form and substance reasonably acceptable to the Lenders.

(ix) A favorable opinion of Sidley Austin LLP, counsel for the Agent, in form and substance reasonably acceptable to the Lenders.

(e) Concurrently with or before the Effective Date, (i) all principal, interest and other amounts outstanding under the Borrower's Existing Credit Agreement shall be repaid and satisfied in full, (ii) all commitments to extend credit under the Existing Credit Agreement shall be terminated and (iii) any letters of credit outstanding under the Existing Credit Agreement shall have been terminated, canceled, transferred or replaced; and the Agent shall have received evidence of the foregoing satisfactory to it, including an escrow agreement or payoff letter executed by the lenders or the agent under the Existing Credit Agreement if applicable.

(f) The Agent shall have received evidence satisfactory to it that certain \$200,000,000 Five-Year Credit Agreement dated as of November 4, 2011 by and among Pinnacle West Capital Corporation, as borrower, the lenders from time to time parties thereto and Barclays Bank PLC, as administrative agent, shall have been terminated and cancelled and all indebtedness and other amounts due and unpaid thereunder shall have been (or shall concurrently with the effectiveness of this Agreement be) fully repaid on terms and conditions reasonably acceptable to the Agent.

(g) The Agent shall have received reasonably satisfactory evidence that certain \$200,000,000 Five-Year Credit Agreement by and among Pinnacle West Capital Corporation, as borrower, the lenders from time to time parties thereto and Barclays Bank PLC, as administrative agent shall be effective prior to or substantially concurrently with the effectiveness of this Agreement.

Section 3.02 Conditions Precedent to Each Credit Extension and Commitment Increase. The obligation of each Lender to make an Advance (other than an L/C Advance or an Advance made pursuant to Section 2.03(c) or Section 2.03A(c)) on the occasion of each Borrowing, the obligation of each Issuing Bank to issue a Letter of Credit, and each Commitment Increase shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Borrowing or such issuance (as the case may be), or the applicable Increase Date, the following statements shall be true (and each of the giving of the applicable Notice of Borrowing or request for issuance and the acceptance by the Borrower of the proceeds of such Borrowing shall constitute a representation and warranty by the Borrower that on the date of such Borrowing or date of such issuance such statements are true):

(a) the representations and warranties contained in Section 4.01 (other than Section 4.01(k), and in the case of a Borrowing or issuance of a Letter of Credit, Section 4.01(e)(ii) and 4.01(f)(ii)) are correct on and as of such date, before and after giving effect to such Borrowing or issuance of a Letter of Credit, or such Commitment Increase and to the application of the proceeds therefrom, as though made on and as of such date;

(b) no event has occurred and is continuing, or would result from such Borrowing or issuance of a Letter of Credit, or such Commitment Increase or from the application of the proceeds therefrom, that constitutes a Default;

(c) all required regulatory authorizations including the 2013 Order and/or any Subsequent Order in respect of such Credit Extension have been obtained and are in full force and effect and, before

and after giving effect to such Borrowing or such issuance of a Letter of Credit and to the application of the proceeds therefrom, the Borrower is in compliance with the provisions of the applicable order; and

(d) before and after giving effect to such Credit Extension and to the application of the proceeds therefrom, as though made on and as of such date, the Indebtedness of the Borrower does not exceed that permitted by (i) applicable resolutions of the Board of Directors of the Borrower, (ii) applicable Arizona Law, or (iii) the 2013 Order or any Subsequent Order, whichever is in force and effect at such time.

Each request for Credit Extension (which shall not include a Conversion or a continuation of Eurodollar Rate Advances) submitted by the Borrower shall be deemed to be a representation and warranty that the conditions specified in Sections 3.02(a) through (d) have been satisfied on and as of the date of the applicable Credit Extension.

Section 3.03 Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01 and the satisfaction of each Lender with respect to letters delivered to it from the Borrower as set forth in Sections 4.01(a), 4.01(e) and 4.01(f), each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that the Borrower designates as the proposed Effective Date, specifying its objection thereto. The Agent shall promptly notify the Lenders and the Borrower of the occurrence of the Effective Date.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01 Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) Each of the Borrower and each Material Subsidiary: (i) is a corporation or other entity duly organized and validly existing under the Laws of the jurisdiction of its incorporation or organization; (ii) has all requisite corporate or if the Material Subsidiary is not a corporation, other comparable power necessary to own its assets and carry on its business as presently conducted; (iii) has all governmental licenses, authorizations, consents and approvals necessary to own its assets and carry on its business as presently conducted, if the failure to have any such license, authorization, consent or approval is reasonably likely to have a Material Adverse Effect and except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion) and except that (A) the Borrower from time to time may make minor extensions of its lines, plants, services or systems prior to the time a related franchise, certificate of convenience and necessity, license or permit is procured, (B) from time to time communities served by the Borrower may become incorporated and considerable time may elapse before such a franchise is procured, (C) certain such franchises may have expired prior to the renegotiation thereof, (D) certain minor defects and exceptions may exist which, individually and in the aggregate, are not material and (E) certain franchises, certificates, licenses and permits may not be specific as to their geographical scope); and (iv) is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify is reasonably likely to have a Material Adverse Effect.

(b) The execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents, and the consummation of the transactions contemplated hereby and thereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not or did not (i) contravene the Borrower's articles of incorporation or by-laws, (ii) contravene any Law (including without limitation the 2013 Order and/or any Subsequent Order), decree, writ, injunction or determination of any Governmental Authority, in each case applicable to or binding upon the Borrower or any of its properties, (iii) contravene any contractual restriction binding on or affecting the Borrower or (iv) cause the creation or imposition of any Lien upon the assets of the Borrower or any Material Subsidiary, except for Liens created under this Agreement and except where such contravention or creation or imposition of such Lien is not reasonably likely to have a Material Adverse Effect.

(c) No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by the Borrower of this Agreement or the Notes to be delivered by it, except for the 2013 Order or any Subsequent Order, which has been duly obtained and is in full force and effect, and any notices or compliance filings required therein.

(d) This Agreement has been, and each of the other Loan Documents upon execution and delivery will have been, duly executed and delivered by the Borrower. This Agreement is, and each of the other Loan Documents upon execution and delivery will be, the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with their respective terms, subject, however, to the application by a court of general principles of equity and to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally.

(e) (i) The Consolidated balance sheet of the Borrower as of December 31, 2013, and the related Consolidated statements of income and cash flows of the Borrower for the fiscal year then ended, accompanied by an opinion thereon of Deloitte & Touche LLP, independent registered public accountants and the Consolidated balance sheet of the Borrower as of March 31, 2014, and the related Consolidated statements of income and cash flows of the Borrower for the three months then ended, duly certified by the chief financial officer of the Borrower, copies of which have been furnished to the Administrative Agent, fairly present in all material respects, subject, in the case of said balance sheet at March 31, 2014, and said statements of income and cash flows for the three months then ended, to year-end audit adjustments, the Consolidated financial condition of the Borrower as at such dates and the Consolidated results of the operations of the Borrower for the periods ended on such dates, all in accordance with GAAP (except as disclosed therein). (ii) Except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion), since December 31, 2013, there has been no Material Adverse Effect.

(f) There is no pending or, to the knowledge of an Authorized Officer of the Borrower, threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, affecting the Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that (i) purports to affect the legality, validity or enforceability of this Agreement or any other Loan Document or the consummation of the transactions contemplated hereby or (ii) would be reasonably likely to have a Material Adverse Effect (except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion)) and there has been no adverse change in the status, or financial effect on the Borrower or any of its Subsidiaries, of such disclosed litigation that would be reasonably likely to have a Material Adverse Effect.

(g) No proceeds of any Advance will be used to acquire any equity security not issued by the Borrower of a class that is registered pursuant to Section 12 of the Securities Exchange Act of 1934.

(h) The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock, in any case in violation of Regulation U. After application of the proceeds of any Advance, not more than 25% of the value of the assets subject to any restriction under this Agreement on the right to sell, pledge, transfer, or otherwise dispose of such assets is represented by margin stock.

(i) The Borrower and its Subsidiaries have filed all United States of America Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any of its Subsidiaries, except to the extent that (i) such taxes are being contested in good faith and by appropriate proceedings and that appropriate reserves for the payment thereof have been maintained by the Borrower and its Subsidiaries in accordance with GAAP or (ii) the failure to make such filings or such payments is not reasonably likely to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower and its Material Subsidiaries as set forth in the most recent financial statements of the Borrower delivered to the Agent pursuant to Section 4.01(e) or Section 5.01(h)(i) or (ii) hereof in respect of taxes and other governmental charges are, in the opinion of the Borrower, adequate.

(j) Set forth on Schedule 4.01(j) hereto (as such schedule may be modified from time to time by the Borrower by written notice to the Agent) is a complete and accurate list of all the Subsidiaries of the Borrower and, as of the Effective Date, no such Subsidiary of the Borrower is a Material Subsidiary.

(k) Set forth on Schedule 4.01(k) hereto is a complete and accurate list identifying any Indebtedness of the Borrower outstanding in a principal amount equal to or exceeding \$5,000,000 and which is not described in the financial statements referred to in Section 4.01(e).

(l) The Borrower is not an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended.

(m) No report, certificate or other written information furnished by the Borrower or any of its Subsidiaries to any Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or any other Loan Document (as modified or supplemented by other information so furnished) at the time so furnished, when taken together as a whole with all such written information so furnished, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except as would not reasonably be expected to result in a Material Adverse Effect; provided that with respect to any projected financial information, forecasts, estimates or forward-looking information, the Borrower represents only that such information and materials have been prepared in good faith on the basis of assumptions believed to be reasonable at the time of preparation of such forecasts, and no representation or warranty is made as to the actual attainability of any such projections, forecasts, estimates or forward-looking information.

(n) Neither the Borrower nor any of its Subsidiaries or, to the knowledge of the Borrower, any of their respective Affiliates over which any of the foregoing exercises management control (each, a “Controlled Affiliate”) or any director or officer of the Borrower, any of its Subsidiaries or any of their respective Controlled Affiliates (each, a “Manager”) is a Prohibited Person, and the Borrower, its

Subsidiaries and, to the knowledge of the Borrower, such Controlled Affiliates are in compliance with all applicable orders, rules and regulations of OFAC.

(o) Neither the Borrower nor any of its Subsidiaries or, to the knowledge of the Borrower, any of their respective Controlled Affiliates or Managers: (i) is the target of Sanctions; (ii) is owned or controlled by, or acts on behalf of, any Person that is targeted by United States or multilateral economic or trade sanctions currently in force; (iii) is, or is owned or controlled by, a Person who is located, organized or resident in a country or territory that is, or whose government is, the subject of Sanctions, including, without limitation, Cuba, Iran, North Korea, Sudan and Syria, or (iv) is named, identified or described on any list of Persons with whom United States Persons may not conduct business, including any such blocked persons list, designated nationals list, denied persons list, entity list, debarred party list, unverified list, sanctions list or other such lists published or maintained by the United States, including OFAC, the United States Department of Commerce or the United States Department of State.

(p) None of the Borrower's or its Subsidiaries' assets constitute property of, or are beneficially owned, directly or indirectly, by any Person that is the target of Sanctions, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq. (the " Trading With the Enemy Act "), any of the foreign assets control regulations of the Treasury (31 C.F.R., Subtitle B, Chapter V, as amended) (the " Foreign Assets Control Regulations ") or any enabling legislation or regulations promulgated thereunder or executive order relating thereto (which includes, without limitation, (i) Executive Order No. 13224, effective as of September 24, 2001, and relating to Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the " Executive Order ") and (ii) the USA PATRIOT Act), if the result of such ownership would be that any Credit Extension made by any Lender would be in violation of law (" Embargoed Person "); (a) no Embargoed Person has any interest of any nature whatsoever in the Borrower if the result of such interest would be that any Credit Extension would be in violation of law; (b) the Borrower has not engaged in business with Embargoed Persons if the result of such business would be that any Credit Extension made by any Lender would be in violation of law; (c) the Borrower will not, directly or indirectly, use the proceeds of the Credit Extension, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, (i) to fund any activities or business of or with any Person, or in any country or territory, that, at the time of such funding, is, or whose government is, the subject of Sanctions, or (ii) in any other manner that would result in a violation of Sanctions or Anti-Corruption Laws by any Person (including any Person participating in the Credit Extensions, whether as a Lender or otherwise), and (d) neither the Borrower nor any Controlled Affiliate (i) is or will become a "blocked person" as described in the Executive Order, the Trading With the Enemy Act or the Foreign Assets Control Regulations or (ii) to the knowledge of the Borrower, engages in any dealings or transactions, or be otherwise associated, with any such "blocked person". For purposes of determining whether or not a representation is true under this Section 4.01(p), the Borrower shall not be required to make any investigation into (x) the ownership of publicly traded stock or other publicly traded securities or (y) the beneficial ownership of any collective investment fund.

(q) Neither the Borrower nor any of its Subsidiaries or, to the knowledge of the Borrower and its Subsidiaries, any of their Managers, has failed to comply with the U.S. Foreign Corrupt Practices Act, as amended from time to time (the " FCPA "), or any other applicable anti-bribery or anti-corruption law, and it and they have not made, offered, promised or authorized, and will not make, offer, promise or authorize, whether directly or indirectly, any payment, of anything of value to a Government Official while knowing or having a reasonable belief that all or some portion will be used for the purpose of: (a) influencing any act, decision or failure to act by a Government Official in his or her official capacity, (b) inducing a Government Official to use his or her influence with a government or instrumentality to affect

any act or decision of such government or entity or (c) securing an improper advantage, in each case in order to obtain, retain or direct business.

ARTICLE V

COVENANTS OF THE BORROWER

Section 5.01 Affirmative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower shall:

(a) Compliance with Laws, Etc. (i) Comply, and cause each of its Material Subsidiaries to comply, in all material respects, with all applicable Laws of Governmental Authorities, such compliance to include, without limitation, compliance with ERISA and Environmental Laws, unless the failure to so comply is not reasonably likely to have a Material Adverse Effect and (ii) comply at all times with the 2013 Order, any Subsequent Order, Arizona Revised Statutes, Section 40-302 and all similar or comparable Laws, orders, decrees, writs, injunctions or determinations of any Governmental Authority relating to the incurrence or maintenance of Indebtedness by the Borrower, such compliance to include, without limitation, compliance with the USA PATRIOT Act, all applicable orders, rules and regulations of OFAC, the FCPA and the Racketeer Influenced and Corrupt Organizations Chapter of the Organized Crime Control Act of 1970, except (other than in the case of the USA PATRIOT Act, the applicable orders, rules and regulations of OFAC, or the FCPA) to the extent that the failure to do so could not reasonably be expected to have a Material Adverse Effect.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, all taxes, assessments and governmental charges or levies imposed upon it or upon its property; provided, however, that neither the Borrower nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or levy (i) that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained in accordance with GAAP or (ii) if the failure to pay such tax, assessment, charge or levy is not reasonably likely to have a Material Adverse Effect.

(c) Maintenance of Insurance. Maintain, and cause each of its Material Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates; provided, however, that the Borrower and its Subsidiaries may self-insure to the same extent as other companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates and to the extent consistent with prudent business practice.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Material Subsidiaries to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises (other than "franchises" as described in Arizona Revised Statutes, Section 40-283 or any successor provision) reasonably necessary in the normal conduct of its business, if the failure to maintain such rights or privileges is reasonably likely to have a Material Adverse Effect, and use its commercially reasonable efforts to preserve and maintain such franchises reasonably necessary in the normal conduct of its business, except that (i) the Borrower from time to time may make minor extensions of its lines, plants, services or systems prior to the time a related franchise, certificate of convenience and necessity, license or permit is procured, (ii) from time to time communities served by the Borrower may become incorporated and considerable time may elapse before such a franchise is procured, (iii) certain such

franchises may have expired prior to the renegotiation thereof, (iv) certain minor defects and exceptions may exist which, individually and in the aggregate, are not material and (v) certain franchises, certificates, licenses and permits may not be specific as to their geographical scope; provided, however, that the Borrower and its Subsidiaries may consummate any merger or consolidation permitted under Section 5.02(b).

(e) Visitation Rights. At any reasonable time and from time to time, permit and cause each of its Subsidiaries to permit the Agent or any of the Lenders or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and any of its Subsidiaries, and to discuss the affairs, finances and accounts of the Borrower and any of its Subsidiaries with any of their officers or directors; provided, however, that the Borrower and its Subsidiaries reserve the right to restrict access to any of its properties in accordance with reasonably adopted procedures relating to safety and security; and provided further that the costs and expenses incurred by such Lender or agents or representatives in connection with any such examinations, copies, abstracts, visits or discussions shall be, upon the occurrence and during the continuation of a Default, for the account of the Borrower and, in all other circumstances, for the account of such Lender.

(f) Keeping of Books. Keep, and cause each of its Material Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Borrower and each such Subsidiary in a manner that permits the preparation of financial statements in accordance with GAAP.

(g) Maintenance of Properties, Etc. Keep, and cause each Material Subsidiary to keep, all property useful and necessary in its business in good working order and condition (ordinary wear and tear excepted), if the failure to do so is reasonably likely to have a Material Adverse Effect, it being understood that this covenant relates only to the working order and condition of such properties and shall not be construed as a covenant not to dispose of properties.

(h) Reporting Requirements. Furnish to the Agent:

(i) as soon as available and in any event within 50 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower commencing with the fiscal quarter ending June 30, 2014, (A) for each such fiscal quarter of the Borrower, Consolidated statements of income and cash flows of the Borrower for such fiscal quarter and the related Consolidated balance sheet of the Borrower as of the end of such fiscal quarter, setting forth in each case in comparative form the corresponding figures for the corresponding fiscal quarter in (or, in the case of the balance sheet, as of the end of) the preceding fiscal year and (B) for the period commencing at the end of the previous fiscal year and ending with the end of such fiscal quarter, Consolidated statements of income and cash flows of the Borrower for such period setting forth in each case in comparative form the corresponding figures for the corresponding period in the preceding fiscal year; provided that so long as the Borrower remains subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Borrower may provide, in satisfaction of the requirements of this first sentence of this Section 5.01(h)(i), its report on Form 10-Q for such fiscal quarter. Each set of financial statements provided under this Section 5.01(h)(i) shall be accompanied by a certificate of an Authorized Officer, which certificate shall state that said Consolidated financial statements fairly present in all material respects the Consolidated financial condition and results of operations and cash flows of the Borrower in accordance with GAAP (except as disclosed therein), as at the end of, and for, such period (subject to normal year-end audit adjustments) and shall set forth reasonably detailed calculations demonstrating compliance with Section 5.03;

(ii) as soon as available and in any event within 90 days after the end of each fiscal year of the Borrower, audited Consolidated statements of income and cash flows of the Borrower for such year and the related Consolidated balance sheet of the Borrower as at the end of such year, setting forth in each case in comparative form the corresponding figures for the preceding fiscal year; provided that, so long as the Borrower remains subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Borrower may provide, in satisfaction of the requirements of this first sentence of this Section 5.01(h)(ii), its report on Form 10-K for such fiscal year. Each set of financial statements provided pursuant to this Section 5.01(h)(ii) shall be accompanied by (A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that said Consolidated financial statements fairly present in all material respects the Consolidated financial condition and results of operations of the Borrower as at the end of, and for, such fiscal year, in accordance with GAAP (except as disclosed therein) and (B) a certificate of an Authorized Officer, which certificate shall set forth reasonably detailed calculations demonstrating compliance with Section 5.03;

(iii) as soon as possible and in any event within five days after any Authorized Officer of the Borrower knows of the occurrence of each Default continuing on the date of such statement, a statement of an Authorized Officer of the Borrower setting forth details of such Default and the action that the Borrower has taken and proposes to take with respect thereto;

(iv) promptly after the sending or filing thereof, copies of all reports and registration statements (other than exhibits thereto and registration statements on Form S-8 or its equivalent) that the Borrower or any Subsidiary files with the Securities and Exchange Commission;

(v) promptly after an Authorized Officer becomes aware of the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting the Borrower or any of its Subsidiaries of the type described in Section 4.01(f), except with respect to any matter referred to in Section 4.01(f)(ii), to the extent disclosed in a report on Form 8-K, Form 10-Q or Form 10-K of the Borrower;

(vi) promptly after (A) any amendment or modification of the 2013 Order, (B) any amendment or modification of Arizona Revised Statutes, Section 40-302, or the promulgation, amendment or modification of any successor or similar statute, or (C) the promulgation, amendment or modification of any Subsequent Order by the Arizona Corporation Commission or any successor thereto, in any case if such amendment, modification or promulgation could affect the validity or enforceability of the indebtedness of the Borrower pursuant to this Agreement, a copy thereof;

(vii) promptly after an Authorized Officer becomes aware of the occurrence thereof, notice of any change by Moody's or S&P of their respective Public Debt Rating or of the cessation (or subsequent commencement) by Moody's or S&P of publication of their respective Public Debt Rating;

(viii) promptly after the occurrence of any ERISA Event, together with (x) a written statement of an Authorized Officer of the Borrower specifying the details of such ERISA Event and the action that the Borrower has taken and proposes to take with respect thereto, (y) a copy of any notice with respect to such ERISA Event that may be required to be filed with the PBGC and (z) a copy of any notice delivered by the PBGC to the Borrower or an ERISA Affiliate with respect to such ERISA Event; and

(ix) such other information respecting the Borrower or any of its Subsidiaries as any Lender through the Agent may from time to time reasonably request.

Information required to be delivered pursuant to Sections 5.01(h)(i), (ii) and (iv) above shall be deemed to have been delivered on the date on which the Borrower provides notice to the Agent that such information has been posted on the Borrower's parent's website on the Internet at www.pinnaclewest.com, at sec.gov/edaux/searches.htm or at another website identified in such notice and accessible by the Lenders without charge; provided that (i) such notice may be included in a certificate delivered pursuant to Section 5.01(h)(i) or (ii) and (ii) the Borrower shall deliver paper copies of the information referred to in Section 5.01(h)(i), (ii), and (iv) to any Lender which requests such delivery.

(i) Change in Nature of Business. Conduct the same general type of business conducted on the date hereof.

Section 5.02 Negative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower shall not:

(a) Liens, Etc. Create or suffer to exist, or permit any of its Material Subsidiaries to create or suffer to exist, any Lien on or with respect to any of its properties, whether now owned or hereafter acquired, or assign, or permit any of its Material Subsidiaries to assign, any right to receive income, other than:

(i) Permitted Liens;

(ii) Liens upon or in, or conditional sales agreements or other title retention agreements with respect to, any real or personal property acquired or held by the Borrower or any Subsidiary in the ordinary course of business to secure the purchase price of such property, or the construction of or improvements to such property, or to secure Indebtedness incurred solely for the purpose of financing the acquisition, construction or improvement of such property to be subject to such Liens (including any Liens placed on such property within 180 days after the latest of the acquisition, completion of construction or improvement of such property), or Liens existing on such property at the time of its acquisition (other than any such Liens created in contemplation of such acquisition that were not incurred to finance the acquisition of such property) or extensions, renewals, refundings or replacements of any of the foregoing for the same or a lesser amount, provided, however, that no such Lien shall extend to or cover any properties of any character other than the property being acquired, constructed or improved and proceeds, improvements and replacements thereof and no such extension, renewal, refunding or replacement shall extend to or cover any properties not theretofore subject to the Lien being extended, renewed, refunded or replaced;

(iii) assignments of the right to receive income, and Liens on property, of a Person existing at the time such Person is merged into or consolidated with the Borrower or any Subsidiary of the Borrower or becomes a Subsidiary of the Borrower;

(iv) Liens with respect to the leases and related documents entered into by the Borrower in connection with PVNGS Unit 2 and Liens with respect to the leased interests and related rights if the Borrower reacquires ownership in any of those interests or acquires any of the equity or owner participants' interests in the trusts that hold title to such leased interests, whether or not it also directly assumes the Sale Leaseback Obligation Bonds, and Liens on the Borrower's interests in the trusts that hold title to such leased interests and related rights in the event that the

Borrower acquires any of the equity or owner participants' interests in such trusts pursuant to a "special transfer" under the Borrower's existing PVNGS Unit 2 sale and leaseback transactions and any Liens resulting or deemed to have resulted if the PVNGS Unit 2 leases are required to be accounted for as capital leases in accordance with GAAP;

(v) other assignments of the right to receive income and Liens securing Indebtedness or claims in an aggregate principal amount not to exceed 20% of the Borrower's total assets as stated on the most recent balance sheet of the Borrower provided pursuant to Section 4.01(e)(i) or 5.01(h)(ii) hereof at any time outstanding; and

(vi) the replacement, extension or renewal of any Lien permitted by clause (iii) or (iv) above upon or in the same property theretofore subject thereto or the replacement, extension or renewal (without increase in the amount or change in any direct or contingent obligor) of the Indebtedness secured thereby.

(b) Mergers, Etc. Merge or consolidate with or into any Person, or permit any of its Material Subsidiaries to do so, except that (i) any Material Subsidiary of the Borrower may merge or consolidate with or into any other Material Subsidiary of the Borrower, (ii) any Subsidiary of the Borrower may merge into the Borrower or any Material Subsidiary of the Borrower and (iii) the Borrower or any Material Subsidiary may merge with any other Person so long as the Borrower or such Material Subsidiary is the surviving corporation, provided, in each case, that no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom.

(c) Sales, Etc. of Assets. Sell, lease, transfer or otherwise dispose of, or permit any of its Material Subsidiaries to sell, lease, transfer or otherwise dispose of, any assets, or grant any option or other right to purchase, lease or otherwise acquire any assets to any Person other than the Borrower or any Subsidiary of the Borrower, except (i) dispositions in the ordinary course of business, including, without limitation, sales or other dispositions of electricity and related and ancillary services, other commodities, emissions credits and similar mechanisms for reducing pollution, and damaged, obsolete, worn out or surplus property no longer required or useful in the business or operations of the Borrower or any of its Subsidiaries, (ii) sale or other disposition of patents, copyrights, trademarks or other intellectual property that are, in the Borrower's reasonable judgment, no longer economically practicable to maintain or necessary in the conduct of the business of the Borrower or its Subsidiaries and any license or sublicense of intellectual property that does not interfere with the business of the Borrower or any Material Subsidiary, (iii) in a transaction authorized by subsection (b) of this Section, (iv) individual dispositions occurring in the ordinary course of business which involve assets with a book value not exceeding \$5,000,000, (v) sales, leases, transfers or dispositions of assets during the term of this Agreement having an aggregate book value not to exceed 30% of the total of all assets properly appearing on the most recent balance sheet of the Borrower provided pursuant to Section 4.01(e)(i) or 5.01(h)(ii) hereof, (vi) at any time following the consummation of the Four Corners Acquisition, which occurred on December 30, 2013, and the closure by the Borrower of Units 1, 2 and 3 of the Four Corners Power Plant near Farmington, New Mexico, as described in the SEC Reports, disposition of all or any portion of the Borrower's interests in such Units 1, 2 and 3, and (vii) any Lien permitted under Section 5.02(a).

Section 5.03 Financial Covenant. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower will maintain a ratio of (a) Consolidated Indebtedness to (b) the sum of Consolidated Indebtedness plus Consolidated Net Worth of not greater than 0.65 to 1.0.

ARTICLE VI

EVENTS OF DEFAULT

Section 6.01 Events of Default. If any of the following events (“Events of Default”) shall occur and be continuing:

- (a) The Borrower shall fail to pay when due (i) any principal of any Advance, (ii) any drawing under any Letter of Credit, or (iii) any interest on any Advance or any other fees or other amounts payable under this Agreement or any other Loan Documents, and (in the case of this clause (iii) only), such failure shall continue for a period of three Business Days; or
- (b) Any representation or warranty made by the Borrower herein or by the Borrower (or any of its officers) in any certificate or other document delivered in connection with this Agreement or any other Loan Document shall prove to have been incorrect in any material respect when made or deemed made or furnished; or
- (c) (i) The Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(d) (as to the corporate existence of the Borrower), (h)(iii) or (h)(vi), 5.02 or 5.03, or (ii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in Section 5.01(e) if such failure shall remain unremedied for 15 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender or (iii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in this Agreement or any other Loan Document on its part to be performed or observed if such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender; or
- (d) (i) The Borrower or any of its Material Subsidiaries shall fail to pay (A) any principal of or premium or interest on any Indebtedness that is outstanding in a principal amount of at least \$35,000,000 in the aggregate (but excluding Indebtedness outstanding hereunder), or (B) an amount, or post collateral as contractually required in an amount, of at least \$35,000,000 in respect of any Hedge Agreement, of the Borrower or such Material Subsidiary (as the case may be), in each case, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness or Hedge Agreement; or (ii) any event of default shall exist under any agreement or instrument relating to any such Indebtedness and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness; or
- (e) The Borrower or any of its Material Subsidiaries shall fail to pay any principal of or premium or interest in respect of any operating lease in respect of which the payment obligations of the Borrower have a present value of at least \$35,000,000, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in such operating lease, if the effect of such failure is to terminate, or to permit the termination of, such operating lease; or
- (f) The Borrower or any of its Material Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower or any of its Material Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any Debtor Relief Law, or seeking the entry of an order for relief or the appointment of a receiver,

trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Borrower or any of its Material Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (f); or

(g) Judgments or orders for the payment of money that exceeds any applicable insurance coverage (the insurer of which shall be rated at least "A" by A.M. Best Company) by more than \$35,000,000 in the aggregate shall be rendered against the Borrower or any Material Subsidiary and such judgments or orders shall continue unsatisfied or unstayed for a period of 45 days; or

(h) (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934), directly or indirectly, of 30% or more of the equity securities of PWCC entitled to vote for members of the board of directors of PWCC; or (ii) during any period of 24 consecutive months, a majority of the members of the board of directors of PWCC cease (other than due to death or disability) to be composed of individuals (A) who were members of that board on the first day of such period, (B) whose election or nomination to that board was approved by individuals referred to in clause (A) above constituting at the time of such election or nomination at least a majority of that board or (C) whose election or nomination to that board was approved by individuals referred to in clauses (A) and (B) above constituting at the time of such election or nomination at least a majority of that board; or (iii) PWCC shall cease for any reason to own, directly or indirectly, 80% of the Voting Stock of the Borrower; or

(i) (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$35,000,000, or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$35,000,000;

then, and in any such event, the Agent shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, (i) declare the obligation of each Lender to make Advances (other than L/C Advances) and of the Issuing Banks to issue Letters of Credit to be terminated, whereupon the same shall forthwith terminate, (ii) declare the Advances, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advances, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States of America, (A) the obligation of each Lender to make Advances (other than L/C Advances) and of the Issuing Banks to issue Letters of Credit shall automatically be terminated and (B) the Advances, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower and (iii) exercise all rights and remedies available to it under this Agreement, the other Loan Documents and applicable Law.

Section 6.02 Actions in Respect of Letters of Credit upon Default. If any Event of Default shall have occurred and be continuing, the Agent may with the consent, or shall at the request, of the Required Lenders, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise, (a) make demand upon the Borrower to, and forthwith upon such demand the Borrower will Cash Collateralize the aggregate Available Amount of all Letters of Credit then outstanding (whether or not any beneficiary under any Letter of Credit shall have drawn or be entitled at such time to draw thereunder) or (b) make such other arrangements in respect of the outstanding Letters of Credit as shall be acceptable to the Required Lenders, provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States of America, the Borrower will Cash Collateralize the aggregate Available Amount of all Letters of Credit then outstanding, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower. If at any time the Agent determines that any funds held in the L/C Cash Deposit Account are subject to any right or interest of any Person other than the Agent, the Issuing Banks and the Lenders or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Borrower will, forthwith upon demand by the Agent, pay to the Agent, as additional funds to be deposited and held in the L/C Cash Deposit Account, an amount equal to the excess of (a) such aggregate Available Amount over (b) the total amount of funds, if any, then held in the L/C Cash Deposit Account that are free and clear of any such right and interest. Upon the drawing of any Letter of Credit, to the extent funds are on deposit in the L/C Cash Deposit Account, such funds shall be applied to reimburse the Issuing Banks to the extent permitted by applicable Law, or each Lender to the extent such Lender has funded a Revolving Advance in respect of such Letter of Credit. The Borrower hereby grants to the Agent, for the benefit of the Issuing Banks and the Lenders, a Lien upon and security interest in the L/C Cash Deposit Account and all amounts held therein from time to time as security for the L/C Obligations, and for application to the Borrower's reimbursement obligations as and when the same shall arise. The Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. After all such Letters of Credit shall have expired or been fully drawn upon and all other obligations of the Borrower hereunder and under the other Loan Documents shall have been paid in full, the balance, if any, in such L/C Cash Deposit Account shall be promptly returned to the Borrower.

ARTICLE VII

THE AGENT

Section 7.01 Appointment and Authority. Each of the Lenders (for purposes of this Article, references to the Lenders shall also mean the Issuing Banks) hereby irrevocably appoints Barclays to act on its behalf as the Agent hereunder and under the other Loan Documents and authorizes the Agent to take such actions on its behalf and to exercise such powers as are delegated to the Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. Except as set forth in Section 7.06, the provisions of this Article are solely for the benefit of the Agent and the Lenders, and neither the Borrower nor any of its Affiliates shall have rights as a third party beneficiary of any of such provisions.

Section 7.02 Rights as a Lender. The Person serving as the Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with

the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Agent hereunder and without any duty to account therefor to the Lenders.

Section 7.03 Exculpatory Provisions. The Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Agent:

- (a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;
- (b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein), provided that the Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Agent to liability or that is contrary to any Loan Document or applicable Law; and
- (c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Agent or any of its Affiliates in any capacity.

The Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Agent shall believe in good faith shall be necessary, under the circumstances as provided in Section 6.01 and 8.01) or (ii) in the absence of its own gross negligence or willful misconduct. The Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Agent by the Borrower or a Lender.

The Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article III or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Agent.

Section 7.04 Reliance by Agent. The Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of any Advance, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or an Issuing Bank, the Agent may presume that such condition is satisfactory to such Lender or such Issuing Bank unless the Agent shall have received notice to the contrary from such Lender or such Issuing Bank prior to the making of such Advance or the issuance of such Letter of Credit. The Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it,

and shall not be liable for any action taken or not taken by it in good faith in accordance with the advice of any such counsel, accountants or experts.

Section 7.05 Delegation of Duties. The Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Agent. The Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Agent.

Section 7.06 Resignation of Agent. The Agent may at any time give notice of its resignation to the Lenders and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, with the consent of the Borrower so long as no Event of Default has occurred and is continuing, to appoint a successor, which shall be a bank with an office in the United States of America, or an Affiliate of any such bank with an office in the United States of America. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 45 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent meeting the qualifications set forth above; provided that if the Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Agent on behalf of the Lenders under any of the Loan Documents, the retiring Agent shall continue to hold such collateral security until such time as a successor Agent is appointed) and (2) all payments, communications and determinations provided to be made by, to or through the Agent shall instead be made by or to each Lender directly, until such time as the Required Lenders appoint a successor Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Agent, and the retiring Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrower to a successor Agent shall be as agreed between the Borrower and such successor. After the retiring Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 8.04 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Agent was acting as Agent.

Section 7.07 Non-Reliance on Agent and Other Lenders. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

Section 7.08 No Other Duties, Etc. Anything herein to the contrary notwithstanding, none of the Arrangers, Syndication Agents, Documentation Agents or other agents listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Agent or a Lender hereunder.

Section 7.09 **Issuing Banks**. Each Issuing Bank shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and each Issuing Bank shall have all of the benefits and immunities provided in this Article VII (other than Section 7.02) to the same extent as such provisions apply to the Agent.

ARTICLE VIII

MISCELLANEOUS

Section 8.01 **Amendments, Etc.** Except as provided in Section 2.21 with respect to the extension of the then-existing Termination Date, no amendment or waiver of any provision of this Agreement or any other Loan Document, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall

(a) unless agreed to by each Lender directly affected thereby, (i) reduce or forgive the principal amount of any Advance or the Borrower's obligations to reimburse any drawing on a Letter of Credit, reduce the rate of or forgive any interest thereon (provided that only the consent of the Required Lenders shall be required to waive the applicability of any post-default increase in interest rates), or reduce or forgive any fees hereunder (other than fees payable to the Agent, the Arrangers, any Issuing Bank or the Swingline Lender, if any, for their own respective accounts), (ii) extend the final scheduled maturity date or any other scheduled date for the payment of any principal of or interest on any Advance, extend the time of payment of any obligation of the Borrower to reimburse any drawing on any Letter of Credit or any interest thereon, extend the expiry date of any Letter of Credit beyond the Letter of Credit Expiration Date, or extend the time of payment of any fees hereunder (other than fees payable to the Agent, the Arrangers, any Issuing Bank or the Swingline Lender, if any, for their own respective accounts), or (iii) increase any Revolving Credit Commitment of any such Lender over the amount thereof in effect or extend the maturity thereof (it being understood that a waiver of any condition precedent set forth in Section 3.02 or of any Default, if agreed to by the Required Lenders or all Lenders (as may be required hereunder with respect to such waiver), shall not constitute such an increase);

(b) unless agreed to by all of the Lenders, (i) reduce the percentage of the aggregate Revolving Credit Commitments or of the aggregate unpaid principal amount of the Advances, or the number or percentage of Lenders, that shall be required for the Lenders or any of them to take or approve, or direct the Agent to take, any action hereunder or under any other Loan Document (including as set forth in the definition of "Required Lenders"), (ii) change any other provision of this Agreement or any of the other Loan Documents requiring, by its terms, the consent or approval of all the Lenders for such amendment, modification, waiver, discharge, termination or consent, or (iii) change or waive any provision of Section 2.15, any other provision of this Agreement or any other Loan Document requiring pro rata treatment of any Lenders, or this Section 8.01 or Section 2.19(b); and

(c) unless agreed to by the Issuing Banks, the Swingline Lender, if any, or the Agent in addition to the Lenders required as provided hereinabove to take such action, affect the respective rights or obligations of the Issuing Banks, the Swingline Lender, if any, or the Agent, as applicable, hereunder or under any of the other Loan Documents.

(d) Notwithstanding the foregoing, this Agreement may be amended (or amended and restated) pursuant to an increase in the Revolving Credit Commitment pursuant to Section 2.18 with only the consents prescribed by such Section.

(e) If, in connection with any proposed amendment, waiver or consent requiring the consent of "each Lender" or "each Lender directly affected thereby," the consent of the Required Lenders is obtained, but the consent of other necessary Lenders is not obtained (any such Lender whose consent is necessary but not obtained being referred to herein as a "Non-Consenting Lender"), then the Borrower may elect to replace a Non-Consenting Lender as a Lender party to this Agreement, provided that, concurrently with such replacement, (i) another bank or other entity which is reasonably satisfactory to the Borrower, each Issuing Bank and the Agent shall agree, as of such date, to purchase for cash the Advances and other Obligations due to the Non-Consenting Lender pursuant to an Assignment and Assumption and to become a Lender for all purposes under this Agreement and to assume all obligations of the Non-Consenting Lender to be terminated as of such date and to comply with the requirements of clause (b) of Section 8.07, and (ii) the Borrower shall pay to such Non-Consenting Lender in same day funds on the day of such replacement (1) all interest, fees and other amounts then accrued but unpaid to such Non-Consenting Lender by the Borrower hereunder to and including the date of termination, including without limitation payments due to such Non-Consenting Lender under Sections 2.11 and 2.14, and (2) an amount, if any, equal to the payment which would have been due to such Lender on the day of such replacement under Section 8.04(e) had the Advances of such Non-Consenting Lender been prepaid on such date rather than sold to the replacement Lender.

Section 8.02 Notices, Etc.

(a) All notices and other communications provided for hereunder shall be either (x) in writing (including facsimile communication) and mailed, faxed or delivered or (y) as and to the extent set forth in Sections 8.02(b) and (c) and in the proviso to this Section 8.02(a), if to the Borrower, at the address specified on Schedule 8.02; if to any Lender, at its Domestic Lending Office; if to the Agent, at the address specified on Schedule 8.02; if to the Swingline Lender, at the address specified by the Swingline Lender to the Borrower and the Agent, and if to any Issuing Bank, at the address specified on Schedule 8.02 or, as to the Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Agent. All such notices and communications shall, when mailed or faxed, be effective when deposited in the mails or faxed, respectively, except that notices and communications to the Agent pursuant to Article II, III or VII shall not be effective until received by the Agent. Delivery by facsimile of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof. Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b). Upon request of the Borrower, the Agent will provide to the Borrower (i) copies of each Administrative Questionnaire or (ii) the address of each Lender.

(b) Notices and other communications to the Lenders, the Agent and the Issuing Banks hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Agent and agreed to by the Borrower, provided that the foregoing shall not apply to notices to any Lender or the Issuing Banks pursuant to Article II if such Lender or the Issuing Banks, as applicable, has notified the Agent and the Borrower that it is incapable of receiving notices under such Article by electronic communication. The Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications. Unless the Agent and the Borrower otherwise agree, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that

if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Borrower agrees that the Agent may make materials delivered to the Agent pursuant to Sections 5.01(h)(i), (ii) and (iv), as well as any other written information, documents, instruments and other material relating to the Borrower or any of its Subsidiaries and relating to this Agreement, the Notes or the transactions contemplated hereby, or any other materials or matters relating to this Agreement, the Notes or any of the transactions contemplated hereby (collectively, the “Communications”) available to the Lenders by posting such notices on Intralinks or a substantially similar electronic system (the “Platform”). The Borrower acknowledges that (i) the distribution of material through an electronic medium is not necessarily secure and that there are confidentiality and other risks associated with such distribution, (ii) the Platform is provided “as is” and “as available” and (iii) neither the Agent nor any of its Affiliates warrants the accuracy, adequacy or completeness of the Communications or the Platform and each expressly disclaims liability for errors or omissions in the Communications or the Platform. No warranty of any kind, express, implied or statutory, including, without limitation, any warranty of merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects, is made by the Agent or any of its Affiliates in connection with the Platform.

(d) Each Lender agrees that notice to it (as provided in the next sentence) (a “Notice”) specifying that any Communications have been posted to the Platform shall constitute effective delivery of such information, documents or other materials to such Lender for purposes of this Agreement; provided that if requested by any Lender the Agent shall deliver a copy of the Communications to such Lender by e-mail, facsimile or mail. Each Lender agrees (i) to notify the Agent in writing of such Lender’s e-mail address to which a Notice may be sent by electronic transmission (including by electronic communication) on or before the date such Lender becomes a party to this Agreement (and from time to time thereafter to ensure that the Agent has on record an effective e-mail address for such Lender) and (ii) that any Notice may be sent to such e-mail address.

(e) The Borrower hereby acknowledges that certain of the Lenders may be “public-side” Lenders (*i.e.*, Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a “Public Lender”). The Borrower hereby agrees that (w) all Communications that are to be made available to Public Lenders shall be clearly and conspicuously marked “PUBLIC” which shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Communications “PUBLIC,” the Borrower shall be deemed to have authorized the Agent, the Arranger and the Lenders to treat such Communications as not containing any material non-public information with respect to the Borrower or its securities for purposes of United States of America federal and state securities laws; (y) all Communications marked “PUBLIC” are permitted to be made available through a portion of the Platform designated as “Public Investor;” and (z) the Agent and the Arranger shall be entitled to treat any Communications that are not marked “PUBLIC” as being suitable only for posting on a portion of the Platform not marked as “Public Investor.” Notwithstanding the foregoing, the Borrower shall be under no obligation to mark any Communications “PUBLIC.” Notwithstanding anything to the contrary herein, the Borrower and the Agent need not provide to any Public Lender any information, notice, or other document hereunder that is not public information, including without limitation, the Notice of Borrowing and any notice of Default.

Section 8.03 No Waiver; Cumulative Remedies; Enforcement. No failure by any Lender, any Issuing Bank or the Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by Law.

Notwithstanding anything to the contrary contained herein or in any other Loan Document, the authority to enforce rights and remedies hereunder and under the other Loan Documents against the Borrower shall be vested exclusively in, and all actions and proceedings at Law in connection with such enforcement shall be instituted and maintained exclusively by, the Agent in accordance with Article VI for the benefit of all the Lenders and the Issuing Banks; provided, however, that the foregoing shall not prohibit (a) the Agent from exercising on its own behalf the rights and remedies that inure to its benefit (solely in its capacity as Agent) hereunder and under the other Loan Documents, (b) any Issuing Bank from exercising the rights and remedies that inure to its benefit (solely in its capacity as an Issuing Bank) hereunder and under the other Loan Documents, (c) any Lender from exercising setoff rights in accordance with Section 8.05 (subject to the terms of Section 2.15), or (d) any Lender from filing proofs of claim or appearing and filing pleadings on its own behalf during the pendency of a proceeding relative to the Borrower under any Debtor Relief Law; and provided, further, that if at any time there is no Person acting as Agent hereunder and under the other Loan Documents, then (i) the Required Lenders shall have the rights otherwise ascribed to the Agent pursuant to Article VI and (ii) in addition to the matters set forth in clauses (b), (c) and (d) of the preceding proviso and subject to Section 2.15, any Lender may, with the consent of the Required Lenders, enforce any rights and remedies available to it and as authorized by the Required Lenders.

Section 8.04 Costs and Expenses; Indemnity; Damage Waiver.

(a) The Borrower agrees to pay on demand all costs and expenses of the Agent in connection with the administration, modification and amendment of this Agreement, the Notes and the other Loan Documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under this Agreement. The Borrower further agrees to pay on demand all costs and expenses of the Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other Loan Documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for the Agent and each Lender in connection with the enforcement of rights under this Section 8.04(a).

(b) The Borrower agrees to indemnify and hold harmless the Agent (and any sub-agent thereof), each Lender, and each Related Party of any of the foregoing (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation, litigation or proceeding or preparation of a defense in connection therewith, whether based on contract, tort or any other theory), (i) the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of any Advance or Letter of Credit (including any refusal by any Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), or (ii) the actual or alleged presence of Hazardous Materials on any property of the Borrower or any of its Subsidiaries or any Environmental Action relating in any way to the Borrower

or any of its Subsidiaries, provided that such indemnity shall not, as to any Indemnified Party, be available to the extent (a) such fees and expenses are expressly stated in this Agreement to be payable by the Indemnified Party, included expenses payable under Section 2.14, Section 5.01(e) and Section 8.07(b) or (b) such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence, willful misconduct or material breach of its obligations under this Agreement, in which case any fees and expenses previously paid or advanced by the Borrower to such Indemnified Party in respect of such indemnified obligation will be returned by such Indemnified Party. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 8.04(b) applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, equityholders or creditors or an Indemnified Party or any other Person, whether or not any Indemnified Party is otherwise a party thereto, and whether or not the transactions contemplated hereby are consummated, provided that if the Borrower and such Indemnified Party are adverse parties in any such litigation or proceeding, and the Borrower prevails in a final, non-appealable judgment by a court of competent jurisdiction, any amounts under this Section 8.04(b) previously paid or advanced by the Borrower to such Indemnified Party pursuant to this Section 8.04(b) will be returned by such Indemnified Party.

(c) To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Agent (or any sub-agent thereof), any Issuing Bank or any Related Party of any of the foregoing (and without limiting its obligation to do so), each Lender severally agrees to pay to the Agent (or any such sub-agent), such Issuing Bank or such Related Party, as the case may be, such Lender's Ratable Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Agent (or any such sub-agent) or such Issuing Bank in its capacity as such, or against any Related Party of any of the foregoing acting for the Agent (or any such sub-agent) or such Issuing Bank in connection with such capacity.

(d) Without limiting the rights of indemnification set forth in this Agreement with respect to liabilities asserted by third parties, each party hereto also agrees not to assert any claim for special, indirect, consequential or punitive damages against the other parties hereto, or any Related Person any party hereto, on any theory of liability, arising out of or otherwise relating to the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances or the Letters of Credit. No Indemnified Party shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems (including Intralinks, SyndTrak or similar systems) in connection with this Agreement or the other Loan Documents, provided that such indemnity shall not, as to any Indemnified Party, be available to the extent such damages are found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(e) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Revolving Advance, as a result of a payment or Conversion pursuant to Section 2.08(d) or (e), 2.10 or 2.12, acceleration of the maturity of the Revolving Advances pursuant to Section 6.01 or for any other reason, or by an Eligible Assignee to a Lender other than on the last day of the Interest Period for such Revolving Advance upon an assignment of rights and obligations under this Agreement pursuant to Section 8.07 as a result of a demand by the Borrower pursuant to Section 8.07(a), the Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs

or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Revolving Advance.

(f) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in Sections 2.11, 2.14 and 8.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes.

Section 8.05 Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Advances due and payable pursuant to the provisions of Section 6.01, each Lender, each Issuing Bank and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender, such Issuing Bank or any such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement or any other Loan Document to such Lender or Issuing Bank, whether or not such Lender or Issuing Bank shall have made any demand under this Agreement or such Note and although such obligations may be contingent or unmatured or are owed to a branch or office of such Lender or such Issuing Bank different from the branch or office holding such deposit or obligated on such indebtedness. Each Lender and each Issuing Bank agrees promptly to notify the Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender and each Issuing Bank under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender may have.

Section 8.06 Binding Effect. Except as provided in Section 3.01, this Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

Section 8.07 Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Agent and each Lender (and any purported assignment or transfer without such consent shall be null and void) and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Agent, the Issuing Banks and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Revolving Credit Commitment,

Swingline Exposure and the Revolving Advances (including for purposes of this subsection (b), participations in L/C Obligations) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Revolving Credit Commitment and the Revolving Advances at the time owing to it or in the case of an assignment to a Lender, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section, the aggregate amount of the Revolving Credit Commitment (which for this purpose includes Revolving Advances outstanding thereunder) or, if the Revolving Credit Commitment is not then in effect, the principal outstanding balance of the Revolving Advances of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to which such assignment is delivered to the Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed).

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Revolving Advances, L/C Obligations, Swingline Exposure or the Revolving Credit Commitment assigned, and each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement;

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section and, in addition:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed; provided that the Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Agent within ten (10) Business Days after having received notice thereof) shall be required unless (1) an Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(B) the consent of the Agent (such consent not to be unreasonably withheld or delayed) shall be required if such assignment is to a Person that is not a Lender, an Affiliate of a Lender or an Approved Fund with respect to such Lender;

(C) the consent of each Issuing Bank (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding); and

(D) the consent of the Swingline Lender, if any, (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under Swingline Advances (whether or not then outstanding).

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of \$3,500; provided, however, that no such fee shall be payable in the case of an assignment made at the request of the Borrower to an existing Lender. The assignee, if it is not a Lender, shall deliver to the Agent an Administrative Questionnaire.

(v) No Assignment to Borrower. No such assignment shall be made to the Borrower or any of the Borrower's Affiliates or Subsidiaries.

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural person.

(vii) No Assignment to Affected Lenders. No such assignment shall be made to an Affected Lender.

Subject to acceptance and recording thereof by the Agent pursuant to subsection (c) of this Section and notice thereof to the Borrower, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 2.11, 2.14 and 8.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register. The Agent shall maintain at the Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Revolving Credit Commitments of, and principal amounts of the Advances and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the " Register "). The entries in the Register shall be conclusive, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Agent, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a " Participant ") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Revolving Credit Commitment, Swingline Exposure and/or the Revolving Advances (including such Lender's participations in L/C Obligations) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the Borrower, the Agent, the Lenders and the Issuing Banks shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (iv) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by the Borrower therefrom, except to the extent that such amendment, waiver or

consent would reduce the principal of, or interest on, any Obligations or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, any Obligations or any fees or other amounts payable hereunder, in each case to the extent subject to such participation.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification addressing the matters set forth in clause (iv) above to the extent subject to such participation. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.11, 2.14 and 8.04(e) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by Law, each Participant also shall be entitled to the benefits of Section 8.05 as though it were a Lender, provided such Participant agrees to be subject to Section 2.15 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 2.11 or 2.14 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.14 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.14(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Resignation as an Issuing Bank after Assignment. Notwithstanding anything to the contrary contained herein, if at any time any Issuing Bank assigns all of its Revolving Credit Commitment and Revolving Advances pursuant to subsection (b) above, such Issuing Bank may, upon 30 days' notice to the Borrower and the Lenders, resign as an Issuing Bank. If any Issuing Bank resigns, it shall retain all the rights, powers, privileges and duties of an Issuing Bank hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as an Issuing Bank and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Advances or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)).

(h) The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state Laws based on the Uniform Electronic Transactions Act.

Section 8.08 Confidentiality. Neither the Agent nor any Lender may disclose to any Person any confidential, proprietary or non-public information of the Borrower furnished to the Agent or the Lenders by the Borrower (such information being referred to collectively herein as the "Borrower Information"), except that each of the Agent and each of the Lenders may disclose Borrower Information

(i) to its and its affiliates' employees, officers, directors, agents and advisors having a need to know in connection with this Agreement (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Borrower Information and instructed to keep such Borrower Information confidential on substantially the same terms as provided herein), (ii) to the extent requested by any regulatory authority or self-regulatory body, (iii) to the extent required by applicable Laws or regulations or by any subpoena or similar legal process, (iv) to any other party to this Agreement, (v) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (vi) subject to an agreement containing provisions substantially the same as those of this Section 8.08, (A) to any assignee or participant or prospective assignee or participant, (B) any direct, indirect, actual or prospective counterparty (and its advisor) to any swap, derivative or securitization transaction related to the obligations under this Agreement and (C) to any credit insurance provider relating to the Borrower and its Obligations, (vii) to the extent such Borrower Information (A) is or becomes generally available to the public on a non-confidential basis other than as a result of a breach of this Section 8.08 by the Agent or such Lender or their Related Parties, or (B) is or becomes available to the Agent or such Lender on a nonconfidential basis from a source other than the Borrower (provided that the source of such information was not known by the recipient after inquiry to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Borrower or any other Person with respect to such information) and (viii) with the consent of the Borrower. The obligations under this Section 8.08 shall survive for two calendar years after the date of the termination of this Agreement.

Section 8.09 Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the Laws of the State of New York.

Section 8.10 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 3.01, this Agreement shall become effective when it shall have been executed by the Agent and when the Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 8.11 Jurisdiction, Etc.

(a) Each of the parties hereto hereby submits to the exclusive jurisdiction of any New York State court or federal court of the United States of America sitting in the Borough of Manhattan in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by Law, in such federal court. Except to the extent expressly set forth in the preceding sentence, nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement or the Notes in the courts of any jurisdiction.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the Notes in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent

permitted by Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

Section 8.12 Payments Set Aside. To the extent that any payment by or on behalf of the Borrower is made to the Agent, any Issuing Bank or any Lender, or the Agent, any Issuing Bank or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Agent, such Issuing Bank or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender and each Issuing Bank severally agrees to pay to the Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders and the Issuing Banks under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

Section 8.13 Patriot Act. Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “USA PATRIOT Act”), it is required to obtain, verify and record information that identifies each borrower, guarantor or grantor (the “Loan Parties”), which information includes the name and address of each Loan Party and other information that will allow such Lender to identify such Loan Party in accordance with the USA PATRIOT Act. The Borrower shall provide, to the extent commercially reasonable, such information and take such actions as are reasonably requested by the Agent or any Lender in order to assist the Agent and such Lender in maintaining compliance with the USA PATRIOT Act.

Section 8.14 Waiver of Jury Trial. EACH OF THE BORROWER, THE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES OR ANY OTHER LOAN DOCUMENT OR THE ACTIONS OF THE BORROWER, THE AGENT OR ANY LENDER IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT THEREOF.

Section 8.15 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby, the Borrower acknowledges and agrees that: (i) the credit facilities provided for hereunder and any related arranging or other services in connection therewith (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document) are an arm’s-length commercial transaction between the Borrower, on the one hand, and the Agent, each of the Lenders and each of the Arrangers, on the other hand, and the Borrower is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (ii) in connection with the process leading to such transaction, each of the Agent, the Lenders and the Arrangers is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Borrower or any of its Affiliates, stockholders, creditors or employees or any other Person; (iii) neither the Agent nor any Lender or Arranger has assumed or will assume an advisory, agency or fiduciary responsibility in favor of the Borrower with respect to any of the transactions contemplated hereby or the process leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether

the Agent or any Lender or Arranger has advised or is currently advising the Borrower or any of its Affiliates on other matters) and neither the Agent nor any Lender or Arranger has any obligation to the Borrower with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; (iv) the Agent, each of the Lenders and the Arrangers and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and neither the Agent nor any Lender or Arranger has any obligation to disclose any of such interests by virtue of any advisory, agency or fiduciary relationship; and (v) the Agent and each Lender and Arranger have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to any of the transactions contemplated hereby (including any amendment, waiver or other modification hereof or of any other Loan Document) and the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate. The Borrower hereby waives and releases, to the fullest extent permitted by Law, any claims that it may have against the Agent and each Lender and Arranger with respect to any breach or alleged breach of agency or fiduciary duty in connection with the Loan Documents.

Section 8.16 Survival of Representations and Warranties. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Agent and each Lender, regardless of any investigation made by the Agent or any Lender or on their behalf, and shall continue in full force and effect as long as any Advance or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

Section 8.17 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

ARIZONA PUBLIC SERVICE COMPANY

By /s/ Lee R. Nickloy

Name: Lee R. Nickloy

Title: Vice President and Treasurer

ADMINISTRATIVE AGENT:

BARCLAYS BANK PLC , as Agent, Issuing Bank
and Lender

By /s/ Ann E. Sutton

Name: Ann E. Sutton
Title: Director

LENDERS:

THE ROYAL BANK OF SCOTLAND , as a Lender
and as an Issuing Bank

By /s/ Tyler J. McCarthy

Name: Tyler J. McCarthy
Title: Director

BANK OF AMERICA, N.A., as a Lender and as an
Issuing Bank

By /s/ William Merritt

Name: William Merritt
Title: Vice President

JPMORGAN CHASE BANK, N.A., as a Lender and
as an Issuing Bank

By /s/ Nancy R. Barwig

Name: Nancy R. Barwig
Title: Credit Executive

SUNTRUST BANK , as a Lender and as an Issuing
Bank

By /s/ Andrew Johnson

Name: Andrew Johnson
Title: Director

**WELLS FARGO BANK, NATIONAL
ASSOCIATION**, as a Lender and as an Issuing Bank

By /s/ Yann Blindert

Name: Yann Blindert
Title: Director

CITIBANK, N.A. , as a Lender

By /s/ Anita Brickell

Name: Anita Brickell
Title: Vice President

**CREDIT SUISSE AG, CAYMAN ISLANDS
BRANCH , as a Lender**

By /s/ Michael Spaight

Name: Michael Spaight
Title: Authorized Signatory

By /s/ Tyler Smith

Name: Tyler Smith
Title: Authorized Signatory

DEUTSCHE BANK AG NEW YORK BRANCH, as a
Lender

By /s/ Heidi Sandquist

Name: Heidi Sandquist
Title: Director

By /s/ Virginia Cosenza

Name: Virginia Cosenza
Title: Vice President

KEYBANK NATIONAL ASSOCIATION , as
a Lender

By /s/ Kevin D. Smith

Name: Kevin D. Smith
Title: Senior Vice President

TD BANK, N.A. , as a Lender

By /s/ David Perlman

Name: David Perlman
Title: Senior Vice President

THE BANK OF NEW YORK MELLON, as a Lender

By /s/ Mark W. Rogers

Name: Mark W. Rogers
Title: Vice President

THE BANK OF NOVA SCOTIA , as a Lender

By /s/ Thane Rattew

Name: Thane Rattew

Title: Managing Director

U.S. BANK NATIONAL ASSOCIATION, as a
Lender

By /s/ Holland H. Williams

Name: Holland H. Williams
Title: Vice President

UNION BANK, N.A. , as a Lender

By /s/ Kevin Zitar

Name: Kevin Zitar

Title: Managing Director

BANK OF THE WEST , as a Lender

By /s/ Joshua R. Shade

Name: Joshua R. Shade
Title: VP

BRANCH BANKING & TRUST COMPANY , as a
Lender

By /s/ Janet L. Wheeler

Name: Janet L. Wheeler
Title: Vice President

COBANK, ACB , as a Lender

By /s/ John H. Kemper

Name: John H. Kemper
Title: Vice President

NATIONAL BANK OF ARIZONA , as a Lender

By /s/ Sabina Anthony

Name: Sabina Anthony
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION , as a
Lender

By /s/ Jon R. Hinard

Name: Jon R. Hinard
Title: Senior Vice President

THE NORTHERN TRUST COMPANY, as a Lender

By /s/ John Lascody

Name: John Lascody
Title: Vice President

UMB BANK, N.A., as a Lender

By /s/ Henry Yee

Name: Henry Yee

Title: Senior Vice President

BNP PARIBAS , as a Lender

By /s/ Denis O' Meara

Name: Denis O' Meara
Title: Managing Director

BNP PARIBAS , as a Lender

By /s/ Roberto Impeduglia

Name: Roberto Impeduglia
Title: Vice-President

SCHEDULE 1.01
COMMITMENTS AND RATABLE SHARES

Bank	Revolving Credit Commitment	Ratable Share
Barclays Bank PLC	\$ 33,750,000.00	6.750000000%
The Royal Bank of Scotland plc	\$ 33,750,000.00	6.750000000%
Bank of America, N.A.	\$ 33,750,000.00	6.750000000%
JPMorgan Chase Bank, N.A.	\$ 33,750,000.00	6.750000000%
SunTrust Bank	\$ 33,750,000.00	6.750000000%
Wells Fargo Bank, National Association	\$ 33,750,000.00	6.750000000%
Citibank, N.A.	\$ 23,214,285.71	4.642857142%
Credit Suisse AG, Cayman Islands Branch	\$ 23,214,285.71	4.642857142%
Deutsche Bank AG New York Branch	\$ 23,214,285.71	4.642857142%
KeyBank, N.A.	\$ 23,214,285.71	4.642857142%
TD Bank, N.A.	\$ 23,214,285.71	4.642857142%
The Bank of New York Mellon	\$ 23,214,285.71	4.642857142%
The Bank of Nova Scotia	\$ 23,214,285.71	4.642857142%
U.S. Bank National Association	\$ 23,214,285.71	4.642857142%
Union Bank, N.A.	\$ 23,214,285.71	4.642857142%
Bank of the West	\$ 16,256,502.60	3.251300520%
Branch Banking & Trust Company	\$ 10,892,857.15	2.178571430%
CoBank, ACB	\$ 10,892,857.15	2.178571430%
National Bank of Arizona	\$ 10,892,857.15	2.178571430%
PNC Bank, National Association	\$ 10,892,857.15	2.178571430%
The Northern Trust Company	\$ 10,892,857.15	2.178571430%
UMB Bank, N.A.	\$ 10,892,857.15	2.178571430%
BNP Paribas	\$ 6,957,783.11	1.391556622%
TOTAL	\$ 500,000,000.00	100.000000000%

**SCHEDULE 4.01(j)
SUBSIDIARIES(1)**

Bixco, Inc.
Axiom Power Solutions, Inc.
PWE Newco, Inc.

-
- (1) The Borrower's three nuclear decommissioning trusts relating to PVNGS may also be deemed to be subsidiaries under a literal reading of the definition.
-

**SCHEDULE 4.01(k)
EXISTING INDEBTEDNESS**

None.

SCHEDULE 8.02
CERTAIN ADDRESSES FOR NOTICES

BORROWER:

Arizona Public Service Company
400 North 5th Street
Mail Station 9040
Phoenix, AZ 85004
Attention: Treasurer
Telephone: (602) 250-3300
Telecopier: (602) 250-3902
Electronic: lee.nickloy@pinnaclewest.com

AGENT :

Agent's Office
(for payments and Requests for Credit Extensions):

Barclays Bank PLC
1301 6th Avenue
New York, NY 10019
Attention: Omer Khan
Telephone: (212) 320-6864
Email: omer.khan@barclays.com / xrausloanops5@barclays.com

with copies to:

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Alicia Borys
Facsimile: (212) 526-5115
Telephone: (212) 526-4291
Email: Alicia.borys@barclays.com

Agent's Account/Barclays Bank Agency Service Wiring Information

Barclays Bank PLC
New York, New York
ABA: 026002574
Account Number: 050-01910-4
Account Name: Clad Control Account
Ref: Arizona Public Service

Other Notices as Agent:

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Alicia Borys
Facsimile: (212) 526-5115
Telephone: 212) 526-4291
Email: Alicia.borys@barclays.com

ISSUING BANKS:Barclays Bank PLC

Barclays Bank PLC
200 Park Avenue
New York, NY 10166
Attn. Letters of Credit / Dawn Townsend
Facsimile (212) 412-5011
Telephone (201) 499-2081
Email xraletterofcredit@barclays.com

The Royal Bank of Scotland PLC

The Royal Bank of Scotland PLC
600 Washington Boulevard
Stamford, CT 06901
Attention: Richard Emmich
Facsimile: (203) 873-3569
Telephone: (203) 897-7619
Email: richard.emmich@rbs.com

and

Attention: Marchette Major
Facsimile: (203) 873-3569
Telephone: (203) 897-7638
Email: marchette.major@rbs.com

Wells Fargo Bank, National Association

Wells Fargo Bank, National Association
Corporate Banking - Utility and Power Group
1300 SW 5th Avenue, 6th Floor
Mail Code: MAC P6101-066
Portland, OR 97201
Attention: Yann Blindert
Telephone: (503) 886-2215
Facsimile: (866) 629-0771
E-mail: yann.blindert@wellsfargo.com

JPMorgan Chase Bank, N.A.

JPMorgan Chase Bank, N.A.
10 South Dearborn, 9th Floor
Mail Code: IL1-0090
Chicago, IL 60603
Attention: Nancy R. Barwig
Telephone: (312) 732-1838
Facsimile: (312) 732-1762
E-mail: nancy.r.barwig@jpmorgan.com
With a cc to: jpm.standbylc.ccb@jpmorgan.com

Bank of America, N.A.

Bank of America, N.A.
100 N. Tryon Street
Charlotte, NC 28255-0001
Attention: William A. Merritt, III
Telephone: (980) 386-9762
Facsimile: (980) 683-6339
E-mail: william.merritt@baml.com

SunTrust Bank

SunTrust Robinson Humphrey, Inc.
SunTrust Bank
3333 Peachtree Road
Atlanta, GA 30326
Attention: Andrew Johnson
Telephone: (404) 439-7451
Facsimile: (404) 439-7470
E-mail: andrew.johnson@suntrust.com

**EXHIBIT A — FORM OF
PROMISSORY NOTE**

, 20

FOR VALUE RECEIVED, the undersigned, ARIZONA PUBLIC SERVICE COMPANY, an Arizona corporation (the “Borrower”), hereby promises to pay to the order of _____ or its registered assigns (the “Lender”), in accordance with the provisions of the Credit Agreement (as hereinafter defined), the principal amount of each Advance from time to time made by the Lender to the Borrower pursuant to the Five-Year Credit Agreement dated as of May 9, 2014 among the Borrower, the Lender and certain other lenders parties thereto, Barclays Bank PLC, as Agent for the Lender and such other lenders, and the issuing banks and other agents party thereto (as amended or modified from time to time, the “Credit Agreement”; the terms defined therein being used herein as therein defined) outstanding on such date.

The Borrower promises to pay interest on the unpaid principal amount of each Advance from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent for the account of the Lender in same day funds at the address and account specified on Schedule 8.02. Each Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Advances by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time the Lender’s Unused Commitment, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Promissory Note and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

THIS PROMISSORY NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

ARIZONA PUBLIC SERVICE COMPANY

By _____

Name: _____

Title: _____

A-1

ADVANCES AND PAYMENTS OF PRINCIPAL

Date	Amount of Advance	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

A-2

**EXHIBIT B — FORM OF NOTICE OF
BORROWING**

Barclays Bank PLC, as Agent
for the Lenders parties
to the Credit Agreement
referred to below

Attention: Loan Operations

[Date]

Ladies and Gentlemen:

The undersigned, Arizona Public Service Company, refers to the Five-Year Credit Agreement, dated as of May 9, 2014 (as amended or modified from time to time, the “Credit Agreement”, the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, Barclays Bank PLC, as Agent for said Lenders and the Issuing Banks and other agents party thereto, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Borrowing (the “Proposed Borrowing”) as required by Section 2.02(a) of the Credit Agreement:

- (i) The Business Day of the Proposed Borrowing is , 20 .
- (ii) The Type of Revolving Advances comprising the Proposed Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].
- (iii) The aggregate amount of the Proposed Borrowing is \$.
- [iv) The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Borrowing is month[s].]

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Borrowing:

- (A) the representations and warranties contained in Section 4.01 (other than Sections 4.01(k), 4.01(e)(ii) and 4.01(f)(ii)) of the Credit Agreement are correct, before and after giving effect to the Proposed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date;
- (B) no event has occurred and is continuing, or would result from such Proposed Borrowing or from the application of the proceeds therefrom, that constitutes a Default;
- (C) all required regulatory authorizations including the 2013 Order and/or any Subsequent Order in respect of the Proposed Borrowing have been obtained and are in full force and effect and, before and after giving effect to the Proposed Borrowing and to the application of

the proceeds therefrom, the Borrower is in compliance with the provisions of the applicable order; and

(D) before and after giving effect to the Proposed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date, the Indebtedness of the Borrower does not exceed that permitted by (i) applicable resolutions of the Board of Directors of the Borrower, (ii) applicable Arizona Laws, or (iii) the 2013 Order or any Subsequent Order, whichever is in force and effect at such time.

Very truly yours,

ARIZONA PUBLIC SERVICE COMPANY

By _____

Name: _____

Title: _____

B-2

**EXHIBIT C — FORM OF
ASSIGNMENT AND ASSUMPTION**

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the “Assignor”) and [Insert name of Assignee] (the “Assignee”). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by the Assignee. Annex 1 attached hereto (the “Standard Terms and Conditions”) is hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date referred to below (i) all of the Assignor’s rights and obligations in its capacity as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (ii) to the extent permitted to be assigned under applicable Law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at Law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor. Assignee shall deliver (if it is not already a Lender) to the Agent an Administrative Questionnaire.

1. Assignor:
2. Assignee:
[and is an Affiliate of [identify Bank](1)]
3. Borrower: Arizona Public Service Company
4. Agent: Barclays Bank PLC, as the administrative agent under the Credit Agreement
5. Credit Agreement: The Five-Year Credit Agreement dated as of May 9, 2014, by and among the Borrower, the Lenders party thereto, the Agent and the Issuing Banks and other agents party thereto.
6. Assigned Interest:

Aggregate Amount of Commitment for all Lenders	Amount of Commitment Assigned	Percentage Assigned of Commitment(2)	CUSIP Number
\$	\$	%	

(1) Select as applicable.

(2) Set forth, to at least 9 decimals, as a percentage of the Commitment of all Banks thereunder.

[7. Trade Date:](3)

Effective Date: , 20 [TO BE INSERTED BY AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By _____
Name: _____
Title: _____

ASSIGNEE
[NAME OF ASSIGNEE]

By _____
Name: _____
Title: _____

[Consented to and](4) Accepted:
BARCLAYS BANK PLC, as Agent

By _____
Name:
Title:

[Consented to:](5)
[BARCLAYS BANK PLC, as Issuing Bank]

By _____
Name:
Title:

-
- (3) To be completed if the Assignor and the Assignee intend that the minimum assignment amount is to be determined as of the Trade Date.
(4) To be added only if the consent of the Agent is required by the terms of the Credit Agreement.
(5) To be added only if the consent of the Borrowers and/or other parties (e.g. Issuing Bank) is required by the terms of the Credit Agreement.

[THE ROYAL BANK OF SCOTLAND PLC, as Issuing Bank]

By _____
Name:
Title:

[WELLS FARGO BANK, NATIONAL ASSOCIATION, as Issuing Bank]

By _____
Name:
Title:

[JPMORGAN CHASE BANK, N.A., as Issuing Bank]

By _____
Name:
Title:

[BANK OF AMERICA, N.A., as Issuing Bank]

By _____
Name:
Title:

[SUNTRUST BANK, as Issuing Bank]

By _____
Name:
Title:

ARIZONA PUBLIC SERVICE COMPANY

By _____
Name:
Title:

**ANNEX 1 TO ASSIGNMENT AND ASSUMPTION
STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION**

1. **Representations and Warranties.**

1.1 **Assignor.** The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower of any of its obligations under any Loan Document.

1.2 **Assignee.** The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all the requirements to be an Eligible Assignee under Section 8.07 of the Credit Agreement (subject to such consents, if any, as may be required under Section 8.07 of the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by the Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire the Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Credit Agreement, and has received or has been accorded the opportunity to receive copies of the most recent financial statements referred to in Section 4.01(e) or delivered pursuant to Section 5.01(h), as applicable, thereof, as applicable, and such other documents and information as it deems appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest, (vi) it has, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest, and (vi) if it is a foreign lender, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. **Payments.** From and after the Effective Date, the Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other

amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by facsimile shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the Law of the State of New York.

EXECUTION COPY

U.S. \$200,000,000
FIVE-YEAR CREDIT AGREEMENT
Dated as of May 9, 2014

among

PINNACLE WEST CAPITAL CORPORATION,
as Borrower.

THE LENDERS PARTY HERETO,

BARCLAYS BANK PLC ,
as Agent and Issuing Bank,

THE ROYAL BANK OF SCOTLAND PLC
as Syndication Agent,

THE ROYAL BANK OF SCOTLAND PLC,
BANK OF AMERICA, N.A.,
JPMORGAN CHASE BANK, N.A.,
SUNTRUST BANK

and

WELLS FARGO BANK, NATIONAL ASSOCIATION,
as Issuing Banks.

BANK OF AMERICA, N.A.,
JPMORGAN CHASE BANK, N.A.,
SUNTRUST BANK

and

WELLS FARGO BANK, NATIONAL ASSOCIATION ,
as Co-Documentation Agents,

BARCLAYS BANK PLC
RBS SECURITIES INC.

J.P. MORGAN SECURITIES LLC

MERRILL LYNCH, PIERCE, FENNER & SMITH INCORPORATED
SUNTRUST ROBINSON HUMPHREY, INC.

and

WELLS FARGO SECURITIES, LLC ,
as Joint Lead Arrangers and Joint Book Runners

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FIVE-YEAR CREDIT AGREEMENT

Dated as of May 9, 2014

PINNACLE WEST CAPITAL CORPORATION, an Arizona corporation (the “Borrower”), the banks, financial institutions and other institutional lenders (the “Initial Lenders”) and initial issuing banks (the “Initial Issuing Banks”) listed on the signature pages hereof, the other Lenders (as hereinafter defined), BARCLAYS BANK PLC, as Agent for the Lenders (as hereinafter defined), THE ROYAL BANK OF SCOTLAND PLC, as Syndication Agent and BANK OF AMERICA, N.A., JPMORGAN CHASE BANK, N.A., SUNTRUST BANK and WELLS FARGO BANK, NATIONAL ASSOCIATION, as Co-Documentation Agents, agree as follows:

The Borrower has requested that the Lenders provide a revolving credit facility for the purposes set forth herein, and the Lenders are willing to do so on the terms and conditions set forth herein.

In consideration of the mutual covenants and agreements herein contained, the parties hereto covenant and agree as follows:

ARTICLE I

DEFINITIONS AND ACCOUNTING TERMS

Section 1.01 Certain Defined Terms. As used in this Agreement, the following terms shall have the following meanings:

“Additional Commitment Lender” has the meaning specified in Section 2.18(d).

“Administrative Questionnaire” means an Administrative Questionnaire in a form supplied by the Agent.

“Advance” means a Revolving Advance or a Swingline Advance.

“Affected Lender” means any Lender, as reasonably determined by the Agent or if the Agent is the Affected Lender, by the Required Lenders, that (a) has failed to (i) fund all or any portion of any Revolving Advance within three (3) Business Days of the date such Revolving Advances were required to be funded hereunder unless such Lender notifies the Agent and the Borrower in writing that such failure is the result of such Lender’s determination that one or more conditions precedent to funding (each of which conditions precedent, together with any applicable default, shall be specifically identified in writing) has not been satisfied, or (ii) pay to the Agent, any Issuing Bank, the Swingline Lender, if any, or any other Lender any other amount required to be paid by it hereunder (including in respect of its participation in Letters of Credit and funding obligations in respect of Swingline Advances) within three (3) Business Days of the date when due, (b) has notified the Borrower, the Agent, any Issuing Bank or any Lender in writing of its intention not to fund any Revolving Advance or any of its other funding obligations under this Agreement, (c) has failed, within three Business Days after written request by the Agent, or if the Agent is the Affected Lender, by the Required Lenders, to confirm that it will comply with the terms of this Agreement relating to its obligations to fund prospective Revolving Advances and other funding obligations under this Agreement or (d) shall (or whose parent company shall) generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or shall have had any proceeding instituted by or against such Lender (or its parent company) seeking to adjudicate it as bankrupt or insolvent, or

seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any law relating to bankruptcy, insolvency or reorganization or relief of debtors, or seeking the entry of an order for relief or the appointment of a receiver, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 30 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, administrator, assignee for the benefit of creditors or similar Person charged with reorganization or liquidation of its business or custodian for, it or for any substantial part of its property) shall occur, or shall take (or whose parent company shall take) any corporate action to authorize any of the actions set forth above in this subsection (e), provided that a Lender shall not be deemed to be an Affected Lender solely by virtue of the ownership or acquisition of any equity interest in any Lender or any Person that directly or indirectly controls such Lender by a Governmental Authority or an instrumentality thereof.

“Affiliate” means, as to any Person, any other Person that, directly or indirectly, controls, is controlled by or is under common control with such Person or is a director or officer of such Person. For purposes of this definition, the term “control” (including the terms “controlling”, “controlled by” and “under common control with”) of a Person means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of Voting Stock, by contract or otherwise.

“Agent” means Barclays in its capacity as administrative agent under any of the Loan Documents, or any successor administrative agent.

“Agent’s Account” means the account of the Agent designated on Schedule 8.02 under the heading “Agent’s Account” or such other account as the Agent may designate to the Lenders and the Borrower from time to time.

“Agent’s Office” means the Agent’s address and, as appropriate, the Agent’s Account, or such other address or account as the Agent may from time to time notify the Borrower and the Lenders.

“Anti-Corruption Laws” means all laws, rules, and regulations of any jurisdiction applicable to the Borrower or its Subsidiaries from time to time concerning or relating to bribery or corruption.

“Applicable Lending Office” means, with respect to each Lender, such Lender’s Domestic Lending Office in the case of a Base Rate Advance and such Lender’s Eurodollar Lending Office in the case of a Eurodollar Rate Advance.

“Applicable Rate” means, from time to time, the following percentages per annum determined by reference to the Public Debt Rating as set forth below:

Public Debt Rating S&P/Moody's	Eurodollar Rate Advances	Base Rate Advances	Commitment Fee
Level 1 A+/A1 or above	0.875%	0.000%	0.075%
Level 2 < Level 1 but <u>≥</u> A/A2	1.000%	0.000%	0.100%
Level 3 < Level 2 but <u>≥</u> A-/A3	1.125%	0.125%	0.125%
Level 4 < Level 3 but <u>≥</u> BBB+/Baa1	1.250%	0.250%	0.175%
Level 5 < Level 4 but <u>≥</u> BBB/Baa2	1.500%	0.500%	0.225%
Level 6 < Level 5	1.750%	0.750%	0.275%

“Approved Fund” means any Fund that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of any entity that administers or manages a Lender.

“APS” means Arizona Public Service Company, an Arizona corporation.

“Arrangers” means, collectively, Barclays, RBS Securities Inc., Wells Fargo Securities, LLC, Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Securities LLC and SunTrust Robinson Humphrey, Inc.

“Assignment and Assumption” means an assignment and assumption entered into by a Lender and an Eligible Assignee, and accepted by the Agent, in substantially the form of Exhibit C hereto.

“Assuming Lender” has the meaning specified in Section 2.18(d).

“Assumption Agreement” has the meaning specified in Section 2.18(d)(ii).

“Authorized Officer” means the chairman of the board, chief executive officer, chief operating officer, chief financial officer, chief accounting officer, president, any vice president, treasurer, controller or any assistant treasurer of the Borrower.

“Available Amount” of any Letter of Credit means, at any time, the maximum amount available to be drawn under such Letter of Credit at such time (assuming compliance at such time with all conditions to drawing).

“Barclays” means Barclays Bank PLC.

“Base Rate” means for any day a fluctuating rate per annum equal to the highest of:

- (a) the rate of interest in effect for such day as publicly announced from time to time by the Agent as its “prime rate”;
- (b) the Federal Funds Rate plus 0.50%; and
- (c) an amount equal to (i) the Eurodollar Rate for a one month Interest Period on such day (or if such day is not a Business Day, the immediately preceding Business Day) plus (ii) 1%.

“Prime rate” means the rate of interest in effect for such day as publicly announced from time to time by the Agent as its “prime rate.” The “prime rate” is a rate set by the Agent based upon various factors including the Agent’s costs and desired return, general economic conditions and other factors, and is used as a reference point for pricing some loans, which may be priced at, above, or below such announced rate. Any change in the “prime rate” announced by the Agent shall take effect at the opening of business on the day specified in the public announcement of such change.

“Base Rate Advance” means a Revolving Advance that bears interest as provided in Section 2.07(a)(i).

“Borrower” has the meaning given to such term in the introductory paragraph hereof.

“Borrower Information” has the meaning specified in Section 8.08.

“Borrowing” means (a) a borrowing consisting of simultaneous Revolving Advances of the same Type made by each of the Lenders pursuant to Section 2.01(a) or (b) Swingline Advances.

“Business Day” means a day of the year on which banks are not required or authorized by Law to close in New York City or Phoenix, Arizona and, if the applicable Business Day relates to any Advance in which interest is calculated by reference to the Eurodollar Rate, on which dealings are carried on in the London interbank market.

“Capital Lease Obligations” means as to any Person, the obligations of such Person to pay rent or other amounts under a lease of (or other agreement conveying the right to use) real and/or personal property, which obligations are required to be classified and accounted for as a capital lease on the balance sheet of such Person under GAAP and, for the purposes of this Agreement, the amount of such obligations shall be the capitalized amount thereof, determined in accordance with GAAP.

“Change in Law” means the occurrence, after the date of this Agreement, of any of the following: (a) the adoption of any Law, (b) any change in any Law or in the administration, interpretation or application thereof by any Governmental Authority or (c) the making or issuance of any request, guideline or directive (whether or not having the force of law) by any Governmental Authority; provided, however, that notwithstanding anything herein to the contrary, (i) the Dodd-Frank Wall Street Reform and Consumer Protection Act and all requests, rules, guidelines, requirements and directives thereunder, issued in connection therewith or in implementation thereof, and (ii) all requests, rules, guidelines, requirements and directives promulgated by the Bank for International Settlements, the Basel Committee on Banking Supervision (or any successor or similar authority) or the United States or foreign regulatory authorities, in each case pursuant to Basel III, shall in each case be deemed a “Change in Law” regardless of the date enacted, adopted, issued or implemented.

“Commitment” means a Revolving Credit Commitment or a Letter of Credit Commitment.

“Commitment Date” has the meaning specified in Section 2.18(b).

“Commitment Increase” has the meaning specified in Section 2.18(a).

“Consolidated” refers to the consolidation of accounts in accordance with GAAP.

“Consolidated Indebtedness” means, at any date, the Indebtedness of the Borrower and its Consolidated Subsidiaries determined on a Consolidated basis as of such date; provided, however, that so long as the creditors of the VIE Lessor Trusts have no recourse to the assets of APS, “Consolidated Indebtedness” shall not include any Indebtedness or other obligations of the VIE Lessor Trusts.

“Consolidated Net Worth” means, at any date, the sum as of such date of (a) the par value (or value stated on the books of the Borrower) of all classes of capital stock of the Borrower and its Subsidiaries, excluding the Borrower’s capital stock owned by the Borrower and/or its Subsidiaries, *plus* (or *minus* in the case of a surplus deficit) (b) the amount of the Consolidated surplus, whether capital or earned, of the Borrower, determined in accordance with GAAP as of the end of the most recent calendar month (excluding the effect on the Borrower’s accumulated other comprehensive income/loss of the ongoing application of Accounting Standards Codification Topic 815).

“Consolidated Subsidiary” means, at any date, any Subsidiary or other entity the accounts of which would be Consolidated with those of the Borrower on its Consolidated financial statements if such financial statements were prepared as of such date; provided that in no event will Consolidated Subsidiaries include the VIE Lessor Trusts.

“Controlled Affiliate” has the meaning specified in Section 4.01(n).

“Convert”, “Conversion” and “Converted” each refers to a conversion of Revolving Advances of one Type into Revolving Advances of the other Type pursuant to Section 2.08, Section 2.09 or Section 2.12.

“Credit Extension” means each of the following: (a) a Borrowing and (b) the issuance of a Letter of Credit.

“Debtor Relief Laws” means the Bankruptcy Code of the United States of America, and all other liquidation, conservatorship, bankruptcy, assignment for the benefit of creditors, moratorium, rearrangement, receivership, insolvency, reorganization, or similar debtor relief Laws of the United States of America or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

“Default” means any Event of Default or any event that would constitute an Event of Default but for the requirement that notice be given or time elapse or both.

“Dollars” or “\$” means dollars of the United States of America.

“Domestic Lending Office” means, with respect to any Lender, the office of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Agent.

“Effective Date” has the meaning specified in Section 3.01.

“Eligible Assignee” means any Person that meets the requirements to be an assignee under Section 8.07(b)(iii), (v), (vi) and (vii) (subject to such consents, if any, as may be required under Section 8.07(b)(iii)).

“Environmental Action” means any action, suit, demand, demand letter, claim, notice of non-compliance or violation, notice of liability or potential liability, investigation, proceeding, consent order or consent agreement relating in any way to any Environmental Law, Environmental Permit or Hazardous Materials or arising from alleged injury or threat of injury to health, safety or the environment and relating to any Environmental Law, including, without limitation, (a) by any Governmental Authority for enforcement, cleanup, removal, response, remedial or other actions or damages and (b) by any Governmental Authority or any third party for damages, contribution, indemnification, cost recovery, compensation or injunctive relief.

“Environmental Law” means any federal, state, local or foreign statute, law, ordinance, rule, regulation, code, order, judgment, decree or judicial or agency interpretation, policy or guidance relating to pollution or protection of the environment, natural resources or, to the extent relating to exposure to Hazardous Materials, human health or safety, including, without limitation, those relating to the use, handling, transportation, treatment, storage, disposal, release or discharge of Hazardous Materials.

“Environmental Permit” means any permit, approval, identification number, license or other authorization required under any Environmental Law.

“ERISA” means the Employee Retirement Income Security Act of 1974.

“ERISA Affiliate” means any trade or business (whether or not incorporated) under common control with the Borrower within the meaning of Section 414(b) or (c) of the Internal Revenue Code (and Sections 414(m) and (o) of the Internal Revenue Code for purposes of provisions relating to Section 412 of the Internal Revenue Code).

“ERISA Event” means (a) a Reportable Event with respect to a Pension Plan; (b) a withdrawal by the Borrower or any ERISA Affiliate from a Pension Plan subject to Section 4063 of ERISA during a plan year in which it was a substantial employer (as defined in Section 4001(a)(2) of ERISA) or a cessation of operations that is treated as such a withdrawal under Section 4062(e) of ERISA; (c) a complete or partial withdrawal by the Borrower or any ERISA Affiliate from a Multiemployer Plan or notification that a Multiemployer Plan is in reorganization; (d) the filing of a notice of intent to terminate, the treatment of a Plan amendment as a termination under Section 4041 or 4041A of ERISA, or the commencement of proceedings by the PBGC to terminate a Pension Plan or Multiemployer Plan; (e) an event or condition which constitutes grounds under Section 4042 of ERISA for the termination of, or the appointment of a trustee to administer, any Pension Plan or Multiemployer Plan; or (f) the imposition of any liability under Title IV of ERISA, other than for PBGC premiums due but not delinquent under Section 4007 of ERISA, upon the Borrower or any ERISA Affiliate.

“Eurodollar Lending Office” means, with respect to any Lender, the office of such Lender described as such in such Lender’s Administrative Questionnaire, or such other office or offices as a Lender may from time to time notify the Borrower and the Agent.

“Eurodollar Rate” means:

(a) for any Interest Period with respect to a Eurodollar Rate Advance, the London interbank offered rate administered by ICE Benchmark Administration (or any other Person that takes over the administration of such rate for Dollars) (“ICE LIBOR”), as published by Reuters (or other commercially

available source providing quotations of ICE LIBOR as designated by the Agent from time to time) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, for Dollar deposits (for delivery on the first day of such Interest Period with a term equivalent to such Interest Period. If such rate is not available at such time for any reason, then the "Eurodollar Rate" for such Interest Period shall be the rate per annum determined by the Agent to be the rate at which deposits in dollars for delivery on the first day of such Interest Period in same day funds in the approximate amount of the Eurodollar Rate Advance being made, continued or converted by the Agent and with a term equivalent to such Interest Period would be offered by the Agent to major banks in the London interbank eurodollar market at their request at approximately 11:00 a.m. (London time) two Business Days prior to the commencement of such Interest Period; and

(b) for any interest rate calculation with respect to a Base Rate Advance, the rate per annum equal to (i) ICE LIBOR, at approximately 11:00 a.m., London time, two Business Days prior to the date of determination (provided that if such day is not a Business Day in London, the next preceding Business Day in London) for Dollar deposits being delivered in the London interbank market for a term of one month commencing that day or (ii) if such published rate is not available at such time for any reason, the rate determined by the Agent to be the rate at which deposits in Dollars for delivery on the date of determination in same day funds in the approximate amount of the Base Rate Advance being made, continued or converted by the Agent and with a term equal to one month would be offered by the Agent's London Branch to major banks in the London interbank Eurodollar market at their request at the date and time of determination.

"Eurodollar Rate Advance" means a Revolving Advance that bears interest at a rate based on the Eurodollar Rate (other than a Base Rate Advance bearing interest at a rate based on the Eurodollar Rate).

"Events of Default" has the meaning specified in Section 6.01.

"Excluded Taxes" means, with respect to the Agent, any Lender, any Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) taxes imposed on or measured by its overall net income (however denominated), and franchise taxes imposed on it (in lieu of net income taxes), by the United States of America or the jurisdiction (or any political subdivision thereof) under the Laws of which such recipient is organized or does business or in which its principal office is located or, in the case of any Lender, in which its Applicable Lending Office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located, (c) any backup withholding tax that is required by the Internal Revenue Code to be withheld from amounts payable to a Lender that has failed to comply with clause (A) of Section 2.14(e)(ii), (d) in the case of a Foreign Lender (other than as agreed to between any assignee and the Borrower pursuant to a request by the Borrower under Section 2.20), any United States of America withholding tax that (i) is required to be imposed on amounts payable to such Foreign Lender pursuant to the Laws in force at the time such Foreign Lender becomes a party hereto (or designates a new Applicable Lending Office) or (ii) is attributable to such Foreign Lender's failure or inability (other than as a result of a Change in Law) to comply with clause (B) of Section 2.14(e)(ii), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new Applicable Lending Office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.14(a)(i) or (ii) and (v) any United States withholding tax imposed by FATCA.

"Executive Order" has the meaning specified in Section 4.01(p).

“Existing Credit Agreement” means that certain Five-Year Credit Agreement, dated as of November 4, 2011 by and among the Borrower, the Lenders from time to time party thereto and the Agent.

“Existing Termination Date” has the meaning specified in Section 2.18(d).

“Extending Lender” has the meaning specified in Section 2.18(d).

“Extension Date” has the meaning specified in Section 2.18(d).

“FATCA” means Section 1471 through 1474 of the Internal Revenue Code, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreement entered into pursuant to Section 1471(b)(1) of the Internal Revenue Code.

“Federal Funds Rate” means, for any day, the rate per annum equal to the weighted average of the rates on overnight federal funds transactions with members of the Federal Reserve System arranged by federal funds brokers on such day, as published by the Federal Reserve Bank of New York on the Business Day next succeeding such day; provided that (a) if such day is not a Business Day, the Federal Funds Rate for such day shall be such rate on such transactions on the next preceding Business Day as so published on the next succeeding Business Day, (b) if no such rate is so published on such next succeeding Business Day, the Federal Funds Rate for such day shall be the average rate (rounded upward, if necessary, to a whole multiple of 1/100 of 1%) charged to the Agent on such day on such transactions as determined by the Agent, and (c) solely for purposes for determining the Money Market Rate, any such other publication or means of determining the rate for federal funds as agreed to between the Borrower and Swingline Lender.

“Fee Letters” means (a) each of the following letters to the Borrower dated April 16, 2014: (i) the letter from Barclays and RBS Securities Inc., (ii) the letter from Bank of America, N.A., Merrill Lynch, Pierce, Fenner & Smith Incorporated, Wells Fargo Bank, National Association, Wells Fargo Securities, LLC, JPMorgan Chase Bank, N.A., J.P. Morgan Securities LLC, SunTrust Bank and SunTrust Robinson Humphrey, Inc. and (iii) the agent fee letter from Barclays, as Agent, each relating to certain fees payable by the Borrower to such parties in respect of the transactions contemplated by this Agreement and (b) any letter between the Borrower and any Issuing Bank other than an Initial Issuing Bank relating to certain fees payable to such Issuing Bank in its capacity as such, each as amended, modified, restated or supplemented from time to time.

“Foreign Lender” means any Lender that is organized under the Laws of a jurisdiction other than that in which the Borrower is resident for tax purposes (including such a Lender when acting in the capacity of an Issuing Bank or a Swingline Lender). For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

“Four Corners Acquisition” means the acquisition by APS from Southern California Edison Company (“SCE”) of SCE’s interests in Units 4 and 5 of the Four Corners Power Plant near Farmington, New Mexico, pursuant to the Purchase and Sale Agreement, dated as of November 8, 2010, by and between SCE and APS.

“Fund” means any Person (other than a natural person) that is (or will be) engaged in making, purchasing, holding or otherwise investing in commercial loans and similar extensions of credit in the ordinary course of its business.

“GAAP” has the meaning specified in Section 1.03.

“Governmental Authority” means the government of the United States of America or any other nation, or of any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government (including any supranational bodies such as the European Union or the European Central Bank) and any group or body charged with setting financial accounting or regulatory capital rules or standards (including, without limitation, the Financial Accounting Standards Board, the Bank for International Settlements or the Basel Committee on Banking Supervision or any successor or similar authority to any of the foregoing).

“Government Official” shall mean (a) an executive, official, employee or agent of a governmental department, agency or instrumentality, (b) a director, officer, employee or agent of a wholly or partially government-owned or -controlled company or business, (c) a political party or official thereof, or candidate for political office or (d) an executive, official, employee or agent of a public international organization (e.g., the International Monetary Fund or the World Bank).

“Guarantee” means as to any Person, any obligation, contingent or otherwise, of such Person directly or indirectly guaranteeing any Indebtedness of any other Person or in any manner providing for the payment of any Indebtedness of any other Person or otherwise protecting the holder of such Indebtedness against loss (whether by virtue of partnership arrangements, agreements to keep well, to purchase assets, goods, securities or services, or to take-or-pay or otherwise), provided that the term “Guarantee” shall not include endorsements for collection or deposit in the ordinary course of business. The term “Guarantee” used as a verb has a corresponding meaning.

“Hazardous Materials” means (a) petroleum and petroleum products, byproducts or breakdown products, radioactive materials, asbestos-containing materials, polychlorinated biphenyls and radon gas and (b) any other chemicals, materials or substances designated, classified or regulated as hazardous or toxic or as a pollutant or contaminant under any Environmental Law.

“Hedge Agreement” means any interest rate swap, cap or collar agreement, interest rate future or option contract, currency swap agreement, currency future or option contract, commodity future or option contract, commodity forward contract or other similar agreement.

“Increase Date” has the meaning specified in Section 2.18(a).

“Increasing Lender” has the meaning specified in Section 2.18(b).

“Indebtedness” means as to any Person at any date (without duplication): (a) indebtedness created, issued, incurred or assumed by such Person for borrowed money or evidenced by bonds, debentures, notes or similar instruments; (b) all obligations of such Person to pay the deferred purchase price of property or services, excluding, however, trade accounts payable (other than for borrowed money) arising in, and accrued expenses incurred in, the ordinary course of business of such Person so long as such trade accounts payable are paid within 180 days (unless subject to a good faith dispute) of the date incurred; (c) all Indebtedness secured by a lien on any asset of such Person, to the extent such Indebtedness has been assumed by, or is a recourse obligation of, such Person; (d) all Guarantees by such Person; (e) all Capital Lease Obligations of such Person; and (f) the amount of all reimbursement obligations of such Person (whether contingent or otherwise) in respect of letters of credit, bankers’ acceptances, surety or other bonds and similar instruments in support of Indebtedness.

“Indemnified Taxes” means Taxes other than Excluded Taxes.

“Initial Issuing Banks” has the meaning given to such term in the introductory paragraph hereof.

“Initial Lenders” has the meaning given to such term in the introductory paragraph hereof.

“Interest Period” means, for each Eurodollar Rate Advance comprising part of the same Borrowing, the period commencing on the date such Eurodollar Rate Advance is disbursed or the date of the Conversion of any Base Rate Advance into such Eurodollar Rate Advance and ending on the last day of the period selected by the Borrower pursuant to the provisions below and, thereafter, each subsequent period commencing on the last day of the immediately preceding Interest Period and ending on the last day of the period selected by the Borrower pursuant to the provisions below. The duration of each such Interest Period shall be one, two, three or six months, as the Borrower may, upon notice received by the Agent not later than 12:00 noon on the third Business Day prior to the first day of such Interest Period, select; provided, however, that:

(a) the Borrower may not select any Interest Period that ends after the Termination Date;

(b) Interest Periods commencing on the same date for Eurodollar Rate Advances comprising part of the same Borrowing shall be of the same duration;

(c) whenever the last day of any Interest Period would otherwise occur on a day other than a Business Day, the last day of such Interest Period shall be extended to occur on the next succeeding Business Day, provided, however, that, if such extension would cause the last day of such Interest Period to occur in the next following calendar month, the last day of such Interest Period shall occur on the next preceding Business Day; and

(d) whenever the first day of any Interest Period occurs on a day of an initial calendar month for which there is no numerically corresponding day in the calendar month that succeeds such initial calendar month by the number of months equal to the number of months in such Interest Period, such Interest Period shall end on the last Business Day of such succeeding calendar month.

“Internal Revenue Code” means the Internal Revenue Code of 1986, as amended from time to time, and the regulations promulgated and rulings issued thereunder.

“ISP” means, with respect to any Letter of Credit, the “International Standby Practices 1998” published by the Institute of International Banking Law & Practice, Inc. (or such later version thereof as may be in effect at the time of issuance).

“Issuing Bank” means the Initial Issuing Banks or any other Lender approved by the Borrower that may agree to issue Letters of Credit pursuant to an Assignment and Assumption or other agreement in form satisfactory to the Borrower and the Agent, so long as such Lender expressly agrees to perform in accordance with their terms all of the obligations that by the terms of this Agreement are required to be performed by it as an Issuing Bank and notifies the Agent of its Applicable Lending Office (which information shall be recorded by the Agent in the Register), for so long as such Initial Issuing Bank or Lender, as the case may be, shall have a Letter of Credit Commitment.

“L/C Advance” means, with respect to each Lender, such Lender’s funding of its participation in any L/C Borrowing in accordance with its Ratable Share.

"L/C Borrowing" means an extension of credit resulting from a drawing under any Letter of Credit which has not been reimbursed on the date when made nor refinanced as a Base Rate Advance.

"L/C Cash Deposit Account" means an interest bearing cash deposit account to be established and maintained by the Agent, over which the Agent shall have sole dominion and control, upon terms as may be satisfactory to the Agent.

"L/C Obligations" means, as at any date of determination, the aggregate Available Amount of all outstanding Letters of Credit plus the aggregate of all Unreimbursed Amounts, including all L/C Borrowings. For all purposes of this Agreement, if on any date of determination a Letter of Credit has expired by its terms but any amount may still be drawn thereunder by reason of the operation of Rule 3.14 of the ISP, such Letter of Credit shall be deemed to be "outstanding" in the amount so remaining available to be drawn.

"L/C Related Documents" means with respect to any Letter of Credit, the Letter of Credit Application, and any other document, agreement and instrument entered into by any Issuing Bank and the Borrower or in favor of any Issuing Bank and relating to such Letter of Credit.

"Laws" means, collectively, all international, foreign, Federal, state and local statutes, treaties, rules, guidelines, regulations, ordinances, codes and administrative or judicial precedents or authorities, including the interpretation or administration thereof by any Governmental Authority charged with the enforcement, interpretation or administration thereof, and all applicable administrative orders, directed duties, licenses, authorizations and permits of, and agreements with, any Governmental Authority.

"Lender Notice Date" has the meaning specified in Section 2.18(d).

"Lenders" means the Initial Lenders, each Issuing Bank, the Swingline Lender, if any, each Assuming Lender that shall become a party hereto pursuant to Section 2.18 and each Person that shall become a party hereto pursuant to Section 8.07.

"Letter of Credit" has the meaning specified in Section 2.01(b).

"Letter of Credit Application" means an application and agreement for the issuance or amendment of a Letter of Credit in the form from time to time in use by any Issuing Bank.

"Letter of Credit Commitment" means, with respect to each Issuing Bank, the obligation of such Issuing Bank to issue Letters of Credit for the account of the Borrower from time to time in an aggregate amount equal to (a) for each of the Initial Issuing Banks, \$20,000,000 and (b) for any other Issuing Bank, as separately agreed to by such Issuing Bank and the Borrower. The Letter of Credit Commitment is part of, and not in addition to, the Revolving Credit Commitments.

"Letter of Credit Expiration Date" means the day that is five Business Days prior to the Termination Date.

"Lien" means any mortgage, pledge, hypothecation, assignment, deposit arrangement, encumbrance, lien (statutory or otherwise), charge or other security interest or preferential arrangement that has the practical effect of creating a security interest, including, without limitation, the lien or retained security title of a conditional vendor and any easement, right of way or other encumbrance on title to real property, and any capital lease having substantially the same economic effect as any of the foregoing.

“Loan Documents” mean this Agreement, each Note, each L/C Related Document and the Fee Letters.

“Material Adverse Effect” means a material adverse effect on (a) the financial condition, operations, business or property of the Borrower and its Subsidiaries (excluding SunCor Development Company and its Subsidiaries) taken as a whole, (b) the rights and remedies of the Agent or any Lender under this Agreement or any Note or (c) the ability of the Borrower to perform its obligations under this Agreement or any Note.

“Material Subsidiary” means APS, at any time, and each other Subsidiary of the Borrower (excluding SunCor Development Company and its Subsidiaries) which as of such time meets the definition of a “significant subsidiary” included as of the date hereof in Regulation S-X of the Securities and Exchange Commission or whose assets at such time exceed 10% of the assets of the Borrower and the Subsidiaries (on a consolidated basis).

“Money Market Rate” means (a) the Federal Funds Rate plus (b) the Applicable Rate for Eurodollar Rate Advances.

“Money Market Rate Advance” means a Swingline Advance that bears interest at a rate based on the Money Market Rate.

“Moody’s” means Moody’s Investors Service, Inc.

“Multiemployer Plan” means any employee benefit plan of the type described in Section 4001(a)(3) of ERISA, to which the Borrower or any ERISA Affiliate makes or is obligated to make contributions, or during the preceding five plan years, has made or been obligated to make contributions.

“Non-Extending Lender” has the meaning specified in Section 2.18(d).

“Note” means a promissory note of the Borrower payable to the order of any Lender, delivered pursuant to a request made under Section 2.16 in substantially the form of Exhibit A hereto.

“Notice of Borrowing” has the meaning specified in Section 2.02(a).

“Obligations” means all advances to, and debts, liabilities, obligations, covenants and duties of, the Borrower arising under any Loan Document or otherwise with respect to any Revolving Advance, Swingline Advance or Letter of Credit, whether direct or indirect (including those acquired by assumption), absolute or contingent, due or to become due, now existing or hereafter arising and including interest and fees that accrue under any Loan Document after the commencement by or against the Borrower of any proceeding under any Debtor Relief Laws naming such Person as the debtor in such proceeding, regardless of whether such interest and fees are allowed claims in such proceeding.

“OFAC” means Office of Foreign Assets Control of the United States Department of the Treasury.

“Other Taxes” means all present or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made hereunder or under any other Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, this Agreement or any other Loan Document.

“PBGC” means the Pension Benefit Guaranty Corporation.

“Pension Plan” means any “employee pension benefit plan” (as such term is defined in Section 3(2) of ERISA), other than a Multiemployer Plan, that is subject to Title IV of ERISA and is sponsored or maintained by the Borrower or any ERISA Affiliate or to which the Borrower or any ERISA Affiliate contributes or has an obligation to contribute, or in the case of a multiple employer or other plan described in Section 4064(a) of ERISA, has made contributions at any time during the immediately preceding five plan years.

“Person” means an individual, partnership, corporation (including a business trust), joint stock company, trust, unincorporated association, joint venture, limited liability company or other entity, or a government or any political subdivision or agency thereof.

“Plan” means any “employee benefit plan” (as such term is defined in Section 3(3) of ERISA) established by the Borrower or, with respect to any such plan that is subject to Section 412 of the Internal Revenue Code or Title IV of ERISA, any ERISA Affiliate.

“Prohibited Person” means any Person (a) listed in the Annex to the Executive Order or identified pursuant to Section 1 of the Executive Order; (b) that is owned or controlled by, or acting for or on behalf of, any Person listed in the Annex to the Executive Order or identified pursuant to the provisions of Section 1 of the Executive Order; (c) with whom a Lender is prohibited from dealing or otherwise engaging in any transaction by any terrorism or anti-laundering law, including the Executive Order; (d) who commits, threatens, conspires to commit, or support “terrorism” as defined in the Executive Order; (e) who is named as a “Specially designated national or blocked person” on the most current list published by the OFAC at its official website, at <http://www.treas.gov/offices/enforcement/ofac/sdn/t11sdn.pdf> or any replacement website or other replacement official publication of such list; or (f) who is owned or controlled by a Person listed above in clause (c) or (e).

“Public Debt Rating” means, as of any date, the rating that has been most recently announced by either S&P or Moody’s, as the case may be, applicable to any outstanding class of non-credit enhanced long-term senior unsecured debt issued by, or, if no such senior unsecured debt is outstanding at the time of determination, such rating for bank credit facilities for, the Borrower or, if any such rating agency shall have issued more than one such rating, the lowest such rating issued by such rating agency. For purposes of the foregoing, (a) if only one of S&P and Moody’s shall have in effect a Public Debt Rating, the Applicable Rate shall be determined by reference to the available rating; (b) except as set forth in the proviso at the end of this definition, if neither S&P nor Moody’s shall have in effect a Public Debt Rating, the Applicable Rate will be set in accordance with Level 6 under the definition of “Applicable Rate”; (c) if the ratings established by S&P and Moody’s shall fall within different levels, the Applicable Rate shall be based upon the higher rating unless such ratings differ by two or more levels, in which case the applicable level will be deemed to be one level below the higher of such levels; and (d) if any rating established by S&P or Moody’s shall be changed (other than as a result of a change in the basis on which ratings are established), such change shall be effective as of the date on which such change is first announced publicly by the rating agency making such change; provided that if the Public Debt Rating system of S&P or Moody’s shall change, or if either such rating agency shall cease to be in the business of rating corporate debt obligations, the Borrower and the Lenders shall negotiate in good faith to amend the definition of “Applicable Rate” to reflect such changed rating system or the unavailability of ratings from such rating agency and, pending the effectiveness of any such amendment, the Applicable Rate will be set in accordance with the level most recently in effect under the definition of “Applicable Rate” prior to such change or cessation.

“PVNGS” means the Palo Verde Nuclear Generating Station.

“Ratable Share” of any amount means, with respect to any Lender at any time but subject to the provisions of Section 2.19, the product of such amount times a fraction the numerator of which is the amount of such Lender’s Revolving Credit Commitment at such time (or, if the Revolving Credit Commitments shall have been terminated pursuant to Section 2.05 or 6.01, such Lender’s Revolving Credit Commitment as in effect immediately prior to such termination) and the denominator of which is the aggregate amount of all Revolving Credit Commitments at such time (or, if the Revolving Credit Commitments shall have been terminated pursuant to Section 2.05 or 6.01, the aggregate amount of all Revolving Credit Commitments as in effect immediately prior to such termination).

“Register” has the meaning specified in Section 8.07(c).

“Related Parties” means, with respect to any Person, such Person’s Affiliates and the partners, directors, officers, employees, agents, trustees and advisors of such Person and of such Person’s Affiliates.

“Reportable Event” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30-day notice period has been waived under the final regulations issued under Section 4043, as in effect as of the date of this Agreement (the “Section 4043 Regulations”). Any changes made to the Section 4043 Regulations that become effective after the Effective Date shall have no impact on the definition of Reportable Event as used herein unless otherwise amended by the Borrower and the Required Lenders.

“Required Lenders” means, at any time, but subject to Section 2.19, Lenders holding in the aggregate more than 50% of (a) the Revolving Credit Commitments or (b) if the Revolving Credit Commitments have been terminated, the Total Outstandings.

“Revolving Advance” means an advance by a Lender to the Borrower as part of a Borrowing, including a Base Rate Advance made pursuant to Section 2.03(c), but excluding any L/C Advance made as part of an L/C Borrowing and any Swingline Advance, and refers to a Base Rate Advance or a Eurodollar Rate Advance (each of which shall be a Type of Revolving Advance).

“Revolving Credit Commitment” means, as to any Lender, its obligation to (a) make Revolving Advances to the Borrower pursuant to Section 2.01 and 2.03(c), (b) purchase participations in L/C Obligations and (c) make Revolving Advances pursuant to Section 2.03A(c) for the purpose of repaying Swingline Advances, in an aggregate principal amount at any one time outstanding not to exceed the amount set forth opposite such Lender’s name on Schedule 1.01 under the column “Revolving Credit Commitment” or if such Lender has become a Lender hereunder pursuant to an Assumption Agreement or if such Lender has entered into any Assignment and Assumption, the amount set forth for such Lender in the Register, in each case as such amount may be reduced pursuant to Section 2.05 or increased pursuant to Section 2.18.

“S&P” means Standard & Poor’s Ratings Services, a division of The McGraw-Hill Companies, Inc.

“Sale Leaseback Obligation Bonds” means PVNGS II Funding Corp.’s (a) 8.00% Secured Lease Obligation Bonds, Series 1993, due 2015; (b) any other bonds issued by or on behalf of the Borrower in connection with a sale/leaseback transaction; and (c) any refinancing or refunding of the obligations specified in subclauses (a) and (b) above.

“Sanctions” means economic or financial sanctions or trade embargoes imposed, administered or enforced from time to time by OFAC and any similar economic or financial sanctions or trade embargoes of the type described in Sections 4.01(n) through (q) and imposed, administered or enforced from time to time by the U.S. government, including the U.S. Department of State.

“SEC Reports” means the Borrower’s (i) Form 10-K Report for the year ended December 31, 2013, (ii) Form 10-Q Report for the quarter ended March 31, 2014 and (ii) Form 8-K Reports filed on January 9, 2014, January 24, 2014 and February 21, 2014.

“Subsidiary” of any Person means any corporation, partnership, joint venture, limited liability company, trust or estate of which (or in which) more than 50% of (a) the issued and outstanding Voting Stock, (b) the interest in the capital or profits of such limited liability company, partnership or joint venture or (c) the beneficial interest in such trust or estate, is at the time directly or indirectly owned or controlled by such Person, by such Person and one or more of its other Subsidiaries or by one or more of such Person’s other Subsidiaries; provided that in no event will Subsidiaries include the VIE Lessor Trusts.

“Swingline Advance” means an advance made by the Swingline Lender, if any, to the Borrower pursuant to Section 2.03A.

“Swingline Eurodollar Rate Advance” means a Swingline Advance that bears interest at a rate equivalent to (a) clause (b) under the definition of Eurodollar Rate, plus (b) the Applicable Rate for Eurodollar Rate Advances.

“Swingline Exposure” means, at any time, the aggregate principal amount of all Swingline Advances outstanding at such time. The Swingline Exposure of any Lender shall be its Ratable Share of the total Swingline Exposure at such time.

“Swingline Lender” means, upon notice to the Agent by such Lender and the Borrower, any Lender approved by the Borrower and the Agent from time to time that may agree to fund Swingline Advances.

“Taxes” means all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“Termination Date” means the earlier of (a) May 9, 2019, subject to extension (in the case of, and solely with respect to, each Lender consenting thereto) as provided in Section 2.21 in which case one or more different Termination Dates may exist which shall relate to individual Lender Commitments and (b) the date of termination in whole of the Commitments pursuant to Section 2.05 or 6.01.

“Total Outstandings” means the sum of (a) the aggregate principal amount of all Revolving Advances plus (b) all L/C Obligations outstanding plus (c) the aggregate Swingline Exposure.

“Type” means a Base Rate Advance or a Eurodollar Rate Advance.

“Unreimbursed Amount” has the meaning specified in Section 2.03(c)(i).

“Unissued Letter of Credit Commitment” means, with respect to any Issuing Bank, the obligation of such Issuing Bank to issue Letters of Credit for the account of the Borrower in an amount equal to the

excess of (a) the amount of its Letter of Credit Commitment over (b) the aggregate Available Amount of all Letters of Credit issued by such Issuing Bank.

“Unused Commitment” means, with respect to each Lender at any time, (a) such Lender’s Revolving Credit Commitment at such time minus (b) the sum of (i) the aggregate principal amount of all Revolving Advances made by such Lender (in its capacity as a Lender) and outstanding at such time and (ii) such Lender’s Ratable Share of the aggregate L/C Obligations and, other than for the purposes of calculation of the commitment fees, such Lender’s Ratable Share of the aggregate Swingline Exposure outstanding at such time.

“USA PATRIOT Act” has the meaning specified in Section 8.13.

“VIE Lessor Trusts” means the three (3) separate variable-interest entity lessor trusts that purchased from, and leased back to, APS certain interests in the PVNGS Unit 2 and related common facilities, as described in Note 6 of Notes to Condensed Consolidated Financial Statements in APS’ Quarterly Report on Form 10-Q for the quarter ended March 31, 2014.

“Voting Stock” means capital stock issued by a corporation, or equivalent interests in any other Person, the holders of which are ordinarily, in the absence of contingencies, entitled to vote for the election of directors (or persons performing similar functions) of such Person, even if the right so to vote has been suspended by the happening of such a contingency.

Section 1.02 Other Interpretive Provisions. With reference to this Agreement and each other Loan Document, unless otherwise specified herein or in such other Loan Document:

(a) The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words “include,” “includes” and “including” shall be deemed to be followed by the phrase “without limitation.” The word “will” shall be construed to have the same meaning and effect as the word “shall.” Unless the context requires otherwise, (i) any definition of or reference to any agreement, instrument or other document shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein or in any other Loan Document), (ii) any reference herein to any Person shall be construed to include such Person’s permitted successors and permitted assigns, (iii) the words “herein,” “hereof” and “hereunder,” and words of similar import when used in any Loan Document, shall be construed to refer to such Loan Document in its entirety and not to any particular provision thereof, (iv) all references in a Loan Document to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, the Loan Document in which such references appear, (v) any reference to any law shall include all statutory and regulatory provisions consolidating, amending, replacing or interpreting such law and any reference to any law or regulation shall, unless otherwise specified, refer to such law or regulation as amended, modified or supplemented from time to time, and (vi) the words “asset” and “property” shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

(b) In the computation of periods of time from a specified date to a later specified date, the word “from” means “from and including;” the words “to” and “until” each mean “to but excluding;” and the word “through” means “to and including.”

(c) Section headings herein and in the other Loan Documents are included for convenience of reference only and shall not affect the interpretation of this Agreement or any other Loan Document.

Section 1.03 Accounting Terms. Unless otherwise specified herein, all accounting terms used herein shall be interpreted, all accounting determinations hereunder shall be made, and all financial statements required to be delivered hereunder shall be prepared, in accordance with generally accepted accounting principles as in effect from time to time, applied on a basis consistent (except for changes concurred in by the Borrower's independent public accountants) with the most recent audited Consolidated financial statements of the Borrower delivered to the Agent ("GAAP"). If at any time any change in GAAP or in the interpretation thereof would affect the computation of any financial ratio or requirement set forth in any Loan Document, and either the Borrower or the Required Lenders shall so request, the Agent, the Lenders and the Borrower shall negotiate in good faith to amend such ratio or requirement to preserve the original intent thereof in light of such change in GAAP or in the interpretation thereof (subject to the approval of the Required Lenders); provided that, unless and until so amended, such ratio or requirement shall continue to be computed in accordance with GAAP prior to such change therein.

Section 1.04 Rounding. Any financial ratios required to be maintained by the Borrower pursuant to this Agreement shall be calculated by dividing the appropriate component by the other component, carrying the result to one place more than the number of places by which such ratio is expressed herein and rounding the result up or down to the nearest number (with a rounding-up if there is no nearest number).

Section 1.05 Times of Day. Unless otherwise specified, all references herein to times of day shall be references to Eastern time (daylight or standard, as applicable).

ARTICLE II

AMOUNTS AND TERMS OF THE ADVANCES AND LETTERS OF CREDIT

Section 2.01 The Revolving Advances and Letters of Credit.

(a) The Revolving Advances. Each Lender severally agrees, on the terms and conditions hereinafter set forth, to make Revolving Advances in Dollars to the Borrower from time to time on any Business Day during the period from the Effective Date until the Termination Date in an amount not to exceed such Lender's Unused Commitment. Each Borrowing (other than a Swingline Advance) shall be in an aggregate amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof and shall consist of Revolving Advances of the same Type made on the same day by the Lenders ratably according to their respective Revolving Credit Commitments. Within the limits of each Lender's Revolving Credit Commitment, and subject to the other terms and conditions hereof, the Borrower may borrow under this Section 2.01(a), prepay pursuant to Section 2.10 and reborrow under this Section 2.01(a). Any Swingline Advance shall be made and repaid in accordance with the procedures set forth in Section 2.03A.

(b) Letters of Credit. Each Issuing Bank agrees, on the terms and conditions hereinafter set forth, in reliance upon the agreements of the other Lenders set forth in this Agreement, to issue standby letters of credit (each a "Letter of Credit") for the account of the Borrower from time to time on any Business Day during the period from the Effective Date until 30 days before the Termination Date in an aggregate Available Amount for all Letters of Credit issued by each Issuing Bank not to exceed at any time such Issuing Bank's Letter of Credit Commitment, provided that after giving effect to the issuance of

any Letter of Credit, (i) the Total Outstandings shall not exceed the aggregate Revolving Credit Commitments and (ii) each Lender's Ratable Share of the Total Outstandings shall not exceed such Lender's Revolving Credit Commitment. No Letter of Credit shall have an expiration date (including all rights of the Borrower or the beneficiary to require renewal) later than the Letter of Credit Expiration Date. Within the limits referred to above, the Borrower may from time to time request the issuance of Letters of Credit under this Section 2.01(b). The terms "issue", "issued", "issuance" and all similar terms, when applied to a Letter of Credit, shall include any renewal, extension or amendment thereof.

Section 2.02 Making the Revolving Advances .

(a) Except as otherwise provided in Section 2.03(c), each Borrowing (other than a Swingline Advance) shall be made on notice, given not later than (x) 12:00 noon on the third Business Day prior to the date of the proposed Borrowing in the case of a Borrowing consisting of Eurodollar Rate Advances or (y) 12:00 noon on the date of the proposed Borrowing in the case of a Borrowing consisting of Base Rate Advances, by the Borrower to the Agent, which shall give to each Lender prompt notice thereof by facsimile. Each such notice of a Borrowing (a " Notice of Borrowing ") shall be in writing or by facsimile in substantially the form of Exhibit B hereto, specifying therein the requested (i) date of such Borrowing, (ii) Type of Revolving Advances comprising such Borrowing, (iii) aggregate amount of such Borrowing, and (iv) in the case of a Borrowing consisting of Eurodollar Rate Advances, initial Interest Period for each such Revolving Advance. Each Lender shall, in the case of a Borrowing consisting of Base Rate Advances, before 2:00 p.m. on the date of such Borrowing, and in the case of a Borrowing consisting of Eurodollar Rate Advances, before 11:00 a.m. on the date of such Borrowing, make available for the account of its Applicable Lending Office to the Agent at the Agent's Account, in same day funds, such Lender's Ratable Share of such Borrowing. After the Agent's receipt of such funds and upon fulfillment of the applicable conditions set forth in Article III, the Agent will make such funds available to the Borrower at the Agent's address referred to in Section 8.02 or as requested by the Borrower in the applicable Notice of Borrowing.

(b) Anything in subsection (a) above to the contrary notwithstanding, (i) the Borrower may not select Eurodollar Rate Advances for any Borrowing if the aggregate amount of such Borrowing is less than \$5,000,000 or if the obligation of the Lenders to make Eurodollar Rate Advances shall then be suspended pursuant to Section 2.08 or 2.12 and (ii) at no time shall there be more than fifteen different Interest Periods outstanding for Eurodollar Rate Advances.

(c) Each Notice of Borrowing shall be irrevocable and binding on the Borrower. In the case of any Borrowing that the related Notice of Borrowing specifies is to be comprised of Eurodollar Rate Advances, the Borrower shall indemnify each Lender against any loss, cost or expense reasonably incurred by such Lender as a result of any failure to fulfill on or before the date specified in such Notice of Borrowing for such Borrowing the applicable conditions set forth in Article III, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by such Lender to fund the Revolving Advance to be made by such Lender as part of such Borrowing when such Revolving Advance, as a result of such failure, is not made on such date.

(d) Unless the Agent shall have received notice from a Lender prior to the time of the applicable Borrowing that such Lender will not make available to the Agent such Lender's Ratable Share of such Borrowing, the Agent may assume that such Lender has made such portion available to the Agent on the date of such Borrowing in accordance with subsection (a) of this Section 2.02 and the Agent may, in reliance upon such assumption, make available to the Borrower on such date a corresponding amount. If and to the extent that such Lender shall not have so made such Ratable Share available to the Agent, such Lender and the Borrower severally agree to repay to the Agent within one Business Day after

demand for such Lender and within three Business Days after demand for the Borrower such corresponding amount together with interest thereon, for each day from the date such amount is made available to the Borrower until the date such amount is repaid to the Agent, at (i) in the case of the Borrower, the interest rate applicable at the time to Revolving Advances comprising such Borrowing and (ii) in the case of such Lender, the Federal Funds Rate. If the Borrower and such Lender shall pay such interest to the Agent for the same or an overlapping period, the Agent shall promptly remit to the Borrower the amount of such interest paid by the Borrower for such period. If such Lender shall repay to the Agent such corresponding amount, such amount so repaid shall constitute such Lender's Revolving Advance as part of such Borrowing for purposes of this Agreement.

(e) The failure of any Lender to make the Revolving Advance to be made by it as part of any Borrowing shall not relieve any other Lender of its obligation, if any, hereunder to make its Revolving Advance on the date of such Borrowing, but no Lender shall be responsible for the failure of any other Lender to make the Revolving Advance to be made by such other Lender on the date of any Borrowing.

Section 2.03 Letters of Credit.

(a) General.

(i) No Issuing Bank shall issue any Letter of Credit, if the expiry date of such requested Letter of Credit would occur after the Letter of Credit Expiration Date, unless all the Lenders have approved such expiry date.

(ii) No Issuing Bank shall be under any obligation to issue any Letter of Credit if:

(A) any order, judgment or decree of any Governmental Authority or arbitrator shall by its terms purport to enjoin or restrain such Issuing Bank from issuing such Letter of Credit, or any Law applicable to such Issuing Bank or any request or directive (whether or not having the force of law) from any Governmental Authority with jurisdiction over such Issuing Bank shall prohibit, or request that such Issuing Bank refrain from, the issuance of letters of credit generally or such Letter of Credit in particular or shall impose upon such Issuing Bank with respect to such Letter of Credit any restriction, reserve or capital and liquidity requirement (for which such Issuing Bank is not otherwise compensated hereunder) not in effect on the Effective Date, or shall impose upon such Issuing Bank any unreimbursed loss, cost or expense which was not applicable on the Effective Date and which, in each such case, such Issuing Bank in good faith deems material to it;

(B) except as otherwise agreed by the Borrower and such Issuing Bank, such Letter of Credit is in an initial stated amount less than \$100,000;

(C) such Letter of Credit is to be denominated in a currency other than Dollars;

(D) such Letter of Credit contains any provisions for automatic reinstatement of the stated amount after any drawing thereunder;

(E) subject to Section 2.03(b)(iii), the expiry date of such requested Letter of Credit would occur more than twelve months after the date of issuance or last extension; or

(F) any Lender is at such time an Affected Lender hereunder, unless the applicable Issuing Bank is satisfied that the related exposure will be 100% covered by the Commitments of the non-Affected Lenders or, if not so covered, until such Issuing Bank has entered into arrangements satisfactory to it in its sole discretion with the Borrower or such Affected Lender to eliminate such Issuing Bank's risk with respect to such Affected Lender, and participating interests in any such newly issued Letter of Credit shall be allocated among non-Affected Lenders in a manner consistent with Section 2.19(c) (i) (and Affected Lenders shall not participate therein).

(iii) No Issuing Bank shall amend any Letter of Credit if such Issuing Bank would not be permitted at such time to issue such Letter of Credit in its amended form under the terms hereof.

(iv) No Issuing Bank shall be under any obligation to amend any Letter of Credit if (A) such Issuing Bank would have no obligation at such time to issue such Letter of Credit in its amended form under the terms hereof, or (B) the beneficiary of such Letter of Credit does not accept the proposed amendment to such Letter of Credit.

(b) Procedures for Issuance and Amendment of Letters of Credit; Auto-Extension Letters of Credit.

(i) Each Letter of Credit shall be issued or amended, as the case may be, upon the request of the Borrower delivered to the applicable Issuing Bank (with a copy to the Agent) in the form of a Letter of Credit Application appropriately completed and signed by an Authorized Officer of the Borrower, together with agreed-upon draft language for such Letter of Credit reasonably acceptable to the applicable Issuing Bank. Such Letter of Credit Application must be received by such Issuing Bank and the Agent not later than 11:00 a.m. at least two Business Days (or such later date and time as the Agent and such Issuing Bank may agree in a particular instance in their sole discretion) prior to the proposed issuance date or date of amendment, as the case may be. In the case of a request for an initial issuance of a Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the applicable Issuing Bank: (A) the proposed issuance date of the requested Letter of Credit (which shall be a Business Day); (B) the amount thereof; (C) the expiry date thereof; (D) the name and address of the beneficiary thereof; (E) the documents to be presented by such beneficiary in case of any drawing thereunder; (F) the full text of any certificate to be presented by such beneficiary in case of any drawing thereunder; (G) the purpose and nature of the requested Letter of Credit; and (H) such other matters as such Issuing Bank may require. In the case of a request for an amendment of any outstanding Letter of Credit, such Letter of Credit Application shall specify in form and detail satisfactory to the applicable Issuing Bank (A) the Letter of Credit to be amended; (B) the proposed date of amendment thereof (which shall be a Business Day); (C) the nature of the proposed amendment; and (D) such other matters as such Issuing Bank may require. Additionally, the Borrower shall furnish to the applicable Issuing Bank and the Agent such other documents and information pertaining to such requested Letter of Credit issuance or amendment, including any L/C Related Documents, as the applicable Issuing Bank or the Agent may require. In the event and to the extent that the provisions of any Letter of Credit Application or other L/C Related Document shall conflict with this Agreement, the provisions of this Agreement shall govern. Without limitation of the immediately preceding sentence, to the extent that any such Letter of Credit Application or other L/C Related Document shall impose any additional conditions on the maintenance of a Letter of Credit, any additional default provisions, collateral requirements or other obligations of the Borrower to any Issuing Bank, other than as stated in this Agreement, such additional conditions, provisions, requirements or other obligations shall not have effect so

long as this Agreement shall be in effect, except to the extent as expressly agreed to by the Borrower and such Issuing Bank.

(ii) Promptly after receipt of any Letter of Credit Application, the applicable Issuing Bank will confirm with the Agent (by telephone or in writing) that the Agent has received a copy of such Letter of Credit Application from the Borrower and, if not, such Issuing Bank will provide the Agent with a copy thereof. Unless the applicable Issuing Bank has received written notice from the Required Lenders, the Agent or the Borrower, at least one Business Day prior to the requested date of issuance or amendment of the applicable Letter of Credit, that one or more applicable conditions contained in Article III shall not then be satisfied, then, subject to the terms and conditions hereof and any applicable Letter of Credit Application, such Issuing Bank shall, on the requested date, issue a Letter of Credit for the account of the Borrower or enter into the applicable amendment, as the case may be, in each case in accordance with such Issuing Bank's usual and customary business practices. Immediately upon the issuance of each Letter of Credit, each Lender shall be deemed to, and hereby irrevocably and unconditionally agrees to, purchase from such Issuing Bank a risk participation in such Letter of Credit in an amount equal to the product of such Lender's Ratable Share times the amount of such Letter of Credit.

(iii) If the Borrower so requests in any applicable Letter of Credit Application, the applicable Issuing Bank may, in its sole and absolute discretion, agree to issue a Letter of Credit that has automatic extension provisions (each, an "Auto-Extension Letter of Credit"); provided that any such Auto-Extension Letter of Credit must permit such Issuing Bank to prevent any such extension at least once in each twelve-month period (commencing with the date of issuance of such Letter of Credit) by giving prior notice to the beneficiary thereof not later than a day (the "Non-Extension Notice Date") in each such twelve-month period to be agreed upon at the time such Letter of Credit is issued. Unless otherwise directed by the applicable Issuing Bank, the Borrower shall not be required to make a specific request to the applicable Issuing Bank for any such extension. Once an Auto-Extension Letter of Credit has been issued, the Lenders shall be deemed to have authorized (but may not require) the applicable Issuing Bank to permit the extension of such Letter of Credit at any time to an expiry date not later than the Letter of Credit Expiration Date; provided, however, that the applicable Issuing Bank shall not permit any such extension (or may issue a Notice of Non-Extension) if (A) such Issuing Bank has determined that it would not be permitted at such time to issue such Letter of Credit in its revised form (as extended) by reason of the provisions of clause (i) of Section 2.03(a) (or would have no obligation to issue such Letter of Credit by reason of the provisions of clause (ii) of Section 2.03(a)), or (B) it has received notice (which may be by telephone or in writing) on or before the day that is seven Business Days before the Non-Extension Notice Date (1) from the Agent that the Required Lenders have elected not to permit such extension pursuant to Section 6.02 or (2) from the Agent, the Required Lenders or the Borrower that one or more of the applicable conditions specified in Section 3.02 is not then satisfied, and in each such case directing such Issuing Bank not to permit such extension.

(iv) Promptly after its delivery of any Letter of Credit or any amendment to a Letter of Credit to an advising bank with respect thereto or to the beneficiary thereof, the applicable Issuing Bank will also deliver to the Borrower and the Agent a true and complete copy of such Letter of Credit or amendment.

(c) Drawings and Reimbursements; Funding of Participations.

(i) Subject to the provisions below, not later than 2:30 p.m. on the date (the "Honor Date") that any Issuing Bank makes any payment on a drawing on any Letter of Credit, if the

Borrower shall have received notice of such payment prior to 11:30 a.m. on such date, or, if such notice has not been received by the Borrower prior to such time on such date, then not later than 2:30 p.m. on the next Business Day, the Borrower shall reimburse such Issuing Bank through the Agent in an amount equal to the amount of such drawing together with interest thereon. If the Borrower fails to so reimburse such Issuing Bank by such time, unless the Borrower shall have advised the Agent that it does not meet the conditions specified in clause (B) below, the Agent shall promptly notify each Lender of the Honor Date, the amount of the unreimbursed drawing (the “Unreimbursed Amount”), and the amount of such Lender’s Ratable Share thereof. In such event, the Borrower shall be deemed to have requested a Base Rate Advance to be disbursed on the Honor Date in an amount equal to the Unreimbursed Amount, without regard to the minimum and multiples specified in Section 2.01(a) or the delivery of a Notice of Borrowing but subject to (A) the amount of the aggregate Unused Commitments and (B) no Event of Default having occurred and be continuing, or resulting therefrom and, to the extent so financed, the Borrower’s obligation to satisfy the reimbursement obligation created by such payment by the Issuing Bank on the Honor Date shall be discharged and replaced by the resulting Base Rate Advance. Any notice given by any Issuing Bank or the Agent pursuant to this Section 2.03(c)(i) may be given by telephone if immediately confirmed in writing; provided that the lack of such an immediate confirmation shall not affect the conclusiveness or binding effect of such notice.

(ii) Each Lender shall upon any notice pursuant to Section 2.03(c)(i) make funds available to the Agent for the account of the applicable Issuing Bank at the Agent’s Office in an amount equal to its Ratable Share of the Unreimbursed Amount not later than 4:00 p.m. on the Business Day specified in such notice by the Agent, whereupon, subject to the provisions of Section 2.03(c)(iii), each Lender that so makes funds available shall be deemed to have made a Base Rate Advance to the Borrower in such amount. The Agent shall remit the funds so received to the applicable Issuing Bank.

(iii) With respect to any Unreimbursed Amount that is not fully refinanced by a Base Rate Advance because any of the conditions set forth in clauses (A) or (B) of Section 2.03(c)(i) cannot be satisfied or for any other reason, then not later than 2:30 p.m. on the next Business Day after the day notice of the drawing is given to the Borrower, in the case of a failure to meet any such condition, or in any other case, after notice of the event resulting in the outstanding Unreimbursed Amount, the Borrower shall reimburse such Issuing Bank through the Agent in an amount equal to the amount of such outstanding Unreimbursed Amount with interest thereon. If the Borrower fails to so reimburse such Issuing Bank by such time, the Borrower shall be deemed to have incurred from the applicable Issuing Bank an L/C Borrowing in the amount of the Unreimbursed Amount that is not so refinanced, which L/C Borrowing shall be due and payable on demand (together with interest) and shall bear interest at the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time plus 2% per annum. In such event, each Lender’s payment to the Agent for the account of the applicable Issuing Bank pursuant to Section 2.03(c)(ii) shall be deemed payment in respect of its participation in such L/C Borrowing and shall constitute an L/C Advance from such Lender in satisfaction of its participation obligation under this Section 2.03.

(iv) Until each Lender funds its Base Rate Advance or L/C Advance pursuant to this Section 2.03(c) to reimburse the applicable Issuing Bank for any amount drawn under any Letter of Credit, interest in respect of such Lender’s Ratable Share of such amount shall be solely for the account of the applicable Issuing Bank.

(v) Each Lender’s obligation to make Base Rate Advances or L/C Advances to reimburse the applicable Issuing Bank for amounts drawn under Letters of Credit, as

contemplated by this Section 2.03(c), shall be absolute and unconditional and shall not be affected by any circumstance, including (A) any setoff, counterclaim, recoupment, defense or other right which such Lender may have against such Issuing Bank, the Borrower or any other Person for any reason whatsoever; (B) the occurrence or continuance of a Default, or (C) any other occurrence, event or condition, whether or not similar to any of the foregoing; provided, however, that each Lender's obligation to make Base Rate Advances pursuant to this Section 2.03(c) is subject to the conditions set forth in Section 2.03(c)(i). No such making of an L/C Advance shall relieve or otherwise impair the obligation of the Borrower to reimburse the applicable Issuing Bank for the amount of any payment made by such Issuing Bank under any Letter of Credit, together with interest as provided herein.

(vi) If any Lender fails to make available to the Agent for the account of the applicable Issuing Bank any amount required to be paid by such Lender pursuant to the foregoing provisions of this Section 2.03(c) by the time specified in Section 2.03(c)(ii), such Issuing Bank shall be entitled to recover from such Lender (acting through the Agent), on demand, such amount with interest thereon for the period from the date such payment is required to the date on which such payment is immediately available to such Issuing Bank at a rate per annum equal to the greater of the Federal Funds Rate and a rate determined by such Issuing Bank in accordance with banking industry rules on interbank compensation, plus any administrative, processing or similar fees customarily charged by such Issuing Bank in connection with the foregoing. If such Lender pays such amount (with interest and fees as aforesaid), the amount so paid shall constitute such Lender's Base Rate Advance included in the relevant Borrowing or L/C Advance in respect of the relevant L/C Borrowing, as the case may be. A certificate of the applicable Issuing Bank submitted to any Lender (through the Agent) with respect to any amounts owing under this clause (vi) shall be conclusive absent manifest error.

(d) Repayment of Participations.

(i) At any time after the applicable Issuing Bank has made a payment under any Letter of Credit and has received from any Lender such Lender's L/C Advance in respect of such payment in accordance with Section 2.03(c), if the Agent receives for the account of such Issuing Bank any payment in respect of the related Unreimbursed Amount or interest thereon (whether directly from the Borrower or otherwise, including proceeds of Cash Collateral (as defined in Section 2.03(h)) applied thereto by the Agent), the Agent will distribute to such Lender its Ratable Share thereof in the same funds as those received by the Agent.

(ii) If any payment received by the Agent for the account of the applicable Issuing Bank pursuant to Section 2.03(c)(i) is required to be returned under any of the circumstances described in Section 8.12 (including pursuant to any settlement entered into by such Issuing Bank in its discretion), each Lender shall pay to the Agent for the account of such Issuing Bank its Ratable Share thereof on demand of the Agent, plus interest thereon from the date of such demand to the date such amount is returned by such Lender, at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders under this clause shall survive the payment in full of the Obligations and the termination of this Agreement.

(e) Failure to Make Revolving Advances. The failure of any Lender to make the Revolving Advance to be made by it on the date specified in Section 2.03(c) or any L/C Advance shall not relieve any other Lender of its obligation hereunder to make its Revolving Advance or L/C Advance, as the case may be, to be made by such other Lender on such date.

(f) Obligations Absolute. The obligation of the Borrower to reimburse the applicable Issuing Bank for each drawing under each Letter of Credit and to repay each L/C Borrowing shall be absolute, unconditional and irrevocable, and shall be paid strictly in accordance with the terms of this Agreement under all circumstances, including the following:

(i) any lack of validity or enforceability of such Letter of Credit, this Agreement, or any other Loan Document;

(ii) the existence of any claim, counterclaim, setoff, defense or other right that the Borrower may have at any time against any beneficiary or any transferee of such Letter of Credit (or any Person for whom any such beneficiary or any such transferee may be acting), any Issuing Bank or any other Person, whether in connection with this Agreement, the transactions contemplated hereby or by such Letter of Credit or any agreement or instrument relating thereto, or any unrelated transaction;

(iii) any draft, demand, certificate or other document presented under such Letter of Credit proving to be forged, fraudulent, invalid or insufficient in any respect or any statement therein being untrue or inaccurate in any respect; or any loss or delay in the transmission or otherwise of any document required in order to make a drawing under such Letter of Credit;

(iv) any payment by the applicable Issuing Bank under such Letter of Credit against presentation of a draft or certificate that does not strictly comply with the terms of such Letter of Credit; or any payment made by the applicable Issuing Bank under such Letter of Credit to any Person purporting to be a trustee in bankruptcy, debtor-in-possession, assignee for the benefit of creditors, liquidator, receiver or other representative of or successor to any beneficiary or any transferee of such Letter of Credit, including any arising in connection with any proceeding under any Debtor Relief Law; or

(v) any other circumstance or happening whatsoever, whether or not similar to any of the foregoing, including any other circumstance that might otherwise constitute a defense available to, or a discharge of, the Borrower.

provided, however, that nothing in this Section 2.03(f) shall limit the rights of the Borrower under Section 2.03(g).

The Borrower shall promptly examine a copy of each Letter of Credit and each amendment thereto that is delivered to it and, in the event of any claim of noncompliance with the Borrower's instructions or other irregularity that is known to the Borrower in connection with any draw under such Letter of Credit of which the Borrower has reasonable notice, the Borrower will immediately notify the applicable Issuing Bank. To the extent allowed by applicable Law, Borrower shall be conclusively deemed to have waived any such claim against the applicable Issuing Bank and its correspondents unless such notice is given as aforesaid. Nothing herein shall require the Borrower to make any determination as to whether the drawing is in accordance with the requirements of the Letter of Credit, provided that the Borrower may waive any discrepancies in the drawing on any such Letter of Credit.

(g) Role of Issuing Bank. Each Lender and the Borrower agree that, in paying any drawing under a Letter of Credit, the applicable Issuing Bank shall not have any responsibility to obtain any document (other than any sight draft, certificates and documents expressly required by the Letter of Credit) or to ascertain or inquire as to the validity or accuracy of any such document or the authority of the Person executing or delivering any such document. None of the applicable Issuing Bank, the Agent, any of their respective Related Parties nor any correspondent, participant or assignee of such Issuing Bank

shall be liable to any Lender for (i) any action taken or omitted in connection herewith at the request or with the approval of the Lenders or the Required Lenders, as applicable; (ii) any action taken or omitted in the absence of gross negligence or willful misconduct; or (iii) the due execution, effectiveness, validity or enforceability of any document or instrument related to any Letter of Credit or L/C Related Document. The Borrower hereby assumes all risks of the acts or omissions of any beneficiary or transferee with respect to its use of any Letter of Credit; provided, however, that this assumption is not intended to, and shall not, preclude the Borrower's pursuing such rights and remedies as it may have against the beneficiary or transferee at Law or under any other agreement. None of the applicable Issuing Bank, the Agent, any of their respective Related Parties nor any correspondent, participant or assignee of such Issuing Bank shall be liable or responsible for any of the matters described in clauses (i) through (v) of Section 2.03(f); provided, however, that anything in such clauses to the contrary notwithstanding, the Borrower may have a claim against the applicable Issuing Bank, and such Issuing Bank may be liable to the Borrower, to the extent, but only to the extent, of any direct, as opposed to consequential or exemplary, damages suffered by the Borrower which the Borrower proves were caused by such Issuing Bank's willful misconduct or gross negligence or such Issuing Bank's willful failure to pay under any Letter of Credit after the presentation to it by the beneficiary of a sight draft and certificate(s) strictly complying with the terms and conditions of a Letter of Credit. In furtherance and not in limitation of the foregoing, the applicable Issuing Bank may accept documents that appear on its face to be in order, without responsibility for further investigation, regardless of any notice or information to the contrary, and such Issuing Bank shall not be responsible for the validity or sufficiency of any instrument transferring or assigning or purporting to transfer or assign a Letter of Credit or the rights or benefits thereunder or proceeds thereof, in whole or in part, which may prove to be invalid or ineffective for any reason.

(h) Cash Collateral. Upon the request of the Agent or the applicable Issuing Bank, if, as of the Letter of Credit Expiration Date, any L/C Obligation for any reason remains outstanding, the Borrower shall, in each case, immediately Cash Collateralize the then outstanding L/C Obligations. Section 6.02 sets forth certain additional requirements to deliver Cash Collateral hereunder. For purposes of this Section 2.03, Section 2.10(b)(ii), Section 2.19(c) (ii), (iv) and (v) and Section 6.02, "Cash Collateralize" means to pledge and deposit with or deliver to the Agent, for the benefit of the Issuing Banks and the Lenders, as collateral for the L/C Obligations, cash or deposit account balances pursuant to documentation in form and substance satisfactory to the Agent and each Issuing Bank (which documents are hereby consented to by the Lenders) in an amount equal to 100% of the amount of the L/C Obligations as of such date plus any accrued and unpaid interest and fees thereon. Derivatives of such term have corresponding meanings. The Borrower hereby grants to the Agent, for the benefit of the Issuing Banks and the Lenders, a security interest in all such cash, deposit accounts and all balances therein and all proceeds of the foregoing. Cash Collateral shall be maintained in blocked, non-interest bearing deposit accounts with the Agent.

(i) Letter of Credit Reports. Each Issuing Bank shall furnish (A) to the Agent on the first Business Day of each month a written report summarizing issuance and expiration dates of Letters of Credit issued by such Issuing Bank during the preceding month and drawings during such month under all such Letters of Credit and (B) to the Agent on the first Business Day of each calendar quarter a written report setting forth the average daily aggregate Available Amount during the preceding calendar quarter of all Letters of Credit issued by such Issuing Bank.

(j) Interim Interest. Except as provided in Section 2.03(c)(ii) with respect to Unreimbursed Amounts refinanced as Base Rate Advances and Section 2.03(c)(iii) with respect to L/C Borrowings, unless the Borrower shall reimburse each payment by an Issuing Bank pursuant to a Letter of Credit in full on the Honor Date, the Unreimbursed Amount thereof shall bear interest, for each day from and including the Honor Date to but excluding the date that the Borrower reimburses such Issuing Bank for

the Unreimbursed Amount in full, at the rate per annum equal to (i) the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time, to but excluding the next Business Day after the Honor Date and (ii) from and including the next Business Day after the Honor Date, the Base Rate in effect from time to time plus the Applicable Rate for Base Rate Advances in effect from time to time plus 2% per annum.

Section 2.03A Swingline Advances.

(a) Amount of Swingline Advances. Subject to the terms and conditions set forth herein, the Swingline Lender will make Swingline Advances in Dollars to the Borrower from time to time during the period from the Effective Date until the Termination Date, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of all outstanding Swingline Advances exceeding \$25,000,000 (or such lesser amount as agreed between the Borrower and the Swingline Lender) or (ii) the Total Outstanding exceeding the aggregate Revolving Credit Commitment. Each Swingline Advance shall be in an aggregate amount of \$500,000 or an integral multiple of \$100,000 in excess thereof or such greater amounts as agreed between the Borrower and the Swingline Lender. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Swingline Advances. The Swingline Lender shall be under no obligation to make a Swingline Advance if any Lender is at such time an Affected Lender hereunder, unless the Swingline Lender is satisfied that the related exposure will be 100% covered by the Commitments of the non-Affected Lenders or, if not so covered, until the Swingline Lender has entered into arrangements satisfactory to it in its sole discretion with the Borrower or such Affected Lender to eliminate the Swingline Lender's risk with respect to such Affected Lender, and participating interests in any such newly made Swingline Advance shall be allocated among non-Affected Lenders in a manner consistent with Section 2.19(c)(i) (and Affected Lenders shall not participate therein).

(b) Borrowing Notice and Making of Swingline Advances. To request a Swingline Advance, the Borrower shall notify the Swingline Lender and the Agent of such request by telephone (confirmed by facsimile), not later than 2:00 p.m. (or such later time as the Swingline Lender may determine in its sole discretion), on the day of such Swingline Advance. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Advance. The Swingline Lender shall promptly notify the Borrower and the Agent (and the Agent shall promptly notify each Lender) and the Swingline Lender shall make each Swingline Advance available to the Borrower by 2:30 p.m. (or such later time as may be agreed by the Swingline Lender and the Borrower) on the requested date of such Swingline Advance in a manner agreed upon by the Borrower and the Swingline Lender. Each Swingline Advance shall bear interest at the Base Rate, or, at the option of the Borrower and subject to prior agreement between the Borrower and the Swingline Lender, shall be a Swingline Eurodollar Rate Advance or a Money Market Rate Advance.

(c) Repayment of Swingline Advances. Each Swingline Advance shall be paid in full by the Borrower on the earlier of (x) on or before the fourteenth (14th) Business Day after the date such Swingline Advance was made by the Swingline Lender or (y) the Termination Date. A Swingline Advance may not be repaid with the proceeds from another Swingline Advance. In addition, the Swingline Lender (i) may at any time in its sole discretion with respect to any outstanding Swingline Advance, or (ii) shall, on the fourteenth (14th) Business Day after the date any Swingline Advance is made and which has not been otherwise repaid, require each Lender (including the Swingline Lender) to make a Revolving Advance in the amount of such Lender's Ratable Share of such Swingline Advance (including, without limitation, any interest accrued and unpaid thereon), for the purpose of repaying such Swingline Advance. Not later than 2:00 p.m. on the date of any notice received pursuant to this Section 2.03A(c), each Lender shall make available to the Agent its required Revolving Advance, in immediately available funds in the same manner as provided in Section 2.02(a) with respect to Revolving Advances

made by such Lender. Revolving Advances made pursuant to this Section 2.03A(c) shall initially be Base Rate Advances and thereafter may be continued as Base Rate Advances or converted into Eurodollar Rate Advances in the manner provided in Section 2.09 and subject to the other conditions and limitations set forth in this Article II. Each Lender's obligation to make Revolving Advances pursuant to this Section 2.03A(c) to repay Swingline Advances shall be unconditional, continuing, irrevocable and absolute and shall not be affected by any circumstances, including, without limitation, (a) any set-off, counterclaim, recoupment, defense or other right which such Lender may have against the Agent, the Swingline Lender or any other Person, (b) the occurrence or continuance of a Default or an Event of Default, (c) any adverse change in the condition (financial or otherwise) of the Borrower, or (d) any other circumstance, happening or event whatsoever. In the event that any Lender fails to make payment to the Agent of any amount due under this Section 2.03A(c), the Agent shall be entitled to receive, retain and apply against such obligation the principal and interest otherwise payable to such Lender hereunder until the Agent receives such payment from such Lender or such obligation is otherwise fully satisfied. In addition to the foregoing, if for any reason any Lender fails to make payment to the Agent of any amount due under this Section 2.03A(c), such Lender shall be deemed, at the option of the Agent, to have unconditionally and irrevocably purchased from the Swingline Lender without recourse or warranty, an undivided interest and participation in the applicable Swingline Advance in the amount of such Revolving Advance, and such interest and participation may be recovered from such Lender together with interest thereon at the Federal Funds Rate for each day during the period commencing on the date of demand and ending on the date such amount is received.

(d) Swingline Advances Reports. The Swingline Lender shall furnish to the Agent on each Business Day a written report summarizing outstanding Swingline Advances made by the Swingline Lender and the due date for the repayment of such Swingline Advances; provided that if no Swingline Advances are outstanding, no such report shall be required to be delivered.

(e) Successor Swingline Lender. Subject to the appointment and acceptance of a successor Swingline Lender as provided in this paragraph, the Borrower may, upon not less than ten (10) Business Days prior notice to the Agent and the Lenders, replace the existing Swingline Lender with the consent of the Agent (which consent shall not unreasonably be withheld). Upon the acceptance of its appointment as Swingline Lender hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the replaced Swingline Lender, and the replaced Swingline Lender shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Swingline Lender shall be as agreed between the Borrower and such successor. After the Swingline Lender's replacement hereunder, the provisions of this Article and Section 8.04 shall continue in effect for its benefit in respect of any actions taken or omitted to be taken by it while it was acting as Swingline Lender.

Section 2.04 Fees.

(a) Commitment Fee. The Borrower agrees to pay to the Agent for the account of each Lender a commitment fee on such Lender's Unused Commitment (provided that, for the avoidance of doubt, and without duplication, such Lender's Unused Commitment shall be calculated exclusive of such Lender's Swingline Exposure and, if such Lender is the Swingline Lender, without giving effect to the Swingline Advances, and in no event shall the aggregate of such commitment fees exceed an amount calculated based on the product of (a) the aggregate Revolving Credit Commitments minus the aggregate principal amount of all Revolving Advances and aggregate L/C Obligations and (b) the Applicable Rate for commitment fees) from the Effective Date in the case of each Initial Lender and from the effective date specified in the Assumption Agreement or in the Assignment and Assumption pursuant to which it became a Lender in the case of each other Lender until the Termination Date at a rate per annum equal to the Applicable Rate for commitment fees in effect from time to time, payable in arrears quarterly on the

last day of each March, June, September and December, commencing June 30, 2014, and on the Termination Date, provided that no commitment fee shall accrue with respect to the Unused Commitment of an Affected Lender so long as such Lender shall be an Affected Lender.

(b) Letter of Credit Fees.

(i) The Borrower shall pay to the Agent for the account of each Lender a commission on such Lender's Ratable Share of the average daily aggregate Available Amount of all Letters of Credit outstanding from time to time at a rate per annum equal to the Applicable Rate for Eurodollar Rate Advances in effect from time to time, during such calendar quarter, payable in arrears quarterly on the last day of each March, June, September and December, commencing with the quarter ended June 30, 2014, and on the Termination Date; provided that the Applicable Rate for Eurodollar Rate Advances shall be 2% above such Applicable Rate in effect upon the occurrence and during the continuation of an Event of Default if the Borrower is required to pay default interest pursuant to Section 2.07(b).

(ii) The Borrower shall pay to each Issuing Bank, for its own account, a fronting fee with respect to each Letter of Credit issued by such Issuing Bank, payable in the amounts and at the times specified in the applicable Fee Letter between the Borrower and such Issuing Bank, and such other commissions, issuance fees, transfer fees and other fees and charges in connection with the issuance or administration of each Letter of Credit as the Borrower and such Issuing Bank shall agree promptly following receipt of an invoice therefor.

(c) Agent's Fees. The Borrower shall pay to the Agent for its own account such fees as are agreed between the Borrower and the Agent pursuant to the Fee Letter between the Borrower and the Agent.

Section 2.05 Optional Termination or Reduction of the Commitments.

(a) The Borrower shall have the right, upon at least three Business Days' notice to the Agent, to terminate in whole or permanently reduce ratably in part the Unused Commitments or the Unissued Letter of Credit Commitments, provided that each partial reduction shall be in the aggregate amount of \$10,000,000 or an integral multiple of \$1,000,000 in excess thereof.

(b) So long as no Default or Event of Default shall be continuing, the Borrower shall have the right, at any time, upon at least ten Business Days' notice to an Affected Lender (with a copy to the Agent), to terminate in whole such Lender's Revolving Credit Commitment and, if applicable, its Letter of Credit Commitment, without affecting the Commitments of any other Lender. Such termination shall be effective, (x) with respect to such Lender's Unused Commitment, on the date set forth in such notice, provided, however, that such date shall be no earlier than ten Business Days after receipt of such notice and (y) with respect to each Revolving Advance outstanding to such Lender, in the case of Base Rate Advances, on the date set forth in such notice and, in the case of Eurodollar Rate Advances, on the last day of the then current Interest Period relating to such Revolving Advance. Upon termination of a Lender's Commitments under this Section 2.05(b), the Borrower will pay or cause to be paid all principal of, and interest accrued to the date of such payment on, Revolving Advances (and if such Lender is the Swingline Lender, the Swingline Advances) owing to such Lender and, subject to Section 2.19, pay any accrued commitment fees or Letter of Credit fees payable to such Lender pursuant to the provisions of Section 2.04, and all other amounts payable to such Lender hereunder (including, but not limited to, any increased costs or other amounts owing under Section 2.11 and any indemnification for Taxes under Section 2.14); and, if such Lender is an Issuing Bank, shall pay to such Issuing Bank for deposit in an escrow account an amount equal to the Available Amount of all Letters of Credit issued by such Issuing

Bank, whereupon all Letters of Credit issued by such Issuing Bank shall be deemed to have been issued outside of this Agreement on a bilateral basis and shall cease for all purposes to constitute a Letter of Credit issued under this Agreement, and upon such payments, except as otherwise provided below, the obligations of such Lender hereunder shall, by the provisions hereof, be released and discharged; provided, however, that (i) such Lender's rights under Sections 2.11, 2.14 and 8.04, and, in the case of an Issuing Bank, Section 8.04(c), and its obligations under Section 8.04 and 8.08, in each case in accordance with the terms thereof, shall survive such release and discharge as to matters occurring prior to such date and (ii) such escrow agreement shall be in a form reasonably agreed to by the Borrower and such Issuing Bank, but in no event shall either the Borrower or such Issuing Bank require any waivers, covenants, events of default or other provisions that are more restrictive than or inconsistent with the provisions of this Agreement. Subject to Section 2.18, the aggregate amount of the Commitments of the Lenders once reduced pursuant to this Section 2.05(b) may not be reinstated. The termination of the Commitments of an Affected Lender pursuant to this Section 2.05(b) will not be deemed to be a waiver of any right that the Borrower, the Agent, any Issuing Bank, the Swingline Lender or any other Lender may have against the Affected Lender that arose prior to the date of such termination. Upon any such termination, the Ratable Share of each remaining Lender will be revised.

Section 2.06 Repayment of Advances. The Borrower shall repay to the Agent for the ratable account of the Lenders on the Termination Date the aggregate principal amount of the Revolving Advances made by such Lender and then outstanding. The Borrower shall repay Swingline Advances in accordance with Section 2.03A(c).

Section 2.07 Interest on Advances.

(a) Scheduled Interest. The Borrower shall pay interest on the unpaid principal amount of each Advance owing to each Lender (including the Swingline Lender) from the date of such Advance until such principal amount shall be paid in full, at the following rates per annum:

(i) Base Rate Advances. During such periods as such Revolving Advance is a Base Rate Advance, a rate per annum equal at all times to the sum of (x) the Base Rate in effect from time to time plus (y) the Applicable Rate for Base Rate Advances in effect from time to time, payable in arrears quarterly on the last day of each March, June, September and December during such periods and on the date such Base Rate Advance shall be Converted or paid in full.

(ii) Eurodollar Rate Advances. During such periods as such Revolving Advance is a Eurodollar Rate Advance, a rate per annum equal at all times during each Interest Period for such Revolving Advance to the sum of (x) the Eurodollar Rate for such Interest Period for such Revolving Advance plus (y) the Applicable Rate for Eurodollar Rate Advances in effect from time to time, payable in arrears on the last day of such Interest Period and, if such Interest Period has a duration of more than three months, on each day that occurs during such Interest Period every three months from the first day of such Interest Period and on the date such Eurodollar Rate Advance shall be Converted or paid in full.

(iii) Swingline Advances. During such period as such Swingline Advance remains outstanding, the Base Rate or, as agreed to by the Swingline Lender and the Borrower, the Money Market Rate or the Eurodollar Rate, payable on the date such Swingline Advance is required to be repaid.

(b) Default Interest. Upon the occurrence and during the continuance of an Event of Default under Section 6.01(a), the Agent may, and upon the request of the Required Lenders shall, require the Borrower to pay interest ("Default Interest") on (i) the unpaid principal amount of each Advance owing to

each Lender, payable in arrears on the dates referred to in clause (a)(i), (a)(ii) or (a)(iii) above, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on such Advance pursuant to clause (a)(i), (a)(ii) or (a)(iii) above and (ii) to the fullest extent permitted by Law, the amount of any interest, fee or other amount payable hereunder that is not paid when due, from the date such amount shall be due until such amount shall be paid in full, payable in arrears on the date such amount shall be paid in full and on demand, at a rate per annum equal at all times to 2% per annum above the rate per annum required to be paid on Base Rate Advances pursuant to clause (a)(i) above, provided, however, that following acceleration of the Advances pursuant to Section 6.01, Default Interest shall accrue and be payable hereunder whether or not previously required by the Agent.

(c) Interest Rate Limitation. Nothing contained in this Agreement or in any other Loan Document shall be deemed to establish or require the payment of interest to any Lender at a rate in excess of the maximum rate permitted by applicable Law. If the amount of interest payable for the account of any Lender on any interest payment date would exceed the maximum amount permitted by applicable Law to be charged by such Lender, the amount of interest payable for its account on such interest payment date shall be automatically reduced to such maximum permissible amount. In the event of any such reduction affecting any Lender, if from time to time thereafter the amount of interest payable for the account of such Lender on any interest payment date would be less than the maximum amount permitted by applicable Law to be charged by such Lender, then the amount of interest payable for its account on such subsequent interest payment date shall be automatically increased to such maximum permissible amount, provided that at no time shall the aggregate amount by which interest paid for the account of any Lender has been increased pursuant to this sentence exceed the aggregate amount by which interest paid for its account has theretofore been reduced pursuant to the previous sentence.

Section 2.08 Interest Rate Determination.

(a) The Agent shall give prompt notice to the Borrower and the Lenders of the applicable interest rate determined by the Agent for purposes of Section 2.07(a).

(b) If the Required Lenders determine that for any reason in connection with any request for a Eurodollar Rate Advance or a Conversion to or continuation thereof that (a) Dollar deposits are not being offered to banks in the London interbank eurodollar market for the applicable amount and Interest Period of such Eurodollar Rate Advance, (b) adequate and reasonable means do not exist for determining the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Advance, or (c) the Eurodollar Rate for any requested Interest Period with respect to a proposed Eurodollar Rate Advance does not adequately and fairly reflect the cost to such Lenders of funding such Revolving Advance, the Agent will promptly so notify the Borrower and each Lender, whereupon each Eurodollar Rate Advance will automatically on the last day of the then existing Interest Period therefor Convert into a Base Rate Advance. Thereafter, the obligation of the Lenders to make or maintain Eurodollar Rate Advances shall be suspended until the Agent (upon the instruction of the Required Lenders) revokes such notice. Upon receipt of such notice, the Borrower may revoke any pending request for a Borrowing of, Conversion to or continuation of Eurodollar Rate Advances or, failing that, will be deemed to have Converted such request into a request for a Base Rate Advance in the amount specified therein.

(c) If the Borrower shall fail to select the duration of any Interest Period for any Eurodollar Rate Advances in accordance with the provisions contained in the definition of "Interest Period" in Section 1.01, the Agent will forthwith so notify the Borrower and the Lenders and such Revolving Advances will automatically, on the last day of the then existing Interest Period therefor, Convert into Base Rate Advances.

(d) On the date on which the aggregate unpaid principal amount of Eurodollar Rate Advances comprising any Borrowing shall be reduced, by payment or prepayment or otherwise, to less than \$5,000,000, such Revolving Advances shall automatically Convert into Base Rate Advances.

(e) Upon the occurrence and during the continuance of any Event of Default,

(i) with respect to Eurodollar Rate Advances, each such Revolving Advance will automatically, on the last day of the then existing Interest Period therefor, Convert into a Base Rate Advance (or if such Revolving Advance is then a Base Rate Advance, will continue as a Base Rate Advance); and

(ii) the obligation of the Lenders to make Eurodollar Rate Advances or to Convert Revolving Advances into Eurodollar Rate Advances shall be suspended until the Agent shall notify the Borrower and the Lenders that the circumstances causing such suspension no longer exist.

Section 2.09 Optional Conversion of Revolving Advances. The Borrower may on any Business Day, upon notice given to the Agent not later than 12:00 noon on the third Business Day prior to the date of the proposed Conversion and subject to the provisions of Sections 2.08 and 2.12, Convert all Revolving Advances of one Type comprising the same Borrowing into Revolving Advances of the other Type; provided, however, that (a) any Conversion of Eurodollar Rate Advances into Base Rate Advances shall be made only on the last day of an Interest Period for such Eurodollar Rate Advances, (b) any Conversion of Base Rate Advances into Eurodollar Rate Advances shall be in an amount not less than the minimum amount specified in Section 2.02(b), (c) no Conversion of any Revolving Advances shall result in more separate Borrowings than permitted under Section 2.02(b) and (d) no Swingline Advances may be converted. Each such notice of a Conversion shall, within the restrictions specified above, specify (i) the date of such Conversion, (ii) the Revolving Advances to be Converted, and (iii) if such Conversion is into Eurodollar Rate Advances, the duration of the initial Interest Period for each such Revolving Advance. Each notice of Conversion shall be irrevocable and binding on the Borrower.

Section 2.10 Prepayments of Advances.

(a) Optional. At any time and from time to time, the Borrower shall have the right to prepay any Advance, in whole or in part, without premium or penalty (except as provided in clause (y) below), upon notice at least two Business Days' prior to the date of such prepayment, in the case of Eurodollar Rate Advances, and not later than 11:00 a.m. on the date of such prepayment in the case of Base Rate Advances and Swingline Advances, to the Agent (and, in the case of prepayment a Swingline Advance, the Swingline Lender) specifying the proposed date of such prepayment and the aggregate principal amount and Type of the Advance to be prepaid (and, in the case of Eurodollar Rate Advances, the Interest Period of the Borrowing pursuant to which made); provided, however, that (x) each partial prepayment shall be in an aggregate principal amount of \$5,000,000 or an integral multiple of \$1,000,000 in excess thereof, and shall be accompanied by accrued interest to the date of prepayment on the principal amount prepaid, and (y) in the event of any such prepayment of a Eurodollar Rate Advance, the Borrower shall be obligated to reimburse the Lenders in respect thereof pursuant to Section 8.04(e).

(b) Mandatory.

(i) The Borrower shall prepay the aggregate principal amount of the Advances, together with accrued interest to the date of prepayment on the principal amount prepaid, without requirement of demand therefor, or shall pay or prepay any other Indebtedness then outstanding

at any time, when and to the extent required to comply with applicable Laws of any Governmental Authority or applicable resolutions of the Board of Directors of the Borrower.

(ii) If for any reason the Total Outstandings at any time exceed the aggregate Revolving Credit Commitments then in effect, the Borrower shall, within one Business Day after notice thereof, prepay Advances and/or Cash Collateralize the L/C Obligations in an aggregate amount equal to such excess; provided, however, that the Borrower shall not be required to Cash Collateralize the L/C Obligations pursuant to this Section 2.10(b) unless, after the prepayment in full of the Advances, the Total Outstandings exceed the aggregate Revolving Credit Commitments then in effect.

Section 2.11 Increased Costs.

(a) Increased Costs Generally. If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit, compulsory loan, insurance charge or similar requirement against assets of, deposits with or for the account of, or credit extended or participated in by, any Lender (except any reserve requirement contemplated by Section 2.11(e)) or any Issuing Bank; or

(ii) impose on any Lender or any Issuing Bank or the London interbank market any other condition, cost or expense affecting this Agreement or Eurodollar Rate Advances made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Rate Advance (or of maintaining its obligation to make any such Revolving Advance), or to increase the cost to such Lender or such Issuing Bank of participating in, issuing or maintaining any Letter of Credit (or of maintaining its obligation to participate in or to issue any Letter of Credit), or to reduce the amount of any sum received or receivable by such Lender or such Issuing Bank hereunder (whether of principal, interest or any other amount) then, upon request of such Lender or such Issuing Bank, the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) Capital Requirements. If any Lender or any Issuing Bank determines that any Change in Law affecting such Lender or such Issuing Bank or any Applicable Lending Office of such Lender or such Lender's or such Issuing Bank's holding company, if any, regarding capital and liquidity requirements has or would have the effect of reducing the rate of return on such Lender's or such Issuing Bank's capital or on the capital of such Lender's or such Issuing Bank's holding company, if any, as a consequence of this Agreement, the Commitments of such Lender or the Advances made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by such Issuing Bank, to a level below that which such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company could have achieved but for such Change in Law (taking into consideration such Lender's or such Issuing Bank's policies and the policies of such Lender's or such Issuing Bank's holding company with respect to capital adequacy and liquidity), then from time to time the Borrower will pay to such Lender or such Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or such Issuing Bank or such Lender's or such Issuing Bank's holding company for any such reduction suffered.

(c) Certificates for Reimbursement. A certificate of a Lender or an Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or such Issuing Bank or its holding

company, as the case may be, as specified in subsection (a) or (b) of this Section and delivered to the Borrower shall be conclusive and binding upon all parties absent manifest error. The Borrower shall pay such Lender or such Issuing Bank, as the case may be, the amount shown as due on any such certificate within 30 days after receipt thereof.

(d) Delay in Requests. Failure or delay on the part of any Lender or any Issuing Bank to demand compensation pursuant to the foregoing provisions of this Section shall not constitute a waiver of such Lender's or such Issuing Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate a Lender or an Issuing Bank pursuant to the foregoing provisions of this Section for any increased costs incurred or reductions suffered more than three months prior to the date that such Lender or such Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or such Issuing Bank's intention to claim compensation therefor (except that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the three-month period referred to above shall be extended to include the period of retroactive effect thereof).

(e) Reserves on Eurodollar Rate Advances. The Borrower shall pay to each Lender, as long as such Lender shall be required to maintain reserves with respect to liabilities or assets consisting of or including Eurocurrency funds or deposits (currently known as "Eurocurrency liabilities"), additional interest on the unpaid principal amount of each Eurodollar Rate Advance equal to the actual costs of such reserves allocated to such Revolving Advance by such Lender (as determined by such Lender in good faith, which determination shall be conclusive absent manifest error), which shall be due and payable on each date on which interest is payable on such Eurodollar Rate Advance, provided the Borrower shall have received at least 30 days' prior notice (with a copy to the Agent) of such additional interest from such Lender. If a Lender fails to give notice 30 days prior to the relevant interest payment date, such additional interest shall be due and payable 30 days from receipt of such notice.

Section 2.12 Illegality. If any Lender shall have determined in good faith that the introduction of or any change in any applicable Law or in the interpretation or administration thereof by any Governmental Authority charged with the interpretation or administration thereof, or compliance with any guideline or request from any such Governmental Authority (whether or not having the force of law), for any Lender or its Applicable Lending Office to make, maintain or fund Eurodollar Rate Advances, or to determine or charge interest rates based upon the Eurodollar Rate, or any Governmental Authority has imposed material restrictions on the authority of such Lender to purchase or sell, or to take deposits of, Dollars in the London interbank market, then, on notice thereof by such Lender to the Borrower through the Agent, any obligation of such Lender to make or continue Eurodollar Rate Advances or to convert Base Rate Advances to Eurodollar Rate Advances shall be suspended until such Lender notifies the Agent and the Borrower that the circumstances giving rise to such determination no longer exist. Upon receipt of such notice, the Borrower shall, upon demand from such Lender (with a copy to the Agent), prepay or, if applicable, convert all Eurodollar Rate Advances of such Lender to Base Rate Advances, either on the last day of the Interest Period therefor, if such Lender may lawfully continue to maintain such Eurodollar Rate Advances to such day, or immediately, if such Lender may not lawfully continue to maintain such Eurodollar Rate Advances. Upon any such prepayment or conversion, the Borrower shall also pay accrued interest on the amount so prepaid or converted.

Section 2.13 Payments and Computations.

(a) All payments to be made by the Borrower shall be made without condition or deduction for any counterclaim, defense, recoupment or setoff. The Borrower shall make each payment hereunder not later than 1:00 p.m. on the day when due in U.S. dollars to the Agent at the Agent's Account in same day funds. The Agent will promptly thereafter cause to be distributed like funds relating to the payment

of principal, interest, fees or commissions ratably (other than amounts payable pursuant to Section 2.05(b), 2.11, 2.12, 2.14, 2.20 or 8.04(e)) to the Lenders for the account of their respective Applicable Lending Offices, and like funds relating to the payment of any other amount payable to any Lender to such Lender for the account of its Applicable Lending Office, in each case to be applied in accordance with the terms of this Agreement. Upon any Assuming Lender becoming a Lender hereunder as a result of a Commitment Increase pursuant to Section 2.18, and upon the Agent's receipt of such Lender's Assumption Agreement and recording of the information contained therein in the Register, from and after the applicable Increase Date, the Agent shall make all payments hereunder and under any Notes issued in connection therewith in respect of the interest assumed thereby to the Assuming Lender. Upon its acceptance of an Assignment and Assumption and recording of the information contained therein in the Register pursuant to Section 8.07(c), from and after the effective date specified in such Assignment and Assumption, the Agent shall make all payments hereunder and under the Notes in respect of the interest assigned thereby to the Lender assignee thereunder, and the parties to such Assignment and Assumption shall make all appropriate adjustments in such payments for periods prior to such effective date directly between themselves.

(b) All computations of interest based on (i) the Prime rate (as defined in the definition of "Base Rate" in Section 1.01) shall be made by the Agent on the basis of a year of 365 or 366 days, as the case may be and (ii) the Federal Funds Rate, the Eurodollar Rate and of fees and Letter of Credit commissions shall be made by the Agent on the basis of a year of 360 days, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest, fees or commissions are payable. Interest on Swingline Advances shall be calculated on the basis of a year of 360 days or such other basis agreed to by the Swingline Lender and the Borrower, in each case for the actual number of days (including the first day but excluding the last day) occurring in the period for which such interest is payable. Each determination by the Agent of an interest rate hereunder shall be conclusive and binding for all purposes, absent manifest error.

(c) Whenever any payment hereunder or under the Notes shall be stated to be due on a day other than a Business Day, such payment shall be made on the next succeeding Business Day, and such extension of time shall in such case be included in the computation of payment of interest, fees or commissions, as the case may be; provided, however, that, if such extension would cause payment of interest on or principal of Eurodollar Rate Advances to be made in the next following calendar month, such payment shall be made on the next preceding Business Day.

(d) Unless the Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Lenders hereunder that the Borrower will not make such payment in full, the Agent may assume that the Borrower has made such payment in full to the Agent on such date and the Agent may, in reliance upon such assumption, cause to be distributed to each Lender on such due date an amount equal to the amount then due such Lender. If and to the extent the Borrower shall not have so made such payment in full to the Agent, each Lender shall repay to the Agent forthwith on demand such amount distributed to such Lender together with interest thereon, for each day from the date such amount is distributed to such Lender until the date such Lender repays such amount to the Agent, at the Federal Funds Rate.

Section 2.14 Taxes.

(a) Payments Free of Taxes; Obligation to Withhold; Payments on Account of Taxes.

(i) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall to the extent permitted by applicable Laws be made free and clear of and without reduction or withholding for any Taxes. If, however,

applicable Laws require the Borrower or the Agent to withhold or deduct any Tax, such Tax shall be withheld or deducted in accordance with such Laws as determined by the Borrower or the Agent, as the case may be, upon the basis of the information and documentation to be delivered pursuant to subsection (e) below.

(ii) If the Borrower or the Agent shall be required by the Internal Revenue Code to withhold or deduct any Taxes, including both United States of America Federal backup withholding and withholding taxes, from any payment, then (A) the Agent shall withhold or make such deductions as are determined by the Agent to be required based upon the information and documentation it has received pursuant to subsection (e) below, (B) the Agent shall timely pay the full amount withheld or deducted to the relevant Governmental Authority in accordance with the Internal Revenue Code, and (C) to the extent that the withholding or deduction is made on account of Indemnified Taxes or Other Taxes, the sum payable by the Borrower shall be increased as necessary so that after any required withholding or the making of all required deductions (including deductions applicable to additional sums payable under this Section) the Agent, Lender or Issuing Bank, as the case may be, receives an amount equal to the sum it would have received had no such withholding or deduction been made.

(b) Payment of Other Taxes by the Borrower. Without limiting the provisions of subsection (a) above, the Borrower shall timely pay any Other Taxes to the relevant Governmental Authority in accordance with applicable Laws.

(c) Tax Indemnifications.

(i) Without limiting the provisions of subsection (a) or (b) above, the Borrower shall, and does hereby, indemnify the Agent, each Lender and each Issuing Bank, and shall make payment in respect thereof within 30 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) withheld or deducted by the Borrower or the Agent or paid by the Agent, such Lender or such Issuing Bank, as the case may be, and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. The Borrower shall also, and does hereby, indemnify the Agent, and shall make payment in respect thereof within 10 days after demand therefor, for any amount which a Lender or an Issuing Bank for any reason fails to pay indefeasibly to the Agent as required by clause (ii) of this subsection. A certificate as to the amount of any such payment or liability delivered to the Borrower by a Lender or an Issuing Bank (with a copy to the Agent), or by the Agent on its own behalf or on behalf of a Lender or an Issuing Bank, shall be conclusive absent manifest error.

(ii) Without limiting the provisions of subsection (a) or (b) above, each Lender and each Issuing Bank shall, and does hereby, indemnify the Borrower and the Agent, and shall make payment in respect thereof within 30 days after demand therefor, against any and all Taxes and any and all related losses, claims, liabilities, penalties, interest and expenses (including the fees, charges and disbursements of any counsel for the Borrower or the Agent) incurred by or asserted against the Borrower or the Agent by any Governmental Authority as a result of the failure by such Lender or such Issuing Bank, as the case may be, to deliver, or as a result of the inaccuracy, inadequacy or deficiency of, any documentation required to be delivered by such Lender or such Issuing Bank, as the case may be, to the Borrower or the Agent pursuant to subsection (e). Each Lender and each Issuing Bank hereby authorizes the Agent to set off and apply any and all amounts at any time owing to such Lender or such Issuing Bank, as the case may be, under this

Agreement or any other Loan Document against any amount due to the Agent under this clause (ii). The agreements in this clause (ii) shall survive the resignation and/or replacement of the Agent, any assignment of rights by, or the replacement of, a Lender or an Issuing Bank, the termination of the Commitments and the repayment, satisfaction or discharge of all other Obligations.

(d) Evidence of Payments. Upon request by the Borrower or the Agent, as the case may be, after any payment of Taxes by the Borrower or by the Agent to a Governmental Authority as provided in this 2.14, the Borrower shall deliver to the Agent or the Agent shall deliver to the Borrower, as the case may be, the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of any return required by Laws to report such payment or other evidence of such payment reasonably satisfactory to the Borrower or the Agent, as the case may be.

(e) Status of Lenders; Tax Documentation.

(i) Each Lender shall deliver to the Borrower and to the Agent, at the time or times prescribed by applicable Laws or when reasonably requested by the Borrower or the Agent, such properly completed and executed documentation prescribed by applicable Laws or by the taxing authorities of any jurisdiction and such other reasonably requested information as will permit the Borrower or the Agent, as the case may be, to determine (A) whether or not payments made hereunder or under any other Loan Document are subject to Taxes, (B) if applicable, the required rate of withholding or deduction, and (C) such Lender's entitlement to any available exemption from, or reduction of, applicable Taxes in respect of all payments to be made to such Lender by the Borrower pursuant to this Agreement or otherwise to establish such Lender's status for withholding tax purposes in the applicable jurisdiction.

(ii) Without limiting the generality of the foregoing, if the Borrower is resident for tax purposes in the United States of America,

(A) any Lender that is a "United States person" within the meaning of Section 7701(a)(30) of the Internal Revenue Code shall deliver to the Borrower and the Agent executed originals of Internal Revenue Service Form W-9 or such other documentation or information prescribed by applicable Laws or reasonably requested by the Borrower or the Agent as will enable the Borrower or the Agent, as the case may be, to determine whether or not such Lender is subject to backup withholding or information reporting requirements; and

(B) each Foreign Lender that is entitled under the Internal Revenue Code or any applicable treaty to an exemption from or reduction of withholding tax with respect to payments hereunder or under any other Loan Document shall deliver to the Borrower and the Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of the Borrower or the Agent, but only if such Foreign Lender is legally entitled to do so), whichever of the following is applicable:

(1) executed originals of Internal Revenue Service Form W-8BEN claiming eligibility for benefits of an income tax treaty to which the United States of America is a party,

(2) executed originals of Internal Revenue Service Form W-8ECI,

(3) executed originals of Internal Revenue Service Form W-8IMY and all required supporting documentation,

(4) in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under section 881(c) of the Internal Revenue Code, (x) a certificate to the effect that such Foreign Lender is not (A) a "bank" within the meaning of section 881(c)(3)(A) of the Internal Revenue Code, (B) a "10 percent shareholder" of the Borrower within the meaning of section 881(c)(3)(B) of the Internal Revenue Code, or (C) a "controlled foreign corporation" described in section 881(c)(3)(C) of the Internal Revenue Code and (y) executed originals of Internal Revenue Service Form W-8BEN, or

(5) executed originals of any other form prescribed by applicable Laws as a basis for claiming exemption from or a reduction in United States of America Federal withholding tax together with such supplementary documentation as may be prescribed by applicable Laws to permit the Borrower or the Agent to determine the withholding or deduction required to be made.

(iii) Each Lender shall promptly (A) notify the Borrower and the Agent of any change in circumstances which would modify or render invalid any claimed exemption or reduction, and (B) take such steps as shall not be materially disadvantageous to it, in the reasonable judgment of such Lender, and as may be reasonably necessary (including the re-designation of its Applicable Lending Office) to avoid any requirement of applicable Laws of any jurisdiction that the Borrower or the Agent make any withholding or deduction for taxes from amounts payable to such Lender.

(iv) if a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the Internal Revenue Code, as applicable), such Lender shall deliver to each of the Borrower and the Agent at the time or times prescribed by law and at such time or times reasonably requested by the Borrower or the Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the Internal Revenue Code) and such additional documentation reasonably requested by the Borrower or the Agent as may be necessary for the Borrower and the Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (iv), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

(f) Treatment of Certain Refunds. Unless required by applicable Laws, at no time shall the Agent have any obligation to file for or otherwise pursue on behalf of a Lender or an Issuing Bank, or have any obligation to pay to any Lender or any Issuing Bank, any refund of Taxes withheld or deducted from funds paid for the account of such Lender or such Issuing Bank, as the case may be. If the Agent, any Lender or any Issuing Bank determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section, it shall pay to the Borrower an amount equal to such refund (but only to the extent of indemnity payments made, or additional amounts paid, by

the Borrower under this Section with respect to the Taxes or Other Taxes giving rise to such refund), net of all reasonable out-of-pocket expenses incurred by the Agent, such Lender or such Issuing Bank, as the case may be, and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund), provided that the Borrower, upon the request of the Agent, such Lender or such Issuing Bank, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Agent, such Lender or such Issuing Bank in the event the Agent, such Lender or such Issuing Bank is required to repay such refund to such Governmental Authority. This subsection shall not be construed to require the Agent, any Lender or any Issuing Bank to make available its tax returns (or any other information relating to its taxes that it deems confidential) to the Borrower or any other Person.

(g) Payments. Failure or delay on the part of the Agent, any Lender or any Issuing Bank to demand compensation pursuant to the foregoing provisions of this Section 2.14 shall not constitute a waiver of the Agent's, such Lender's or such Issuing Bank's right to demand such compensation, provided that the Borrower shall not be required to compensate the Agent, a Lender or an Issuing Bank pursuant to the foregoing provisions of this Section 2.14 for any Indemnified Taxes or Other Taxes imposed or asserted by the relevant Governmental Authority more than three months prior to the date that the Agent, such Lender or such Issuing Bank, as the case may be, claims compensation with respect thereto (except that, if a Change in Law giving rise to such Indemnified Taxes or Other Taxes is retroactive, then the three-month period referred to above shall be extended to include the period of retroactive effect thereof).

(h) Each of the Agent, any Issuing Bank or any Lender agrees to cooperate with any reasonable request made by the Borrower in respect of a claim of a refund in respect of Indemnified Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.14 if (i) the Borrower has agreed in writing to pay all of the Agent's or such Issuing Bank's or such Lender's reasonable out-of-pocket costs and expenses relating to such claim, (ii) the Agent or such Issuing Bank or such Lender determines, in its good faith judgment, that it would not be disadvantaged, unduly burdened or prejudiced as a result of such claim and (iii) the Borrower furnishes, upon request of the Agent, or such Issuing Bank or such Lender, an opinion of tax counsel (such opinion, which can be reasoned, and such counsel to be reasonably acceptable to such Lender, or such Issuing Bank or the Agent) that the Borrower is likely to receive a refund or credit.

Section 2.15 Sharing of Payments, Etc. If any Lender shall obtain any payment (whether voluntary, involuntary, through the exercise of any right of set-off, or otherwise) on account of the Advances or L/C Advances owing to it (other than pursuant to Section 2.05(b), 2.11, 2.12, 2.14, 2.20 or 8.04(e) or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Advances or participations in Letters of Credit to any assignee or participant, other than to the Borrower or any Subsidiary thereof if permitted hereby (as to which the provisions of this Section 2.15 shall apply) in excess of its Ratable Share of payments on account of the Advances obtained by all the Lenders, such Lender shall forthwith purchase from the other Lenders (for cash at face value) such participations in the Advances owing to them as shall be necessary to cause such purchasing Lender to share the excess payment ratably with each of them; provided, however, that if all or any portion of such excess payment is thereafter recovered from such purchasing Lender, such purchase from each Lender shall be rescinded and such Lender shall repay to the purchasing Lender the purchase price to the extent of such recovery together with an amount equal to such Lender's Ratable Share (according to the proportion of (i) the amount of such Lender's required repayment to (ii) the total amount so recovered from the purchasing Lender) of any interest or other amount paid or payable by the purchasing Lender in respect of the total amount so recovered. The Borrower agrees that any Lender so purchasing a participation from another Lender pursuant to this Section 2.15 may, to the fullest extent permitted by

Law, exercise all its rights of payment (including the right of set-off) with respect to such participation as fully as if such Lender were the direct creditor of the Borrower in the amount of such participation.

Section 2.16 Evidence of Debt.

(a) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Advance owing to such Lender from time to time, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder in respect of Advances. The Borrower agrees that upon notice by any Lender (including the Swingline Lender) to the Borrower (with a copy of such notice to the Agent) to the effect that a Note is required or appropriate in order for such Lender to evidence (whether for purposes of pledge, enforcement or otherwise) the Advances owing to, or to be made by, such Lender, the Borrower shall promptly execute and deliver to such Lender a Note payable to the order of such Lender in a principal amount up to the Revolving Credit Commitment of such Lender.

(b) The Register maintained by the Agent pursuant to Section 8.07(c) shall include a control account, and a subsidiary account for each Lender, in which accounts (taken together) shall be recorded (i) the date and amount of each Borrowing made hereunder, the Type of Advances comprising such Borrowing and, if appropriate, the Interest Period applicable thereto, (ii) the terms of each Assumption Agreement and each Assignment and Assumption delivered to and accepted by it, (iii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iv) the amount of any sum received by the Agent from the Borrower hereunder and each Lender's share thereof.

(c) Entries made in good faith by the Agent in the Register pursuant to subsection (b) above, and by each Lender in its account or accounts pursuant to subsection (a) above, shall be prima facie evidence of the amount of principal and interest due and payable or to become due and payable from the Borrower to, in the case of the Register, each Lender and, in the case of such account or accounts, such Lender, under this Agreement, absent manifest error; provided, however, that the failure of the Agent or such Lender to make an entry, or any finding that an entry is incorrect, in the Register or such account or accounts shall not limit or otherwise affect the obligations of the Borrower under this Agreement.

Section 2.17 Use of Proceeds. The proceeds of the Advances and issuances of Letters of Credit shall be available (and the Borrower agrees that it shall use such proceeds) solely to refinance Indebtedness of the Borrower from time to time and for other general corporate purposes of the Borrower.

Section 2.18 Increase in the Aggregate Revolving Credit Commitments.

(a) The Borrower may, at any time prior to the Termination Date, by notice to the Agent, request that the aggregate amount of the Revolving Credit Commitments be increased by an amount of \$10,000,000 or an integral multiple thereof (each a " Commitment Increase ") to be effective as of a date that is at least 90 days prior to the Termination Date (the " Increase Date ") as specified in the related notice to the Agent; provided, however that (i) in no event shall the aggregate amount of the Revolving Credit Commitments at any time exceed \$300,000,000 or the aggregate amount of Commitment Increases exceed \$100,000,000 and (ii) on the date of any request by the Borrower for a Commitment Increase and on the related Increase Date, the applicable conditions set forth in this Section 2.18 shall be satisfied.

(b) The Agent shall promptly notify the Lenders of a request by the Borrower for a Commitment Increase, which notice shall include (i) the proposed amount of such requested Commitment Increase, (ii) the proposed Increase Date and (iii) the date by which Lenders wishing to participate in the Commitment Increase must commit to an increase in the amount of their respective Revolving Credit

Commitments (the “Commitment Date”). Each Lender that is willing to participate in such requested Commitment Increase (each an “Increasing Lender”) shall, in its sole discretion, give written notice to the Agent on or prior to the Commitment Date of the amount by which it is willing to increase its Revolving Credit Commitment. If the Lenders notify the Agent that they are willing to increase the amount of their respective Revolving Credit Commitments by an aggregate amount that exceeds the amount of the requested Commitment Increase, the requested Commitment Increase shall be allocated among the Lenders willing to participate therein in such amounts as are agreed between the Borrower and the Agent. Each Increasing Lender shall be subject to such applicable consents as may be required under Section 8.07(b) (iii) (including, but not limited to, the consent of each Issuing Bank and the Swingline Lender).

(c) Promptly following each Commitment Date, the Agent shall notify the Borrower as to the amount, if any, by which the Lenders are willing to participate in the requested Commitment Increase. If the aggregate amount by which the Lenders are willing to participate in any requested Commitment Increase on any such Commitment Date is less than the requested Commitment Increase, then the Borrower may extend offers to one or more Eligible Assignees to participate in any portion of the requested Commitment Increase that has not been committed to by the Lenders as of the applicable Commitment Date; provided, however, that the Revolving Credit Commitment of each such Eligible Assignee shall be in an amount of not less than \$10,000,000.

(d) On each Increase Date, each Eligible Assignee that accepts an offer to participate in a requested Commitment Increase in accordance with Section 2.18(c) (each such Eligible Assignee, an “Assuming Lender”) shall become a Lender party to this Agreement as of such Increase Date and the Revolving Credit Commitment of each Increasing Lender for such requested Commitment Increase shall be so increased by the amount by which the Increasing Lender agreed to increase its Revolving Credit Commitment (or by the amount allocated to such Lender pursuant to the next to last sentence of Section 2.18(b)) as of such Increase Date; provided, however, that the Agent shall have received on or before such Increase Date the following, each dated such date:

(i) (A) certified copies of resolutions of the Board of Directors of the Borrower approving the Commitment Increase and the corresponding modifications to this Agreement, (B) an opinion of counsel for the Borrower (which may be in-house counsel), in form and substance reasonably acceptable to the Required Lenders and (C) a certificate from a duly authorized officer of the Borrower, stating that the conditions set forth in Section 3.02(a) and (b) are satisfied;

(ii) an assumption agreement from each Assuming Lender, if any, in form and substance satisfactory to the Borrower and the Agent (each an “Assumption Agreement”), duly executed by such Assuming Lender, the Agent, the Borrower and each other Person required to consent thereto, as applicable under Section 8.07(b)(iii); and

(iii) confirmation from each Increasing Lender of the increase in the amount of its Revolving Credit Commitment in a writing satisfactory to the Borrower and the Agent.

On each Increase Date, upon fulfillment of the conditions set forth in the immediately preceding sentence of this Section 2.18(d), the Agent shall notify the Lenders (including, without limitation, each Assuming Lender) and the Borrower, on or before 1:00 p.m., by telecopier, of the occurrence of the Commitment Increase to be effected on such Increase Date and shall record in the Register the relevant information with respect to each Increasing Lender and each Assuming Lender on such date. Each Increasing Lender and each Assuming Lender shall, before 2:00 p.m. on the Increase Date, make available for the account of its Applicable Lending Office to the Agent at the Agent’s Account, in same day funds, in the case of such Assuming Lender, an amount equal to such Assuming Lender’s Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate

Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase) and, in the case of such Increasing Lender, an amount equal to the excess of (i) such Increasing Lender's Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase) over (ii) such Increasing Lender's Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment (without giving effect to the relevant Commitment Increase) as a percentage of the aggregate Revolving Credit Commitments (without giving effect to the relevant Commitment Increase). After the Agent's receipt of such funds from each such Increasing Lender and each such Assuming Lender, the Agent will promptly thereafter cause to be distributed like funds to the other Lenders for the account of their respective Applicable Lending Offices in an amount to each other Lender such that the aggregate amount of the outstanding Advances owing to each Lender after giving effect to such distribution equals such Lender's Ratable Share of the Borrowings then outstanding (calculated based on its Revolving Credit Commitment as a percentage of the aggregate Revolving Credit Commitments outstanding after giving effect to the relevant Commitment Increase).

Section 2.19 Affected Lenders. Notwithstanding any provision of this Agreement to the contrary, if any Lender becomes an Affected Lender, then the following provisions shall apply for so long as such Lender is an Affected Lender:

- (a) fees shall cease to accrue on the Unused Commitment of such Affected Lender pursuant to Section 2.04(a);
- (b) the Revolving Credit Commitment and Advances of such Affected Lender shall not be included in determining whether the Required Lenders have taken or may take any action hereunder (including any consent to any amendment or waiver pursuant to Section 8.01), other than any waiver, amendment or modification requiring the consent of all Lenders or of each Lender affected;
- (c) if (x) there shall be any Available Amount under any outstanding Letter of Credit or (y) any Swingline Exposure shall exist during any time a Lender is an Affected Lender, then:
 - (i) so long as no Default or Event of Default has occurred and is continuing, all or any part of the Available Amount of all such Letters of Credit and Swingline Exposure shall be reallocated among the non-Affected Lenders in accordance with their respective Ratable Shares (disregarding any Affected Lender's Revolving Credit Commitment) but only to the extent that with respect to each non-Affected Lender the sum of (A) the aggregate principal amount of all Revolving Advances made by such non-Affected Lender (in its capacity as a Lender) and outstanding at such time plus (B) such non-Affected Lender's Ratable Share (after giving effect to the reallocation contemplated in this Section 2.19(c)(i)) of the outstanding L/C Obligations plus (C) such non-Affected Lender's Ratable Share (after giving effect to the reallocation contemplated in this Section 2.19(c)(i)) of the outstanding Swingline Exposure, does not exceed such non-Affected Lender's Revolving Credit Commitment;
 - (ii) if the reallocation described in clause (i) above cannot, or can only partially, be effected, the Borrower shall within one (1) Business Day following notice by the Agent (x) first, prepay such unallocable Swingline Exposure and (y) second, Cash Collateralize for the benefit of the applicable Issuing Bank only the Borrower's obligations corresponding to such Affected Lender's Ratable Share of the Available Amount of outstanding Letters of Credit (after giving effect to any partial reallocation pursuant to clause (i) above) (the " Affected Lender Share ") in accordance with the procedures set forth in Section 2.03(h) for so long as such there shall be any Available Amount of outstanding Letters of Credit;

- (iii) if the Ratable Share of the Available Amount of outstanding Letters of Credit and the Swingline Exposure of the non-Affected Lenders is reallocated pursuant to this Section 2.19(c), then the fees payable to the Lenders pursuant to Section 2.04(a) and Section 2.04(b) shall be adjusted in accordance with such non-Affected Lenders' Ratable Shares;
- (iv) if any Affected Lender Share is not reallocated pursuant to clause (i) above and if the Borrower fails to Cash Collateralize any portion of such Affected Lender Share pursuant to clause (ii) above, then, without prejudice to any rights or remedies of any Issuing Bank or any Lender hereunder, the fee payable under Section 2.04(b) with respect to such Affected Lender Share shall be payable to the Issuing Bank until such Affected Lender Share is reallocated; and

(v) if the Borrower Cash Collateralizes any portion of any Affected Lender Share pursuant to clause (ii) above, the Borrower shall not be required to pay any fees to such Affected Lender pursuant to Section 2.04(b)(i) or the applicable Issuing Bank pursuant to Section 2.04(b)(ii) (solely with respect to any fronting fee) with respect to such Affected Lender's Affected Lender Share during the period such Affected Lender's Affected Lender Share is Cash Collateralized;

(d) to the extent the Agent receives any payments or other amounts for the account of an Affected Lender under this Agreement, such Affected Lender shall be deemed to have requested that the Agent use such payment or other amount to fulfill such Affected Lender's previously unsatisfied obligations to fund a Revolving Advance under Section 2.03(c) or Section 2.03A(c) or L/C Advance or any other unfunded payment obligation of such Affected Lender under this Agreement; and

(e) for the avoidance of doubt, the Borrower, each Issuing Bank, the Swingline Lender, the Agent and each other Lender shall retain and reserve its other rights and remedies respecting each Affected Lender.

In the event that the Agent, the Borrower, the Swingline Lender and the Issuing Banks each agrees that an Affected Lender has adequately remedied all matters that caused such Lender to be an Affected Lender, then the Ratable Shares of the Lenders shall be readjusted to reflect the inclusion of such Lender's Revolving Credit Commitment and on such date such Lender shall purchase at par such of the Revolving Advances of the other Lenders as the Agent shall determine may be necessary in order for such Lender to hold such Revolving Advances in accordance with its Ratable Share. In addition, at such time as the Affected Lender is replaced by another Lender pursuant to Section 2.20, the Ratable Shares of the Lenders will be readjusted to reflect the inclusion of the replacing Lender's Commitment in accordance with Section 2.20. In either such case, this Section 2.19 will no longer apply.

Section 2.20 Replacement of Lenders. If any Lender requests compensation under Section 2.11, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.14, or if any Lender is an Affected Lender, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in, and consents required by, Section 8.07), all of its interests, rights and obligations under this Agreement and the related Loan Documents to one or more assignees that shall assume such obligations (which any such assignee may be another Lender, if a Lender accepts such assignment), provided that:

- (a) the Borrower shall have paid to the Agent the assignment fee specified in Section 8.07(b);
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(b) such Lender shall have received payment of an amount equal to the outstanding principal of its Revolving Advances and L/C Advances, accrued interest thereon, accrued fees and all other amounts payable to it hereunder and under the other Loan Documents (including any amounts under Section 8.04(e)) from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts);

(c) in the case of any such assignment resulting from a claim for compensation under Section 2.11 or payments required to be made pursuant to Section 2.14, such assignment will result in a reduction in such compensation or payments thereafter; and

(d) such assignment does not conflict with applicable Laws.

A Lender shall not be required to make any such assignment or delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

Section 2.21 Extension of Termination Date

(a) The Borrower may at any time from time to time not more than ninety (90) days and not less than thirty (30) days prior to any anniversary of the Effective Date, by notice to the Agent (who shall promptly notify the Lenders) not later than 10 Business Days prior to the date on which the Lenders are requested to respond thereto (each such date, a “Lender Notice Date”), request that each Lender extend (each such date on which such extension occurs, an “Extension Date”) such Lender’s Termination Date to the date that is one year after the Termination Date then in effect for such Lender (the “Existing Termination Date”).

(b) Each Lender, acting in its sole and individual discretion, shall, by notice to the Agent given not later than the applicable Lender Notice Date, advise the Agent whether or not such Lender agrees to such extension (each Lender that determines to so extend its Termination Date, an “Extending Lender”). Each Lender that determines not to so extend its Termination Date (a “Non-Extending Lender”) shall notify the Agent of such fact promptly after such determination (but in any event no later than the Lender Notice Date), and any Lender that does not so advise the Agent on or before the Lender Notice Date shall be deemed to be a Non-Extending Lender. The election of any Lender to agree to such extension shall not obligate any other Lender to so agree, and it is understood and agreed that no Lender shall have any obligation whatsoever to agree to any request made by the Borrower for extension of the Termination Date.

(c) The Agent shall promptly notify the Borrower of each Lender’s determination under this Section.

(d) The Borrower shall have the right, but shall not be obligated, on or before the applicable Termination Date for any Non-Extending Lender to replace such Non-Extending Lender with, and add as “Lenders” under this Agreement in place thereof, one or more financial institutions that are Eligible Assignees (each, an “Additional Commitment Lender”) approved by the Agent, each Issuing Bank and the Swingline Lender in accordance with the procedures provided in Section 8.07, each of which Additional Commitment Lenders shall have entered into an Assignment and Assumption (in accordance with and subject to the restrictions contained in Section 8.07, with the Borrower obligated to pay any applicable processing or recordation fee) with such Non-Extending Lender, pursuant to which such Additional Commitment Lenders shall, effective on or before the Termination Date for such Non-Extending Lender, assume a Revolving Credit Commitment (and, if any such Additional Commitment Lender is already a Lender, its Revolving Credit Commitment shall be in addition to such Lender’s

Revolving Credit Commitment hereunder on such date). The Agent may effect such amendments to this Agreement as are reasonably necessary to provide for any such extensions with the consent of the Borrower but without the consent of any other Lenders.

(e) If (and only if) the total of the Revolving Credit Commitments of the Lenders that have agreed to extend their Termination Date and the additional Revolving Credit Commitments of the Additional Commitment Lenders is more than 50% of the aggregate amount of the Revolving Credit Commitments in effect immediately prior to the applicable Extension Date, then, effective as of the applicable Extension Date, the Termination Date of each Extending Lender and of each Additional Commitment Lender shall be extended to the date that is one year after the Existing Termination Date (except that, if such date is not a Business Day, such Termination Date as so extended shall be the next preceding Business Day) and each Additional Commitment Lender shall thereupon become a “Lender” for all purposes of this Agreement and shall be bound by the provisions of this Agreement as a Lender hereunder and shall have the obligations of a Lender hereunder.

(f) Notwithstanding the foregoing, (x) no more than two (2) extensions of the Termination Date shall be permitted hereunder and (y) any extension of any Termination Date pursuant to this Section 2.21 shall not be effective with respect to any Extending Lender unless as of the applicable Extension Date and immediately after giving effect thereto:

- (i) there shall exist no Default;
- (ii) the representations and warranties made by the Borrower contained herein shall be true and correct; and
- (iii) the Agent shall have received a certificate from the Borrower signed by an Authorized Officer of the Borrower (A) certifying the accuracy of the foregoing clauses (i) and (ii) and (B) certifying and attaching the resolutions adopted by the Borrower approving or consenting to such extension.

(g) On the Termination Date of each Non-Extending Lender, (i) the Revolving Credit Commitment of each Non-Extending Lender shall automatically terminate and (ii) the Borrower shall repay such Non-Extending Lender in accordance with Section 2.06 (and shall pay to such Non-Extending Lender all of the other obligations owing to it under this Agreement) and after giving effect thereto shall prepay any Revolving Advances outstanding on such date (and pay any additional amounts required pursuant to Section 2.02) to the extent necessary to keep outstanding Revolving Advances ratable with any revised Ratable Share of the respective Lenders effective as of such date, and the Agent shall administer any necessary reallocation of the outstanding Advances (without regard to any minimum borrowing, pro rata borrowing and/or pro rata payment requirements contained elsewhere in this Agreement).

(h) This Section shall supersede any provisions in Section 2.02 or Section 8.01 to the contrary.

ARTICLE III

CONDITIONS PRECEDENT

Section 3.01 **Conditions Precedent to Effectiveness**. This Agreement shall become effective on and as of the first date (the “Effective Date”) on which the following conditions precedent have been satisfied:

(a) The Lenders shall have been given such access to the management, records, books of account, contracts and properties of the Borrower and its Subsidiaries as they shall have requested.

(b) The Borrower shall have paid all accrued fees and agreed expenses of the Agent, the Arrangers and the Lenders and the reasonable accrued fees and expenses of counsel to the Agent that have been invoiced at least one Business Day prior to the Effective Date.

(c) On the Effective Date, the following statements shall be true and the Agent shall have received a certificate signed by a duly authorized officer of the Borrower, dated the Effective Date, stating that:

(i) The representations and warranties contained in Section 4.01 are true and correct on and as of the Effective Date,
and

(ii) No event has occurred and is continuing that constitutes a Default.

(d) The Agent shall have received on or before the Effective Date the following, each dated such day, in form and substance satisfactory to the Agent and the Lenders:

(i) Receipt by the Agent of executed counterparts of this Agreement properly executed by a duly authorized officer of the Borrower and by each Lender.

(ii) The Notes, payable to the order of the Lenders to the extent requested by any Lender pursuant to Section 2.16.

(iii) The articles of incorporation of the Borrower certified to be true and complete as of a recent date by the appropriate governmental authority of the state or other jurisdiction of its incorporation and certified by a secretary, assistant secretary or associate secretary of the Borrower to be true and correct as of the Effective Date.

(iv) The bylaws of the Borrower certified by a secretary, assistant secretary or associate secretary of the Borrower to be true and correct as of the Effective Date.

(v) Certified copies of the resolutions of the Board of Directors of the Borrower approving this Agreement and the Notes, and of all documents evidencing other necessary corporate action and governmental approvals, if any, with respect to this Agreement and the Notes.

(vi) A certificate of the secretary, assistant secretary or associate secretary of the Borrower certifying the names and true signatures of the officers of the Borrower authorized to sign this Agreement and the Notes and the other documents to be delivered hereunder.

(vii) A certificate as of a recent date from the Borrower's state of incorporation evidencing that the Borrower is in good standing in its state of organization or formation.

(viii) A favorable opinion of counsel for the Borrower, in form and substance reasonably acceptable to the Lenders.

(ix) A favorable opinion of Sidley Austin LLP, counsel for the Agent, in form and substance reasonably acceptable to the Lenders.

(e) Concurrently with or before the Effective Date, (i) all principal, interest and other amounts outstanding under the Borrower's Existing Credit Agreement shall be repaid and satisfied in full, (ii) all commitments to extend credit under the Existing Credit Agreement shall be terminated and (iii) any letters of credit outstanding under the Existing Credit Agreement shall have been terminated, canceled, transferred or replaced; and the Agent shall have received evidence of the foregoing satisfactory to it, including an escrow agreement or payoff letter executed by the lenders or the agent under the Existing Credit Agreement if applicable.

(f) The Agent shall have received evidence satisfactory to it that certain \$500,000,000 Five-Year Credit Agreement dated as of November 4, 2011 by and among APS, as borrower, the lenders from time to time, parties thereto and Barclays Bank PLC, as administrative agent, shall have been terminated and cancelled and all indebtedness and other amounts due and unpaid thereunder shall have been (or shall concurrently with the effectiveness of this Agreement be) fully repaid on terms and conditions reasonably acceptable to the Agent.

(g) The Agent shall have received reasonably satisfactory evidence that certain \$500,000,000 Five-Year Credit Agreement by and among APS, as borrower, the lenders from time to time parties thereto and Barclays Bank PLC, as administrative agent shall be effective prior to or substantially concurrently with the effectiveness of this Agreement.

Section 3.02 Conditions Precedent to Each Credit Extension and Commitment Increase. The obligation of each Lender to make an Advance (other than an L/C Advance or an Advance made pursuant to Section 2.03(c) or Section 2.03A(c)) on the occasion of each Borrowing, the obligation of each Issuing Bank to issue a Letter of Credit, and each Commitment Increase shall be subject to the conditions precedent that the Effective Date shall have occurred and on the date of such Borrowing or such issuance (as the case may be), or the applicable Increase Date, the following statements shall be true (and each of the giving of the applicable Notice of Borrowing or request for issuance and the acceptance by the Borrower of the proceeds of such Borrowing shall constitute a representation and warranty by the Borrower that on the date of such Borrowing or date of such issuance such statements are true):

(a) the representations and warranties contained in Section 4.01 (other than Section 4.01(k), and in the case of a Borrowing or issuance of a Letter of Credit, Section 4.01(e)(ii) and 4.01(f)(ii)) are correct on and as of such date, before and after giving effect to such Borrowing or issuance of a Letter of Credit, or such Commitment Increase and to the application of the proceeds therefrom, as though made on and as of such date; and

(b) no event has occurred and is continuing, or would result from such Borrowing or issuance of a Letter of Credit, or such Commitment Increase or from the application of the proceeds therefrom, that constitutes a Default.

Each request for Credit Extension (which shall not include a Conversion or a continuation of Eurodollar Rate Advances) submitted by the Borrower shall be deemed to be a representation and warranty that the

conditions specified in Sections 3.02(a) and (b) have been satisfied on and as of the date of the applicable Credit Extension.

Section 3.03 Determinations Under Section 3.01. For purposes of determining compliance with the conditions specified in Section 3.01 and the satisfaction of each Lender with respect to letters delivered to it from the Borrower as set forth in Sections 4.01(a), 4.01(e) and 4.01(f), each Lender that has signed this Agreement shall be deemed to have consented to, approved or accepted or to be satisfied with each document or other matter required thereunder to be consented to or approved by or acceptable or satisfactory to the Lenders unless an officer of the Agent responsible for the transactions contemplated by this Agreement shall have received notice from such Lender prior to the date that the Borrower designates as the proposed Effective Date, specifying its objection thereto. The Agent shall promptly notify the Lenders and the Borrower of the occurrence of the Effective Date.

ARTICLE IV

REPRESENTATIONS AND WARRANTIES

Section 4.01 Representations and Warranties of the Borrower. The Borrower represents and warrants as follows:

(a) Each of the Borrower and each Material Subsidiary: (i) is a corporation or other entity duly organized and validly existing under the Laws of the jurisdiction of its incorporation or organization; (ii) has all requisite corporate or if the Material Subsidiary is not a corporation, other comparable power necessary to own its assets and carry on its business as presently conducted; (iii) has all governmental licenses, authorizations, consents and approvals necessary to own its assets and carry on its business as presently conducted, if the failure to have any such license, authorization, consent or approval is reasonably likely to have a Material Adverse Effect and except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion) and except that (A) APS from time to time may make minor extensions of its lines, plants, services or systems prior to the time a related franchise, certificate of convenience and necessity, license or permit is procured, (B) from time to time communities served by APS may become incorporated and considerable time may elapse before such a franchise is procured, (C) certain such franchises may have expired prior to the renegotiation thereof, (D) certain minor defects and exceptions may exist which, individually and in the aggregate, are not material and (E) certain franchises, certificates, licenses and permits may not be specific as to their geographical scope); and (iv) is qualified to do business in all jurisdictions in which the nature of the business conducted by it makes such qualification necessary and where failure so to qualify is reasonably likely to have a Material Adverse Effect.

(b) The execution, delivery and performance by the Borrower of this Agreement and the other Loan Documents, and the consummation of the transactions contemplated hereby and thereby, are within the Borrower's corporate powers, have been duly authorized by all necessary corporate action, and do not or did not (i) contravene the Borrower's articles of incorporation or by-laws, (ii) contravene any Law, decree, writ, injunction or determination of any Governmental Authority, in each case applicable to or binding upon the Borrower or any of its properties, (iii) contravene any contractual restriction binding on or affecting the Borrower or (iv) cause the creation or imposition of any Lien upon the assets of the Borrower or any Material Subsidiary, except for Liens created under this Agreement and except where such contravention or creation or imposition of such Lien is not reasonably likely to have a Material Adverse Effect.

(c) No authorization or approval or other action by, and no notice to or filing with, any Governmental Authority is required for the due execution, delivery and performance by the Borrower of this Agreement or the Notes to be delivered by it.

(d) This Agreement has been, and each of the other Loan Documents upon execution and delivery will have been, duly executed and delivered by the Borrower. This Agreement is, and each of the other Loan Documents upon execution and delivery will be, the legal, valid and binding obligation of the Borrower enforceable against the Borrower in accordance with their respective terms, subject, however, to the application by a court of general principles of equity and to the effect of any applicable bankruptcy, insolvency, reorganization, moratorium or similar Laws affecting creditors' rights generally.

(e) (i) The Consolidated balance sheet of the Borrower as of December 31, 2013, and the related Consolidated statements of income and cash flows of the Borrower for the fiscal year then ended, accompanied by an opinion thereon of Deloitte & Touche LLP, independent registered public accountants and the Consolidated balance sheet of the Borrower as of March 31, 2014, and the related Consolidated statements of income and cash flows of the Borrower for the three months then ended, duly certified by the chief financial officer of the Borrower, copies of which have been furnished to the Administrative Agent, fairly present in all material respects, subject, in the case of said balance sheet at March 31, 2014, and said statements of income and cash flows for the three months then ended, to year-end audit adjustments, the Consolidated financial condition of the Borrower as at such dates and the Consolidated results of the operations of the Borrower for the periods ended on such dates, all in accordance with GAAP (except as disclosed therein). (ii) Except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion), since December 31, 2013, there has been no Material Adverse Effect.

(f) There is no pending or, to the knowledge of an Authorized Officer of the Borrower, threatened action, suit, investigation, litigation or proceeding, including, without limitation, any Environmental Action, affecting the Borrower or any of its Subsidiaries before any court, governmental agency or arbitrator that (i) purports to affect the legality, validity or enforceability of this Agreement or any other Loan Document or the consummation of the transactions contemplated hereby or (ii) would be reasonably likely to have a Material Adverse Effect (except as disclosed to the Agent in the SEC Reports or by means of a letter from the Borrower to the Lenders (such letter, if any, to be delivered to the Agent for prompt distribution to the Lenders) delivered prior to the execution and delivery of this Agreement (which, in each case, shall be satisfactory to each Lender in its sole discretion)) and there has been no adverse change in the status, or financial effect on the Borrower or any of its Subsidiaries, of such disclosed litigation that would be reasonably likely to have a Material Adverse Effect.

(g) No proceeds of any Advance will be used to acquire any equity security not issued by the Borrower of a class that is registered pursuant to Section 12 of the Securities Exchange Act of 1934.

(h) The Borrower is not engaged in the business of extending credit for the purpose of purchasing or carrying margin stock (within the meaning of Regulation U issued by the Board of Governors of the Federal Reserve System), and no proceeds of any Advance will be used to purchase or carry any margin stock or to extend credit to others for the purpose of purchasing or carrying any margin stock, in any case in violation of Regulation U. After application of the proceeds of any Advance, not more than 25% of the value of the assets subject to any restriction under this Agreement on the right to sell, pledge, transfer, or otherwise dispose of such assets is represented by margin stock.

(i) The Borrower and its Subsidiaries have filed all United States of America Federal income tax returns and all other material tax returns which are required to be filed by them and have paid all taxes due pursuant to such returns or pursuant to any assessment received by the Borrower or any of its Subsidiaries, except to the extent that (i) such taxes are being contested in good faith and by appropriate proceedings and that appropriate reserves for the payment thereof have been maintained by the Borrower and its Subsidiaries in accordance with GAAP or (ii) the failure to make such filings or such payments is not reasonably likely to have a Material Adverse Effect. The charges, accruals and reserves on the books of the Borrower and its Material Subsidiaries as set forth in the most recent financial statements of the Borrower delivered to the Agent pursuant to Section 4.01(e) or Section 5.01(h)(i) or (ii) hereof in respect of taxes and other governmental charges are, in the opinion of the Borrower, adequate.

(j) Set forth on Schedule 4.01(j) hereto (as such schedule may be modified from time to time by the Borrower by written notice to the Agent) is a complete and accurate list of all the Material Subsidiaries of the Borrower.

(k) Set forth on Schedule 4.01(k) hereto is a complete and accurate list identifying any Indebtedness of the Borrower outstanding in a principal amount equal to or exceeding \$5,000,000 and which is not described in the financial statements referred to in Section 4.01(e).

(l) The Borrower is not an “investment company”, or a company “controlled” by an “investment company”, within the meaning of the Investment Company Act of 1940, as amended.

(m) No report, certificate or other written information furnished by the Borrower or any of its Subsidiaries to any Agent or any Lender in connection with the transactions contemplated hereby and the negotiation of this Agreement or delivered hereunder or any other Loan Document (as modified or supplemented by other information so furnished) at the time so furnished, when taken together as a whole with all such written information so furnished, contains an untrue statement of a material fact or omits to state a material fact necessary in order to make the statements therein, in the light of the circumstances under which they were made, not misleading, except as would not reasonably be expected to result in a Material Adverse Effect; provided that with respect to any projected financial information, forecasts, estimates or forward-looking information, the Borrower represents only that such information and materials have been prepared in good faith on the basis of assumptions believed to be reasonable at the time of preparation of such forecasts, and no representation or warranty is made as to the actual attainability of any such projections, forecasts, estimates or forward-looking information.

(n) Neither the Borrower nor any of its Subsidiaries or, to the knowledge of the Borrower, any of their respective Affiliates over which any of the foregoing exercises management control (each, a “Controlled Affiliate”) or any director or officer of the Borrower, any of its Subsidiaries or any of their respective Controlled Affiliates (each, a “Manager”) is a Prohibited Person, and the Borrower, its Subsidiaries and, to the knowledge of the Borrower, such Controlled Affiliates are in compliance with all applicable orders, rules and regulations of OFAC.

(o) Neither the Borrower nor any of its Subsidiaries or, to the knowledge of the Borrower, any of their respective Controlled Affiliates or Managers: (i) is the target of Sanctions; (ii) is owned or controlled by, or acts on behalf of, any Person that is targeted by United States or multilateral economic or trade sanctions currently in force; (iii) is, or is owned or controlled by, a Person who is located, organized or resident in a country or territory that is, or whose government is, the subject of Sanctions, including, without limitation, Cuba, Iran, North Korea, Sudan and Syria, or (iv) is named, identified or described on any list of Persons with whom United States Persons may not conduct business, including any such blocked persons list, designated nationals list, denied persons list, entity list, debarred party list,

unverified list, sanctions list or other such lists published or maintained by the United States, including OFAC, the United States Department of Commerce or the United States Department of State.

(p) None of the Borrower's or its Subsidiaries' assets constitute property of, or are beneficially owned, directly or indirectly, by any Person that is the target of Sanctions, including but not limited to, the International Emergency Economic Powers Act, 50 U.S.C. §§ 1701 et seq., The Trading with the Enemy Act, 50 U.S.C. App. 1 et seq. (the " Trading With the Enemy Act "), any of the foreign assets control regulations of the Treasury (31 C.F.R., Subtitle B, Chapter V, as amended) (the " Foreign Assets Control Regulations ") or any enabling legislation or regulations promulgated thereunder or executive order relating thereto (which includes, without limitation, (i) Executive Order No. 13224, effective as of September 24, 2001, and relating to Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism (66 Fed. Reg. 49079 (2001)) (the " Executive Order ") and (ii) the USA PATRIOT Act), if the result of such ownership would be that any Credit Extension made by any Lender would be in violation of law (" Embargoed Person "); (a) no Embargoed Person has any interest of any nature whatsoever in the Borrower if the result of such interest would be that any Credit Extension would be in violation of law; (b) the Borrower has not engaged in business with Embargoed Persons if the result of such business would be that any Credit Extension made by any Lender would be in violation of law; (c) the Borrower will not, directly or indirectly, use the proceeds of the Credit Extension, or lend, contribute or otherwise make available such proceeds to any subsidiary, joint venture partner or other Person, (i) to fund any activities or business of or with any Person, or in any country or territory, that, at the time of such funding, is, or whose government is, the subject of Sanctions, or (ii) in any other manner that would result in a violation of Sanctions or Anti-Corruption Laws by any Person (including any Person participating in the Credit Extensions, whether as a Lender or otherwise), and (d) neither the Borrower nor any Controlled Affiliate (i) is or will become a "blocked person" as described in the Executive Order, the Trading With the Enemy Act or the Foreign Assets Control Regulations or (ii) to the knowledge of the Borrower, engages in any dealings or transactions, or be otherwise associated, with any such "blocked person". For purposes of determining whether or not a representation is true under this Section 4.01(p), the Borrower shall not be required to make any investigation into (x) the ownership of publicly traded stock or other publicly traded securities or (y) the beneficial ownership of any collective investment fund.

(q) Neither the Borrower nor any of its Subsidiaries or, to the knowledge of the Borrower and its Subsidiaries, any of their respective Managers, has failed to comply with the U.S. Foreign Corrupt Practices Act, as amended from time to time (the " FCPA "), or any other applicable anti-bribery or anti-corruption law, and it and they have not made, offered, promised or authorized, and will not make, offer, promise or authorize, whether directly or indirectly, any payment, of anything of value to a Government Official while knowing or having a reasonable belief that all or some portion will be used for the purpose of: (a) influencing any act, decision or failure to act by a Government Official in his or her official capacity, (b) inducing a Government Official to use his or her influence with a government or instrumentality to affect any act or decision of such government or entity or (c) securing an improper advantage, in each case in order to obtain, retain or direct business.

ARTICLE V

COVENANTS OF THE BORROWER

Section 5.01 Affirmative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower shall:

(a) Compliance with Laws, Etc. (i) Comply, and cause each of its Material Subsidiaries to comply, in all material respects, with all applicable Laws of Governmental Authorities, such compliance to include, without limitation, compliance with ERISA and Environmental Laws, unless the failure to so comply is not reasonably likely to have a Material Adverse Effect and (ii) comply at all times with all Laws, orders, decrees, writs, injunctions or determinations of any Governmental Authority relating to the incurrence or maintenance of Indebtedness by the Borrower, such compliance to include, without limitation, compliance with the USA PATRIOT Act, all applicable orders, rules and regulations of OFAC, the FCPA and the Racketeer Influenced and Corrupt Organizations Chapter of the Organized Crime Control Act of 1970, except (other than in the case of the USA PATRIOT Act, the applicable orders, rules and regulations of OFAC, or the FCPA) to the extent that the failure to do so could not reasonably be expected to have a Material Adverse Effect.

(b) Payment of Taxes, Etc. Pay and discharge, and cause each of its Subsidiaries to pay and discharge, before the same shall become delinquent, all taxes, assessments and governmental charges or levies imposed upon it or upon its property; provided, however, that neither the Borrower nor any of its Subsidiaries shall be required to pay or discharge any such tax, assessment, charge or levy (i) that is being contested in good faith and by proper proceedings and as to which appropriate reserves are being maintained in accordance with GAAP or (ii) if the failure to pay such tax, assessment, charge or levy is not reasonably likely to have a Material Adverse Effect.

(c) Maintenance of Insurance. Maintain, and cause each of its Material Subsidiaries to maintain, insurance with responsible and reputable insurance companies or associations in such amounts and covering such risks as is usually carried by companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates; provided, however, that the Borrower and its Subsidiaries may self-insure to the same extent as other companies engaged in similar businesses and owning similar properties in the same general areas in which the Borrower or such Subsidiary operates and to the extent consistent with prudent business practice.

(d) Preservation of Corporate Existence, Etc. Preserve and maintain, and cause each of its Material Subsidiaries to preserve and maintain, its corporate existence, rights (charter and statutory) and franchises (other than "franchises" as described in Arizona Revised Statutes, Section 40-283 or any successor provision) reasonably necessary in the normal conduct of its business, if the failure to maintain such rights or privileges is reasonably likely to have a Material Adverse Effect, and, in the case of APS, will cause APS to use its commercially reasonable efforts to preserve and maintain such franchises reasonably necessary in the normal conduct of its business, except that (i) APS from time to time may make minor extensions of its lines, plants, services or systems prior to the time a related franchise, certificate of convenience and necessity, license or permit is procured, (ii) from time to time communities served by APS may become incorporated and considerable time may elapse before such a franchise is procured, (iii) certain such franchises may have expired prior to the renegotiation thereof, (iv) certain minor defects and exceptions may exist which, individually and in the aggregate, are not material and (v) certain franchises, certificates, licenses and permits may not be specific as to their geographical scope; provided, however, that the Borrower and its Subsidiaries may consummate any merger or consolidation permitted under Section 5.02(b).

(e) Visitation Rights. At any reasonable time and from time to time, permit and cause each of its Subsidiaries to permit the Agent or any of the Lenders or any agents or representatives thereof, to examine and make copies of and abstracts from the records and books of account of, and visit the properties of, the Borrower and any of its Subsidiaries, and to discuss the affairs, finances and accounts of the Borrower and any of its Subsidiaries with any of their officers or directors; provided, however, that the Borrower and its Subsidiaries reserve the right to restrict access to any of its properties in accordance with reasonably adopted procedures relating to safety and security; and provided further that the costs and

expenses incurred by such Lender or agents or representatives in connection with any such examinations, copies, abstracts, visits or discussions shall be, upon the occurrence and during the continuation of a Default, for the account of the Borrower and, in all other circumstances, for the account of such Lender.

(f) Keeping of Books. Keep, and cause each of its Material Subsidiaries to keep, proper books of record and account, in which full and correct entries shall be made of all financial transactions and the assets and business of the Borrower and each such Subsidiary in a manner that permits the preparation of financial statements in accordance with GAAP.

(g) Maintenance of Properties, Etc. Keep, and cause each Material Subsidiary to keep, all property useful and necessary in its business in good working order and condition (ordinary wear and tear excepted), if the failure to do so is reasonably likely to have a Material Adverse Effect, it being understood that this covenant relates only to the working order and condition of such properties and shall not be construed as a covenant not to dispose of properties.

(h) Reporting Requirements. Furnish to the Agent:

(i) as soon as available and in any event within 50 days after the end of each of the first three fiscal quarters of each fiscal year of the Borrower commencing with the fiscal quarter ending June 30, 2014, (A) for each such fiscal quarter of the Borrower, Consolidated statements of income and cash flows of the Borrower for such fiscal quarter and the related Consolidated balance sheet of the Borrower as of the end of such fiscal quarter, setting forth in each case in comparative form the corresponding figures for the corresponding fiscal quarter in (or, in the case of the balance sheet, as of the end of) the preceding fiscal year and (B) for the period commencing at the end of the previous fiscal year and ending with the end of such fiscal quarter, Consolidated statements of income and cash flows of the Borrower for such period setting forth in each case in comparative form the corresponding figures for the corresponding period in the preceding fiscal year; provided that so long as the Borrower remains subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Borrower may provide, in satisfaction of the requirements of this first sentence of this Section 5.01(h)(i), its report on Form 10-Q for such fiscal quarter. Each set of financial statements provided under this Section 5.01(h)(i) shall be accompanied by a certificate of an Authorized Officer, which certificate shall state that said Consolidated financial statements fairly present in all material respects the Consolidated financial condition and results of operations and cash flows of the Borrower in accordance with GAAP (except as disclosed therein), as at the end of, and for, such period (subject to normal year-end audit adjustments) and shall set forth reasonably detailed calculations demonstrating compliance with Section 5.03;

(ii) as soon as available and in any event within 90 days after the end of each fiscal year of the Borrower, audited Consolidated statements of income and cash flows of the Borrower for such year and the related Consolidated balance sheet of the Borrower as at the end of such year, setting forth in each case in comparative form the corresponding figures for the preceding fiscal year; provided that, so long as the Borrower remains subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, the Borrower may provide, in satisfaction of the requirements of this first sentence of this Section 5.01(h)(ii), its report on Form 10-K for such fiscal year. Each set of financial statements provided pursuant to this Section 5.01(h)(ii) shall be accompanied by (A) an opinion thereon of independent certified public accountants of recognized national standing, which opinion shall state that said Consolidated financial statements fairly present in all material respects the Consolidated financial condition and results of operations of the Borrower as at the end of, and for, such fiscal year, in accordance with GAAP (except as

disclosed therein) and (B) a certificate of an Authorized Officer, which certificate shall set forth reasonably detailed calculations demonstrating compliance with Section 5.03;

(iii) as soon as possible and in any event within five days after any Authorized Officer of the Borrower knows of the occurrence of each Default continuing on the date of such statement, a statement of an Authorized Officer of the Borrower setting forth details of such Default and the action that the Borrower has taken and proposes to take with respect thereto;

(iv) promptly after the sending or filing thereof, copies of all reports and registration statements (other than exhibits thereto and registration statements on Form S-8 or its equivalent) that the Borrower or any Subsidiary files with the Securities and Exchange Commission;

(v) promptly after an Authorized Officer becomes aware of the commencement thereof, notice of all actions and proceedings before any court, governmental agency or arbitrator affecting the Borrower or any of its Subsidiaries of the type described in Section 4.01(f), except with respect to any matter referred to in Section 4.01(f)(ii), to the extent disclosed in a report on Form 8-K, Form 10-Q or Form 10-K of the Borrower;

(vi) promptly after an Authorized Officer becomes aware of the occurrence thereof, notice of any change by Moody's or S&P of their respective Public Debt Rating or of the cessation (or subsequent commencement) by Moody's or S&P of publication of their respective Public Debt Rating;

(vii) promptly after the occurrence of any ERISA Event, together with (x) a written statement of an Authorized Officer of the Borrower specifying the details of such ERISA Event and the action that the Borrower has taken and proposes to take with respect thereto, (y) a copy of any notice with respect to such ERISA Event that may be required to be filed with the PBGC and (z) a copy of any notice delivered by the PBGC to the Borrower or an ERISA Affiliate with respect to such ERISA Event; and

(viii) such other information respecting the Borrower or any of its Subsidiaries as any Lender through the Agent may from time to time reasonably request.

Information required to be delivered pursuant to Sections 5.01(h)(i), (ii) and (iv) above shall be deemed to have been delivered on the date on which the Borrower provides notice to the Agent that such information has been posted on the Borrower's website on the Internet at www.pinnaclewest.com, at sec.gov/edaux/searches.htm or at another website identified in such notice and accessible by the Lenders without charge; provided that (i) such notice may be included in a certificate delivered pursuant to Section 5.01(h)(i) or (ii) and (ii) the Borrower shall deliver paper copies of the information referred to in Section 5.01(h)(i), (ii), and (iv) to any Lender which requests such delivery.

(i) Change in Nature of Business. Conduct directly or through its Subsidiaries the same general type of business conducted by the Borrower and its Material Subsidiaries on the date hereof.

Section 5.02 Negative Covenants. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower shall not:

(a) Liens, Etc. Directly or indirectly create, incur, assume or permit to exist any Lien securing Indebtedness for borrowed money on or with respect to any property or asset (including, without limitation, the capital stock of APS) of the Borrower, whether now owned or held or hereafter acquired

(unless it makes, or causes to be made, effective provision whereby the Obligations will be equally and ratably secured with any and all other obligations thereby secured so long as such other Indebtedness shall be so secured, such security to be pursuant to an agreement reasonably satisfactory to the Required Lenders); provided, however, that this Section 5.02(a) shall not apply to Liens securing Indebtedness for borrowed money (other than Indebtedness for borrowed money secured by the capital stock of APS) which do not in the aggregate exceed at any time outstanding the principal amount of \$50,000,000.

(b) Mergers, Etc. Merge or consolidate with or into any Person, or permit any of its Material Subsidiaries to do so, except that (i) any Material Subsidiary of the Borrower may merge or consolidate with or into any other Material Subsidiary of the Borrower, (ii) any Subsidiary of the Borrower may merge into the Borrower or any Material Subsidiary of the Borrower and (iii) the Borrower or any Material Subsidiary may merge with any other Person so long as the Borrower or such Material Subsidiary is the surviving corporation, provided, in each case, that no Default shall have occurred and be continuing at the time of such proposed transaction or would result therefrom.

(c) Sales, Etc. of Assets. Sell, lease, transfer or otherwise dispose of, or permit any of its Material Subsidiaries to sell, lease, transfer or otherwise dispose of, any assets, or grant any option or other right to purchase, lease or otherwise acquire any assets to any Person other than the Borrower or any Subsidiary of the Borrower, except (i) dispositions in the ordinary course of business, including, without limitation, sales or other dispositions of electricity and related and ancillary services, other commodities, emissions credits and similar mechanisms for reducing pollution, and damaged, obsolete, worn out or surplus property no longer required or useful in the business or operations of the Borrower or any of its Subsidiaries, (ii) sale or other disposition of patents, copyrights, trademarks or other intellectual property that are, in the Borrower's reasonable judgment, no longer economically practicable to maintain or necessary in the conduct of the business of the Borrower or its Subsidiaries and any license or sublicense of intellectual property that does not interfere with the business of the Borrower or any Material Subsidiary, (iii) in a transaction authorized by subsection (b) of this Section, (iv) individual dispositions occurring in the ordinary course of business which involve assets with a book value not exceeding \$5,000,000, (v) sales, leases, transfers or dispositions of assets during the term of this Agreement having an aggregate book value not to exceed 30% of the total of all assets properly appearing on the most recent balance sheet of the Borrower provided pursuant to Section 4.01(e)(i) or 5.01(h)(ii) hereof, (vi) at any time following the consummation of the Four Corners Acquisition, which occurred on December 30, 2013, and the closure by APS of Units 1, 2 and 3 of the Four Corners Power Plant near Farmington, New Mexico, as described in the SEC Reports, disposition of all or any portion of APS' interests in such Units 1, 2 and 3, and (vii) any Lien permitted under Section 5.02(a).

(d) Ownership of APS. Except to the extent permitted under Section 5.02(b), the Borrower will at all times continue to own directly or indirectly at least 80% of the outstanding capital stock of APS.

Section 5.03 Financial Covenant. So long as any Advance shall remain unpaid, any Letter of Credit shall remain outstanding or any Lender shall have any Commitment hereunder, the Borrower will maintain a ratio of (a) Consolidated Indebtedness to (b) the sum of Consolidated Indebtedness plus Consolidated Net Worth of not greater than 0.65 to 1.0.

ARTICLE VI

EVENTS OF DEFAULT

Section 6.01 Events of Default. If any of the following events (“Events of Default”) shall occur and be continuing:

- (a) The Borrower shall fail to pay when due (i) any principal of any Advance, (ii) any drawing under any Letter of Credit, or (iii) any interest on any Advance or any other fees or other amounts payable under this Agreement or any other Loan Documents, and (in the case of this clause (iii) only), such failure shall continue for a period of three Business Days; or
 - (b) Any representation or warranty made by the Borrower herein or by the Borrower (or any of its officers) in any certificate or other document delivered in connection with this Agreement or any other Loan Document shall prove to have been incorrect in any material respect when made or deemed made or furnished; or
 - (c) (i) The Borrower shall fail to perform or observe any term, covenant or agreement contained in Section 5.01(d) (as to the corporate existence of the Borrower), (h)(iii) or (h)(vi), 5.02 or 5.03, or (ii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in Section 5.01(e) if such failure shall remain unremedied for 15 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender or (iii) the Borrower shall fail to perform or observe any other term, covenant or agreement contained in this Agreement or any other Loan Document on its part to be performed or observed if such failure shall remain unremedied for 30 days after written notice thereof shall have been given to the Borrower by the Agent or any Lender; or
 - (d) (i) The Borrower or any of its Material Subsidiaries shall fail to pay (A) any principal of or premium or interest on any Indebtedness that is outstanding in a principal amount of at least \$35,000,000 in the aggregate (but excluding Indebtedness outstanding hereunder), or (B) an amount, or post collateral as contractually required in an amount, of at least \$35,000,000 in respect of any Hedge Agreement, of the Borrower or such Material Subsidiary (as the case may be), in each case, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in the agreement or instrument relating to such Indebtedness or Hedge Agreement; or (ii) any event of default shall exist under any agreement or instrument relating to any such Indebtedness and shall continue after the applicable grace period, if any, specified in such agreement or instrument, if the effect of such event is to accelerate, or to permit the acceleration of, the maturity of such Indebtedness; or
 - (e) The Borrower or any of its Material Subsidiaries shall fail to pay any principal of or premium or interest in respect of any operating lease in respect of which the payment obligations of the Borrower have a present value of at least \$35,000,000, when the same becomes due and payable (whether by scheduled maturity, required prepayment, acceleration, demand or otherwise), and such failure shall continue after the applicable grace period, if any, specified in such operating lease, if the effect of such failure is to terminate, or to permit the termination of, such operating lease; or
 - (f) The Borrower or any of its Material Subsidiaries shall generally not pay its debts as such debts become due, or shall admit in writing its inability to pay its debts generally, or shall make a general assignment for the benefit of creditors; or any proceeding shall be instituted by or against the Borrower or any of its Material Subsidiaries seeking to adjudicate it a bankrupt or insolvent, or seeking liquidation, winding up, reorganization, arrangement, adjustment, protection, relief, or composition of it or its debts under any Debtor Relief Law, or seeking the entry of an order for relief or the appointment of a receiver,
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trustee, custodian or other similar official for it or for any substantial part of its property and, in the case of any such proceeding instituted against it (but not instituted by it), either such proceeding shall remain undismissed or unstayed for a period of 60 days, or any of the actions sought in such proceeding (including, without limitation, the entry of an order for relief against, or the appointment of a receiver, trustee, custodian or other similar official for, it or for any substantial part of its property) shall occur; or the Borrower or any of its Material Subsidiaries shall take any corporate action to authorize any of the actions set forth above in this subsection (f); or

(g) Judgments or orders for the payment of money that exceeds any applicable insurance coverage (the insurer of which shall be rated at least "A" by A.M. Best Company) by more than \$35,000,000 in the aggregate shall be rendered against the Borrower or any Material Subsidiary and such judgments or orders shall continue unsatisfied or unstayed for a period of 45 days; or

(h) (i) any "person" or "group" (as such terms are used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, but excluding any employee benefit plan of such person or its subsidiaries, and any person or entity acting in its capacity as trustee, agent or other fiduciary or administrator of any such plan) becomes the "beneficial owner" (as defined in Rules 13d-3 and 13d-5 under the Securities Exchange Act of 1934), directly or indirectly, of 30% or more of the equity securities of the Borrower entitled to vote for members of the board of directors of the Borrower; or (ii) during any period of 24 consecutive months, a majority of the members of the board of directors of the Borrower cease (other than due to death or disability) to be composed of individuals (A) who were members of that board on the first day of such period, (B) whose election or nomination to that board was approved by individuals referred to in clause (A) above constituting at the time of such election or nomination at least a majority of that board or (C) whose election or nomination to that board was approved by individuals referred to in clauses (A) and (B) above constituting at the time of such election or nomination at least a majority of that board; or

(i) (i) An ERISA Event occurs with respect to a Pension Plan or Multiemployer Plan which has resulted or could reasonably be expected to result in liability of the Borrower under Title IV of ERISA to the Pension Plan, Multiemployer Plan or the PBGC in an aggregate amount in excess of \$35,000,000, or (ii) the Borrower or any ERISA Affiliate fails to pay when due, after the expiration of any applicable grace period, any installment payment with respect to its withdrawal liability under Section 4201 of ERISA under a Multiemployer Plan in an aggregate amount in excess of \$35,000,000;

then, and in any such event, the Agent shall at the request, or may with the consent, of the Required Lenders, by notice to the Borrower, (i) declare the obligation of each Lender to make Advances (other than L/C Advances) and of the Issuing Banks to issue Letters of Credit to be terminated, whereupon the same shall forthwith terminate, (ii) declare the Advances, all interest thereon and all other amounts payable under this Agreement to be forthwith due and payable, whereupon the Advances, all such interest and all such amounts shall become and be forthwith due and payable, without presentment, demand, protest or further notice of any kind, all of which are hereby expressly waived by the Borrower; provided, however,, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States of America, (A) the obligation of each Lender to make Advances (other than L/C Advances) and of the Issuing Banks to issue Letters of Credit shall automatically be terminated and (B) the Advances, all such interest and all such amounts shall automatically become and be due and payable, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower and (iii) exercise all rights and remedies available to it under this Agreement, the other Loan Documents and applicable Law.

Section 6.02 Actions in Respect of Letters of Credit upon Default. If any Event of Default shall have occurred and be continuing, the Agent may with the consent, or shall at the request, of the

Required Lenders, irrespective of whether it is taking any of the actions described in Section 6.01 or otherwise, (a) make demand upon the Borrower to, and forthwith upon such demand the Borrower will Cash Collateralize the aggregate Available Amount of all Letters of Credit then outstanding (whether or not any beneficiary under any Letter of Credit shall have drawn or be entitled at such time to draw thereunder) or (b) make such other arrangements in respect of the outstanding Letters of Credit as shall be acceptable to the Required Lenders, provided, however, that in the event of an actual or deemed entry of an order for relief with respect to the Borrower under the Bankruptcy Code of the United States of America, the Borrower will Cash Collateralize the aggregate Available Amount of all Letters of Credit then outstanding, without presentment, demand, protest or any notice of any kind, all of which are hereby expressly waived by the Borrower. If at any time the Agent determines that any funds held in the L/C Cash Deposit Account are subject to any right or interest of any Person other than the Agent, the Issuing Banks and the Lenders or that the total amount of such funds is less than the aggregate Available Amount of all Letters of Credit, the Borrower will, forthwith upon demand by the Agent, pay to the Agent, as additional funds to be deposited and held in the L/C Cash Deposit Account, an amount equal to the excess of (a) such aggregate Available Amount over (b) the total amount of funds, if any, then held in the L/C Cash Deposit Account that are free and clear of any such right and interest. Upon the drawing of any Letter of Credit, to the extent funds are on deposit in the L/C Cash Deposit Account, such funds shall be applied to reimburse the Issuing Banks to the extent permitted by applicable Law, or each Lender to the extent such Lender has funded a Revolving Advance in respect of such Letter of Credit. The Borrower hereby grants to the Agent, for the benefit of the Issuing Banks and the Lenders, a Lien upon and security interest in the L/C Cash Deposit Account and all amounts held therein from time to time as security for the L/C Obligations, and for application to the Borrower's reimbursement obligations as and when the same shall arise. The Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. After all such Letters of Credit shall have expired or been fully drawn upon and all other obligations of the Borrower hereunder and under the other Loan Documents shall have been paid in full, the balance, if any, in such L/C Cash Deposit Account shall be promptly returned to the Borrower.

ARTICLE VII

THE AGENT

Section 7.01 Appointment and Authority. Each of the Lenders (for purposes of this Article, references to the Lenders shall also mean the Issuing Banks) hereby irrevocably appoints Barclays to act on its behalf as the Agent hereunder and under the other Loan Documents and authorizes the Agent to take such actions on its behalf and to exercise such powers as are delegated to the Agent by the terms hereof or thereof, together with such actions and powers as are reasonably incidental thereto. Except as set forth in Section 7.06, the provisions of this Article are solely for the benefit of the Agent and the Lenders, and neither the Borrower nor any of its Affiliates shall have rights as a third party beneficiary of any of such provisions.

Section 7.02 Rights as a Lender. The Person serving as the Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Agent and the term "Lender" or "Lenders" shall, unless otherwise expressly indicated or unless the context otherwise requires, include the Person serving as the Agent hereunder in its individual capacity. Such Person and its Affiliates may accept deposits from, lend money to, act as the financial advisor or in any other advisory capacity for and generally engage in any kind of business with the Borrower or any Subsidiary or other Affiliate thereof as if such Person were not the Agent hereunder and without any duty to account therefor to the Lenders.

Section 7.03 **Exculpatory Provisions**. The Agent shall not have any duties or obligations except those expressly set forth herein and in the other Loan Documents. Without limiting the generality of the foregoing, the Agent:

- (a) shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing;
- (b) shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby or by the other Loan Documents that the Agent is required to exercise as directed in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be expressly provided for herein), provided that the Agent shall not be required to take any action that, in its opinion or the opinion of its counsel, may expose the Agent to liability or that is contrary to any Loan Document or applicable Law; and
- (c) shall not, except as expressly set forth herein and in the other Loan Documents, have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to the Borrower or any of its Affiliates that is communicated to or obtained by the Person serving as the Agent or any of its Affiliates in any capacity.

The Agent shall not be liable for any action taken or not taken by it (i) with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary, or as the Agent shall believe in good faith shall be necessary, under the circumstances as provided in Section 6.01 and 8.01) or (ii) in the absence of its own gross negligence or willful misconduct. The Agent shall be deemed not to have knowledge of any Default unless and until notice describing such Default is given to the Agent by the Borrower or a Lender.

The Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with this Agreement or any other Loan Document, (ii) the contents of any certificate, report or other document delivered hereunder or thereunder or in connection herewith or therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth herein or therein or the occurrence of any Default, (iv) the validity, enforceability, effectiveness or genuineness of this Agreement, any other Loan Document or any other agreement, instrument or document or (v) the satisfaction of any condition set forth in Article III or elsewhere herein, other than to confirm receipt of items expressly required to be delivered to the Agent.

Section 7.04 **Reliance by Agent**. The Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing (including any electronic message, internet or intranet website posting or other distribution) believed by it to be genuine and to have been signed, sent or otherwise authenticated by the proper Person. The Agent also may rely upon any statement made to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. In determining compliance with any condition hereunder to the making of any Advance, or the issuance of a Letter of Credit, that by its terms must be fulfilled to the satisfaction of a Lender or an Issuing Bank, the Agent may presume that such condition is satisfactory to such Lender or such Issuing Bank unless the Agent shall have received notice to the contrary from such Lender or such Issuing Bank prior to the making of such Advance or the issuance of such Letter of Credit. The Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in good faith in accordance with the advice of any such counsel, accountants or experts.

Section 7.05 Delegation of Duties. The Agent may perform any and all of its duties and exercise its rights and powers hereunder or under any other Loan Document by or through any one or more sub-agents appointed by the Agent. The Agent and any such sub-agent may perform any and all of its duties and exercise its rights and powers by or through their respective Related Parties. The exculpatory provisions of this Article shall apply to any such sub-agent and to the Related Parties of the Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Agent.

Section 7.06 Resignation of Agent. The Agent may at any time give notice of its resignation to the Lenders and the Borrower. Upon receipt of any such notice of resignation, the Required Lenders shall have the right, with the consent of the Borrower so long as no Event of Default has occurred and is continuing, to appoint a successor, which shall be a bank with an office in the United States of America, or an Affiliate of any such bank with an office in the United States of America. If no such successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 45 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of the Lenders, appoint a successor Agent meeting the qualifications set forth above; provided that if the Agent shall notify the Borrower and the Lenders that no qualifying Person has accepted such appointment, then such resignation shall nonetheless become effective in accordance with such notice and (1) the retiring Agent shall be discharged from its duties and obligations hereunder and under the other Loan Documents (except that in the case of any collateral security held by the Agent on behalf of the Lenders under any of the Loan Documents, the retiring Agent shall continue to hold such collateral security until such time as a successor Agent is appointed) and (2) all payments, communications and determinations provided to be made by, to or through the Agent shall instead be made by or to each Lender directly, until such time as the Required Lenders appoint a successor Agent as provided for above in this Section. Upon the acceptance of a successor's appointment as Agent hereunder, such successor shall succeed to and become vested with all of the rights, powers, privileges and duties of the retiring (or retired) Agent, and the retiring Agent shall be discharged from all of its duties and obligations hereunder or under the other Loan Documents (if not already discharged therefrom as provided above in this Section). The fees payable by the Borrower to a successor Agent shall be as agreed between the Borrower and such successor. After the retiring Agent's resignation hereunder and under the other Loan Documents, the provisions of this Article and Section 8.04 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while the retiring Agent was acting as Agent.

Section 7.07 Non-Reliance on Agent and Other Lenders. Each Lender acknowledges that it has, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Agent or any other Lender or any of their Related Parties and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or any related agreement or any document furnished hereunder or thereunder.

Section 7.08 No Other Duties, Etc. Anything herein to the contrary notwithstanding, none of the Arrangers, Syndication Agents, Documentation Agents or other agents listed on the cover page hereof shall have any powers, duties or responsibilities under this Agreement or any of the other Loan Documents, except in its capacity, as applicable, as the Agent or a Lender hereunder.

Section 7.09 Issuing Banks. Each Issuing Bank shall act on behalf of the Lenders with respect to any Letters of Credit issued by it and the documents associated therewith, and each Issuing Bank shall

have all of the benefits and immunities provided in this Article VII (other than Section 7.02) to the same extent as such provisions apply to the Agent.

ARTICLE VIII

MISCELLANEOUS

Section 8.01 Amendments, Etc. Except as provided in Section 2.21 with respect to the extension of the then-existing Termination Date, no amendment or waiver of any provision of this Agreement or any other Loan Document, nor consent to any departure by the Borrower therefrom, shall in any event be effective unless the same shall be in writing and signed by the Required Lenders, and then such waiver or consent shall be effective only in the specific instance and for the specific purpose for which given; provided, however, that no amendment, waiver or consent shall

(a) unless agreed to by each Lender directly affected thereby, (i) reduce or forgive the principal amount of any Advance or the Borrower's obligations to reimburse any drawing on a Letter of Credit, reduce the rate of or forgive any interest thereon (provided that only the consent of the Required Lenders shall be required to waive the applicability of any post-default increase in interest rates), or reduce or forgive any fees hereunder (other than fees payable to the Agent, the Arrangers, any Issuing Bank or the Swingline Lender, if any, for their own respective accounts), (ii) extend the final scheduled maturity date or any other scheduled date for the payment of any principal of or interest on any Advance, extend the time of payment of any obligation of the Borrower to reimburse any drawing on any Letter of Credit or any interest thereon, extend the expiry date of any Letter of Credit beyond the Letter of Credit Expiration Date, or extend the time of payment of any fees hereunder (other than fees payable to the Agent, the Arrangers, any Issuing Bank or the Swingline Lender, if any, for their own respective accounts), or (iii) increase any Revolving Credit Commitment of any such Lender over the amount thereof in effect or extend the maturity thereof (it being understood that a waiver of any condition precedent set forth in Section 3.02 or of any Default, if agreed to by the Required Lenders or all Lenders (as may be required hereunder with respect to such waiver), shall not constitute such an increase);

(b) unless agreed to by all of the Lenders, (i) reduce the percentage of the aggregate Revolving Credit Commitments or of the aggregate unpaid principal amount of the Advances, or the number or percentage of Lenders, that shall be required for the Lenders or any of them to take or approve, or direct the Agent to take, any action hereunder or under any other Loan Document (including as set forth in the definition of "Required Lenders"), (ii) change any other provision of this Agreement or any of the other Loan Documents requiring, by its terms, the consent or approval of all the Lenders for such amendment, modification, waiver, discharge, termination or consent, or (iii) change or waive any provision of Section 2.15, any other provision of this Agreement or any other Loan Document requiring pro rata treatment of any Lenders, or this Section 8.01 or Section 2.19(b); and

(c) unless agreed to by the Issuing Banks, the Swingline Lender, if any, or the Agent in addition to the Lenders required as provided hereinabove to take such action, affect the respective rights or obligations of the Issuing Banks, the Swingline Lender, if any, or the Agent, as applicable, hereunder or under any of the other Loan Documents.

(d) Notwithstanding the foregoing, this Agreement may be amended (or amended and restated) pursuant to an increase in the Revolving Credit Commitment pursuant to Section 2.18 with only the consents prescribed by such Section.

(e) If, in connection with any proposed amendment, waiver or consent requiring the consent of "each Lender" or "each Lender directly affected thereby," the consent of the Required Lenders is obtained, but the consent of other necessary Lenders is not obtained (any such Lender whose consent is necessary but not obtained being referred to herein as a "Non-Consenting Lender"), then the Borrower may elect to replace a Non-Consenting Lender as a Lender party to this Agreement, provided that, concurrently with such replacement, (i) another bank or other entity which is reasonably satisfactory to the Borrower, each Issuing Bank and the Agent shall agree, as of such date, to purchase for cash the Advances and other Obligations due to the Non-Consenting Lender pursuant to an Assignment and Assumption and to become a Lender for all purposes under this Agreement and to assume all obligations of the Non-Consenting Lender to be terminated as of such date and to comply with the requirements of clause (b) of Section 8.07, and (ii) the Borrower shall pay to such Non-Consenting Lender in same day funds on the day of such replacement (1) all interest, fees and other amounts then accrued but unpaid to such Non-Consenting Lender by the Borrower hereunder to and including the date of termination, including without limitation payments due to such Non-Consenting Lender under Sections 2.11 and 2.14, and (2) an amount, if any, equal to the payment which would have been due to such Lender on the day of such replacement under Section 8.04(e) had the Advances of such Non-Consenting Lender been prepaid on such date rather than sold to the replacement Lender.

Section 8.02 Notices, Etc.

(a) All notices and other communications provided for hereunder shall be either (x) in writing (including facsimile communication) and mailed, faxed or delivered or (y) as and to the extent set forth in Sections 8.02(b) and (c) and in the proviso to this Section 8.02(a), if to the Borrower, at the address specified on Schedule 8.02; if to any Lender, at its Domestic Lending Office; if to the Agent, at the address specified on Schedule 8.02; if to the Swingline Lender, at the address specified by the Swingline Lender to the Borrower and the Agent, and if to any Issuing Bank, at the address specified on Schedule 8.02 or, as to the Borrower or the Agent, at such other address as shall be designated by such party in a written notice to the other parties and, as to each other party, at such other address as shall be designated by such party in a written notice to the Borrower and the Agent. All such notices and communications shall, when mailed or faxed, be effective when deposited in the mails or faxed, respectively, except that notices and communications to the Agent pursuant to Article II, III or VII shall not be effective until received by the Agent. Delivery by facsimile of an executed counterpart of any amendment or waiver of any provision of this Agreement or the Notes or of any Exhibit hereto to be executed and delivered hereunder shall be effective as delivery of a manually executed counterpart thereof. Notices delivered through electronic communications to the extent provided in subsection (b) below, shall be effective as provided in such subsection (b). Upon request of the Borrower, the Agent will provide to the Borrower (i) copies of each Administrative Questionnaire or (ii) the address of each Lender.

(b) Notices and other communications to the Lenders, the Agent and the Issuing Banks hereunder may be delivered or furnished by electronic communication (including e-mail and Internet or intranet websites) pursuant to procedures approved by the Agent and agreed to by the Borrower, provided that the foregoing shall not apply to notices to any Lender or the Issuing Banks pursuant to Article II if such Lender or the Issuing Banks, as applicable, has notified the Agent and the Borrower that it is incapable of receiving notices under such Article by electronic communication. The Agent or the Borrower may, in its discretion, agree to accept notices and other communications to it hereunder by electronic communications pursuant to procedures approved by it, provided that approval of such procedures may be limited to particular notices or communications. Unless the Agent and the Borrower otherwise agree, (i) notices and other communications sent to an e-mail address shall be deemed received upon the sender's receipt of an acknowledgement from the intended recipient (such as by the "return receipt requested" function, as available, return e-mail or other written acknowledgement), provided that

if such notice or other communication is not sent during the normal business hours of the recipient, such notice or communication shall be deemed to have been sent at the opening of business on the next Business Day for the recipient, and (ii) notices or communications posted to an Internet or intranet website shall be deemed received upon the deemed receipt by the intended recipient at its e-mail address as described in the foregoing clause (i) of notification that such notice or communication is available and identifying the website address therefor.

(c) The Borrower agrees that the Agent may make materials delivered to the Agent pursuant to Sections 5.01(h)(i), (ii) and (iv), as well as any other written information, documents, instruments and other material relating to the Borrower or any of its Subsidiaries and relating to this Agreement, the Notes or the transactions contemplated hereby, or any other materials or matters relating to this Agreement, the Notes or any of the transactions contemplated hereby (collectively, the “Communications”) available to the Lenders by posting such notices on Intralinks or a substantially similar electronic system (the “Platform”). The Borrower acknowledges that (i) the distribution of material through an electronic medium is not necessarily secure and that there are confidentiality and other risks associated with such distribution, (ii) the Platform is provided “as is” and “as available” and (iii) neither the Agent nor any of its Affiliates warrants the accuracy, adequacy or completeness of the Communications or the Platform and each expressly disclaims liability for errors or omissions in the Communications or the Platform. No warranty of any kind, express, implied or statutory, including, without limitation, any warranty of merchantability, fitness for a particular purpose, non-infringement of third party rights or freedom from viruses or other code defects, is made by the Agent or any of its Affiliates in connection with the Platform.

(d) Each Lender agrees that notice to it (as provided in the next sentence) (a “Notice”) specifying that any Communications have been posted to the Platform shall constitute effective delivery of such information, documents or other materials to such Lender for purposes of this Agreement; provided that if requested by any Lender the Agent shall deliver a copy of the Communications to such Lender by e-mail, facsimile or mail. Each Lender agrees (i) to notify the Agent in writing of such Lender’s e-mail address to which a Notice may be sent by electronic transmission (including by electronic communication) on or before the date such Lender becomes a party to this Agreement (and from time to time thereafter to ensure that the Agent has on record an effective e-mail address for such Lender) and (ii) that any Notice may be sent to such e-mail address.

(e) The Borrower hereby acknowledges that certain of the Lenders may be “public-side” Lenders (*i.e.*, Lenders that do not wish to receive material non-public information with respect to the Borrower or its securities) (each, a “Public Lender”). The Borrower hereby agrees that (w) all Communications that are to be made available to Public Lenders shall be clearly and conspicuously marked “PUBLIC” which shall mean that the word “PUBLIC” shall appear prominently on the first page thereof; (x) by marking Communications “PUBLIC,” the Borrower shall be deemed to have authorized the Agent, the Arranger and the Lenders to treat such Communications as not containing any material non-public information with respect to the Borrower or its securities for purposes of United States of America federal and state securities laws; (y) all Communications marked “PUBLIC” are permitted to be made available through a portion of the Platform designated as “Public Investor;” and (z) the Agent and the Arranger shall be entitled to treat any Communications that are not marked “PUBLIC” as being suitable only for posting on a portion of the Platform not marked as “Public Investor.” Notwithstanding the foregoing, the Borrower shall be under no obligation to mark any Communications “PUBLIC.” Notwithstanding anything to the contrary herein, the Borrower and the Agent need not provide to any Public Lender any information, notice, or other document hereunder that is not public information, including without limitation, the Notice of Borrowing and any notice of Default.

Section 8.03 No Waiver; Cumulative Remedies; Enforcement. No failure by any Lender, any Issuing Bank or the Agent to exercise, and no delay by any such Person in exercising, any right, remedy, power or privilege hereunder shall operate as a waiver thereof; nor shall any single or partial exercise of any right, remedy, power or privilege hereunder preclude any other or further exercise thereof or the exercise of any other right, remedy, power or privilege. The rights, remedies, powers and privileges herein provided are cumulative and not exclusive of any rights, remedies, powers and privileges provided by Law.

Notwithstanding anything to the contrary contained herein or in any other Loan Document, the authority to enforce rights and remedies hereunder and under the other Loan Documents against the Borrower shall be vested exclusively in, and all actions and proceedings at Law in connection with such enforcement shall be instituted and maintained exclusively by, the Agent in accordance with Article VI for the benefit of all the Lenders and the Issuing Banks; provided, however, that the foregoing shall not prohibit (a) the Agent from exercising on its own behalf the rights and remedies that inure to its benefit (solely in its capacity as Agent) hereunder and under the other Loan Documents, (b) any Issuing Bank from exercising the rights and remedies that inure to its benefit (solely in its capacity as an Issuing Bank) hereunder and under the other Loan Documents, (c) any Lender from exercising setoff rights in accordance with Section 8.05 (subject to the terms of Section 2.15), or (d) any Lender from filing proofs of claim or appearing and filing pleadings on its own behalf during the pendency of a proceeding relative to the Borrower under any Debtor Relief Law; and provided, further, that if at any time there is no Person acting as Agent hereunder and under the other Loan Documents, then (i) the Required Lenders shall have the rights otherwise ascribed to the Agent pursuant to Article VI and (ii) in addition to the matters set forth in clauses (b), (c) and (d) of the preceding proviso and subject to Section 2.15, any Lender may, with the consent of the Required Lenders, enforce any rights and remedies available to it and as authorized by the Required Lenders.

Section 8.04 Costs and Expenses; Indemnity; Damage Waiver.

(a) The Borrower agrees to pay on demand all costs and expenses of the Agent in connection with the administration, modification and amendment of this Agreement, the Notes and the other Loan Documents to be delivered hereunder, including, without limitation, the reasonable fees and expenses of counsel for the Agent with respect thereto and with respect to advising the Agent as to its rights and responsibilities under this Agreement. The Borrower further agrees to pay on demand all costs and expenses of the Agent and the Lenders, if any (including, without limitation, reasonable counsel fees and expenses), in connection with the enforcement (whether through negotiations, legal proceedings or otherwise) of this Agreement, the Notes and the other Loan Documents to be delivered hereunder, including, without limitation, reasonable fees and expenses of counsel for the Agent and each Lender in connection with the enforcement of rights under this Section 8.04(a).

(b) The Borrower agrees to indemnify and hold harmless the Agent (and any sub-agent thereof), each Lender, and each Related Party of any of the foregoing (each, an "Indemnified Party") from and against any and all claims, damages, losses, liabilities and expenses (including, without limitation, reasonable fees and expenses of counsel) incurred by or asserted or awarded against any Indemnified Party, in each case arising out of or in connection with or by reason of (including, without limitation, in connection with any investigation, litigation or proceeding or preparation of a defense in connection therewith, whether based on contract, tort or any other theory,) (i) the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of any Advance or Letter of Credit (including any refusal by any Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), or (ii) the actual or alleged presence of Hazardous Materials on any property of the Borrower or any of its Subsidiaries or any Environmental Action relating in any way to the Borrower

or any of its Subsidiaries, provided that such indemnity shall not, as to any Indemnified Party, be available to the extent (a) such fees and expenses are expressly stated in this Agreement to be payable by the Indemnified Party, included expenses payable under Section 2.14, Section 5.01(e) and Section 8.07(b) or (b) such claim, damage, loss, liability or expense is found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence, willful misconduct or material breach of its obligations under this Agreement, in which case any fees and expenses previously paid or advanced by the Borrower to such Indemnified Party in respect of such indemnified obligation will be returned by such Indemnified Party. In the case of an investigation, litigation or other proceeding to which the indemnity in this Section 8.04(b) applies, such indemnity shall be effective whether or not such investigation, litigation or proceeding is brought by the Borrower, its directors, equityholders or creditors or an Indemnified Party or any other Person, whether or not any Indemnified Party is otherwise a party thereto, and whether or not the transactions contemplated hereby are consummated, provided that if the Borrower and such Indemnified Party are adverse parties in any such litigation or proceeding, and the Borrower prevails in a final, non-appealable judgment by a court of competent jurisdiction, any amounts under this Section 8.04(b) previously paid or advanced by the Borrower to such Indemnified Party pursuant to this Section 8.04(b) will be returned by such Indemnified Party.

(c) To the extent that the Borrower for any reason fails to indefeasibly pay any amount required under subsection (a) or (b) of this Section to be paid by it to the Agent (or any sub-agent thereof), any Issuing Bank or any Related Party of any of the foregoing (and without limiting its obligation to do so), each Lender severally agrees to pay to the Agent (or any such sub-agent), such Issuing Bank or such Related Party, as the case may be, such Lender's Ratable Share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount, provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Agent (or any such sub-agent) or such Issuing Bank in its capacity as such, or against any Related Party of any of the foregoing acting for the Agent (or any such sub-agent) or such Issuing Bank in connection with such capacity.

(d) Without limiting the rights of indemnification set forth in this Agreement with respect to liabilities asserted by third parties, each party hereto also agrees not to assert any claim for special, indirect, consequential or punitive damages against the other parties hereto, or any Related Person any party hereto, on any theory of liability, arising out of or otherwise relating to the Notes, this Agreement, any of the transactions contemplated herein or the actual or proposed use of the proceeds of the Advances or the Letters of Credit. No Indemnified Party shall be liable for any damages arising from the use by unintended recipients of any information or other materials distributed by it through telecommunications, electronic or other information transmission systems (including Intralinks, SyndTrak or similar systems) in connection with this Agreement or the other Loan Documents, provided that such indemnity shall not, as to any Indemnified Party, be available to the extent such damages are found in a final, non-appealable judgment by a court of competent jurisdiction to have resulted from such Indemnified Party's gross negligence or willful misconduct.

(e) If any payment of principal of, or Conversion of, any Eurodollar Rate Advance is made by the Borrower to or for the account of a Lender other than on the last day of the Interest Period for such Revolving Advance, as a result of a payment or Conversion pursuant to Section 2.08(d) or (e), 2.10 or 2.12, acceleration of the maturity of the Revolving Advances pursuant to Section 6.01 or for any other reason, or by an Eligible Assignee to a Lender other than on the last day of the Interest Period for such Revolving Advance upon an assignment of rights and obligations under this Agreement pursuant to Section 8.07 as a result of a demand by the Borrower pursuant to Section 8.07(a), the Borrower shall, upon demand by such Lender (with a copy of such demand to the Agent), pay to the Agent for the account of such Lender any amounts required to compensate such Lender for any additional losses, costs

or expenses that it may reasonably incur as a result of such payment or Conversion, including, without limitation, any loss (excluding loss of anticipated profits), cost or expense incurred by reason of the liquidation or reemployment of deposits or other funds acquired by any Lender to fund or maintain such Revolving Advance.

(f) Without prejudice to the survival of any other agreement of the Borrower hereunder, the agreements and obligations of the Borrower contained in Sections 2.11, 2.14 and 8.04 shall survive the payment in full of principal, interest and all other amounts payable hereunder and under the Notes.

Section 8.05 Right of Set-off. Upon (i) the occurrence and during the continuance of any Event of Default and (ii) the making of the request or the granting of the consent specified by Section 6.01 to authorize the Agent to declare the Advances due and payable pursuant to the provisions of Section 6.01, each Lender, each Issuing Bank and each of their respective Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by Law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other indebtedness at any time owing by such Lender, such Issuing Bank or any such Affiliate to or for the credit or the account of the Borrower against any and all of the obligations of the Borrower now or hereafter existing under this Agreement or any other Loan Document to such Lender or Issuing Bank, whether or not such Lender or Issuing Bank shall have made any demand under this Agreement or such Note and although such obligations may be contingent or unmatured or are owed to a branch or office of such Lender or such Issuing Bank different from the branch or office holding such deposit or obligated on such indebtedness. Each Lender and each Issuing Bank agrees promptly to notify the Borrower after any such set-off and application, provided that the failure to give such notice shall not affect the validity of such set-off and application. The rights of each Lender and each Issuing Bank under this Section are in addition to other rights and remedies (including, without limitation, other rights of set-off) that such Lender may have.

Section 8.06 Binding Effect. Except as provided in Section 3.01, this Agreement shall become effective when it shall have been executed by the Borrower and the Agent and when the Agent shall have been notified by each Initial Lender that such Initial Lender has executed it and thereafter shall be binding upon and inure to the benefit of the Borrower, the Agent and each Lender and their respective successors and assigns, except that the Borrower shall not have the right to assign its rights hereunder or any interest herein without the prior written consent of the Lenders.

Section 8.07 Successors and Assigns.

(a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby, except that the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of the Agent and each Lender (and any purported assignment or transfer without such consent shall be null and void) and no Lender may assign or otherwise transfer any of its rights or obligations hereunder except (i) to an assignee in accordance with the provisions of subsection (b) of this Section, (ii) by way of participation in accordance with the provisions of subsection (d) of this Section, or (iii) by way of pledge or assignment of a security interest subject to the restrictions of subsection (f) of this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby, Participants to the extent provided in subsection (d) of this Section and, to the extent expressly contemplated hereby, the Related Parties of each of the Agent, the Issuing Banks and the Lenders) any legal or equitable right, remedy or claim under or by reason of this Agreement.

(b) Any Lender may at any time assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Revolving Credit Commitment,

Swingline Exposure and the Revolving Advances (including for purposes of this subsection (b), participations in L/C Obligations) at the time owing to it); provided that any such assignment shall be subject to the following conditions:

(i) Minimum Amounts.

(A) in the case of an assignment of the entire remaining amount of the assigning Lender's Revolving Credit Commitment and the Revolving Advances at the time owing to it or in the case of an assignment to a Lender, no minimum amount need be assigned; and

(B) in any case not described in subsection (b)(i)(A) of this Section, the aggregate amount of the Revolving Credit Commitment (which for this purpose includes Revolving Advances outstanding thereunder) or, if the Revolving Credit Commitment is not then in effect, the principal outstanding balance of the Revolving Advances of the assigning Lender subject to each such assignment, determined as of the date the Assignment and Assumption with respect to which such assignment is delivered to the Agent or, if "Trade Date" is specified in the Assignment and Assumption, as of the Trade Date, shall not be less than \$5,000,000 unless each of the Agent and, so long as no Event of Default has occurred and is continuing, the Borrower otherwise consents (each such consent not to be unreasonably withheld or delayed).

(ii) Proportionate Amounts. Each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement with respect to the Revolving Advances, L/C Obligations, Swingline Exposure or the Revolving Credit Commitment assigned, and each such assignment shall be of a constant, and not a varying, percentage of all rights and obligations under this Agreement;

(iii) Required Consents. No consent shall be required for any assignment except to the extent required by subsection (b)(i)(B) of this Section and, in addition:

(A) the consent of the Borrower (such consent not to be unreasonably withheld or delayed; provided that the Borrower shall be deemed to have consented to any such assignment unless it shall object thereto by written notice to the Agent within ten (10) Business Days after having received notice thereof) shall be required unless (1) an Event of Default has occurred and is continuing at the time of such assignment or (2) such assignment is to a Lender, an Affiliate of a Lender or an Approved Fund;

(B) the consent of the Agent (such consent not to be unreasonably withheld or delayed) shall be required if such assignment is to a Person that is not a Lender, an Affiliate of a Lender or an Approved Fund with respect to such Lender;

(C) the consent of each Issuing Bank (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under one or more Letters of Credit (whether or not then outstanding); and

(D) the consent of the Swingline Lender, if any, (such consent not to be unreasonably withheld or delayed) shall be required for any assignment that increases the obligation of the assignee to participate in exposure under Swingline Advances (whether or not then outstanding).

(iv) Assignment and Assumption. The parties to each assignment shall execute and deliver to the Agent an Assignment and Assumption, together with a processing and recordation fee in the amount of \$3,500; provided, however, that no such fee shall be payable in the case of an assignment made at the request of the Borrower to an existing Lender. The assignee, if it is not a Lender, shall deliver to the Agent an Administrative Questionnaire.

(v) No Assignment to Borrower. No such assignment shall be made to the Borrower or any of the Borrower's Affiliates or Subsidiaries.

(vi) No Assignment to Natural Persons. No such assignment shall be made to a natural person.

(vii) No Assignment to Affected Lenders. No such assignment shall be made to an Affected Lender.

Subject to acceptance and recording thereof by the Agent pursuant to subsection (c) of this Section and notice thereof to the Borrower, from and after the effective date specified in each Assignment and Assumption, the assignee thereunder shall be a party to this Agreement and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto) but shall continue to be entitled to the benefits of Sections 2.11, 2.14 and 8.04 with respect to facts and circumstances occurring prior to the effective date of such assignment. Upon request, the Borrower (at its expense) shall execute and deliver a Note to the assignee Lender. Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this subsection shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with subsection (d) of this Section.

(c) Register. The Agent shall maintain at the Agent's Office a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders, and the Revolving Credit Commitments of, and principal amounts of the Advances and L/C Obligations owing to, each Lender pursuant to the terms hereof from time to time (the " Register "). The entries in the Register shall be conclusive, absent manifest error, and the Borrower, the Agent and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(d) Participations. Any Lender may at any time, without the consent of, or notice to, the Borrower or the Agent, sell participations to any Person (other than a natural person or the Borrower or any of the Borrower's Affiliates or Subsidiaries) (each, a " Participant ") in all or a portion of such Lender's rights and/or obligations under this Agreement (including all or a portion of its Revolving Credit Commitment, Swingline Exposure and/or the Revolving Advances (including such Lender's participations in L/C Obligations) owing to it); provided that (i) such Lender's obligations under this Agreement shall remain unchanged, (ii) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations, (iii) the Borrower, the Agent, the Lenders and the Issuing Banks shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement and (iv) no participant under any such participation shall have any right to approve any amendment or waiver of any provision of this Agreement or any Note, or any consent to any departure by the Borrower therefrom, except to the extent that such amendment, waiver or

consent would reduce the principal of, or interest on, any Obligations or any fees or other amounts payable hereunder, in each case to the extent subject to such participation, or postpone any date fixed for any payment of principal of, or interest on, any Obligations or any fees or other amounts payable hereunder, in each case to the extent subject to such participation.

Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, waiver or other modification addressing the matters set forth in clause (iv) above to the extent subject to such participation. Subject to subsection (e) of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.11, 2.14 and 8.04(e) to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to subsection (b) of this Section. To the extent permitted by Law, each Participant also shall be entitled to the benefits of Section 8.05 as though it were a Lender, provided such Participant agrees to be subject to Section 2.15 as though it were a Lender.

(e) Limitations upon Participant Rights. A Participant shall not be entitled to receive any greater payment under Section 2.11 or 2.14 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.14 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.14(e) as though it were a Lender.

(f) Certain Pledges. Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement (including under its Note, if any) to secure obligations of such Lender, including any pledge or assignment to secure obligations to a Federal Reserve Bank or other central banking authority; provided that no such pledge or assignment shall release such Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(g) Resignation as an Issuing Bank after Assignment. Notwithstanding anything to the contrary contained herein, if at any time any Issuing Bank assigns all of its Revolving Credit Commitment and Revolving Advances pursuant to subsection (b) above, such Issuing Bank may, upon 30 days' notice to the Borrower and the Lenders, resign as an Issuing Bank. If any Issuing Bank resigns, it shall retain all the rights, powers, privileges and duties of an Issuing Bank hereunder with respect to all Letters of Credit outstanding as of the effective date of its resignation as an Issuing Bank and all L/C Obligations with respect thereto (including the right to require the Lenders to make Base Rate Advances or fund risk participations in Unreimbursed Amounts pursuant to Section 2.03(c)).

(h) The words "execution," "signed," "signature," and words of like import in any Assignment and Assumption shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity or enforceability as a manually executed signature or the use of a paper-based recordkeeping system, as the case may be, to the extent and as provided for in any applicable Law, including the Federal Electronic Signatures in Global and National Commerce Act, the New York State Electronic Signatures and Records Act, or any other similar state Laws based on the Uniform Electronic Transactions Act.

Section 8.08 Confidentiality. Neither the Agent nor any Lender may disclose to any Person any confidential, proprietary or non-public information of the Borrower furnished to the Agent or the Lenders by the Borrower (such information being referred to collectively herein as the "Borrower Information"), except that each of the Agent and each of the Lenders may disclose Borrower Information

(i) to its and its affiliates' employees, officers, directors, agents and advisors having a need to know in connection with this Agreement (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Borrower Information and instructed to keep such Borrower Information confidential on substantially the same terms as provided herein), (ii) to the extent requested by any regulatory authority or self-regulatory body, (iii) to the extent required by applicable Laws or regulations or by any subpoena or similar legal process, (iv) to any other party to this Agreement, (v) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or the enforcement of rights hereunder, (vi) subject to an agreement containing provisions substantially the same as those of this Section 8.08, (A) to any assignee or participant or prospective assignee or participant, (B) any direct, indirect, actual or prospective counterparty (and its advisor) to any swap, derivative or securitization transaction related to the obligations under this Agreement and (C) to any credit insurance provider relating to the Borrower and its Obligations, (vii) to the extent such Borrower Information (A) is or becomes generally available to the public on a non-confidential basis other than as a result of a breach of this Section 8.08 by the Agent or such Lender or their Related Parties, or (B) is or becomes available to the Agent or such Lender on a nonconfidential basis from a source other than the Borrower (provided that the source of such information was not known by the recipient after inquiry to be bound by a confidentiality agreement with or other contractual, legal or fiduciary obligation of confidentiality to the Borrower or any other Person with respect to such information) and (viii) with the consent of the Borrower. The obligations under this Section 8.08 shall survive for two calendar years after the date of the termination of this Agreement.

Section 8.09 Governing Law. This Agreement and the Notes shall be governed by, and construed in accordance with, the Laws of the State of New York.

Section 8.10 Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement and the other Loan Documents constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. Except as provided in Section 3.01, this Agreement shall become effective when it shall have been executed by the Agent and when the Agent shall have received counterparts hereof that, when taken together, bear the signatures of each of the other parties hereto. Delivery of an executed counterpart of a signature page of this Agreement by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Agreement.

Section 8.11 Jurisdiction, Etc.

(a) Each of the parties hereto hereby submits to the exclusive jurisdiction of any New York State court or federal court of the United States of America sitting in the Borough of Manhattan in New York City, and any appellate court from any thereof, in any action or proceeding arising out of or relating to this Agreement or the other Loan Documents, or for recognition or enforcement of any judgment, and each of the parties hereto hereby agrees that all claims in respect of any such action or proceeding may be heard and determined in any such New York State court or, to the extent permitted by Law, in such federal court. Except to the extent expressly set forth in the preceding sentence, nothing in this Agreement shall affect any right that any party may otherwise have to bring any action or proceeding relating to this Agreement or the Notes in the courts of any jurisdiction.

(b) Each of the parties hereto irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection that it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or the Notes in any New York State or federal court. Each of the parties hereto hereby irrevocably waives, to the fullest extent

permitted by Law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

Section 8.12 Payments Set Aside. To the extent that any payment by or on behalf of the Borrower is made to the Agent, any Issuing Bank or any Lender, or the Agent, any Issuing Bank or any Lender exercises its right of setoff, and such payment or the proceeds of such setoff or any part thereof is subsequently invalidated, declared to be fraudulent or preferential, set aside or required (including pursuant to any settlement entered into by the Agent, such Issuing Bank or such Lender in its discretion) to be repaid to a trustee, receiver or any other party, in connection with any proceeding under any Debtor Relief Law or otherwise, then (a) to the extent of such recovery, the obligation or part thereof originally intended to be satisfied shall be revived and continued in full force and effect as if such payment had not been made or such setoff had not occurred, and (b) each Lender and each Issuing Bank severally agrees to pay to the Agent upon demand its applicable share (without duplication) of any amount so recovered from or repaid by the Agent, plus interest thereon from the date of such demand to the date such payment is made at a rate per annum equal to the Federal Funds Rate from time to time in effect. The obligations of the Lenders and the Issuing Banks under clause (b) of the preceding sentence shall survive the payment in full of the Obligations and the termination of this Agreement.

Section 8.13 Patriot Act. Each Lender hereby notifies the Borrower that pursuant to the requirements of the USA Patriot Act (Title III of Pub. L. 107-56 (signed into law October 26, 2001)) (the “USA PATRIOT Act”), it is required to obtain, verify and record information that identifies each borrower, guarantor or grantor (the “Loan Parties”), which information includes the name and address of each Loan Party and other information that will allow such Lender to identify such Loan Party in accordance with the USA PATRIOT Act. The Borrower shall provide, to the extent commercially reasonable, such information and take such actions as are reasonably requested by the Agent or any Lender in order to assist the Agent and such Lender in maintaining compliance with the USA PATRIOT Act.

Section 8.14 Waiver of Jury Trial. EACH OF THE BORROWER, THE AGENT AND THE LENDERS HEREBY IRREVOCABLY WAIVES ALL RIGHT TO TRIAL BY JURY IN ANY ACTION, PROCEEDING OR COUNTERCLAIM (WHETHER BASED ON CONTRACT, TORT OR OTHERWISE) ARISING OUT OF OR RELATING TO THIS AGREEMENT, THE NOTES OR ANY OTHER LOAN DOCUMENT OR THE ACTIONS OF THE BORROWER, THE AGENT OR ANY LENDER IN THE NEGOTIATION, ADMINISTRATION, PERFORMANCE OR ENFORCEMENT THEREOF.

Section 8.15 No Advisory or Fiduciary Responsibility. In connection with all aspects of each transaction contemplated hereby, the Borrower acknowledges and agrees that: (i) the credit facilities provided for hereunder and any related arranging or other services in connection therewith (including in connection with any amendment, waiver or other modification hereof or of any other Loan Document) are an arm’s-length commercial transaction between the Borrower, on the one hand, and the Agent, each of the Lenders and each of the Arrangers, on the other hand, and the Borrower is capable of evaluating and understanding and understands and accepts the terms, risks and conditions of the transactions contemplated hereby and by the other Loan Documents (including any amendment, waiver or other modification hereof or thereof); (ii) in connection with the process leading to such transaction, each of the Agent, the Lenders and the Arrangers is and has been acting solely as a principal and is not the financial advisor, agent or fiduciary, for the Borrower or any of its Affiliates, stockholders, creditors or employees or any other Person; (iii) neither the Agent nor any Lender or Arranger has assumed or will assume an advisory, agency or fiduciary responsibility in favor of the Borrower with respect to any of the transactions contemplated hereby or the process leading thereto, including with respect to any amendment, waiver or other modification hereof or of any other Loan Document (irrespective of whether

the Agent or any Lender or Arranger has advised or is currently advising the Borrower or any of its Affiliates on other matters) and neither the Agent nor any Lender or Arranger has any obligation to the Borrower with respect to the transactions contemplated hereby except those obligations expressly set forth herein and in the other Loan Documents; (iv) the Agent, each of the Lenders and the Arrangers and their respective Affiliates may be engaged in a broad range of transactions that involve interests that differ from those of the Borrower and its Affiliates, and neither the Agent nor any Lender or Arranger has any obligation to disclose any of such interests by virtue of any advisory, agency or fiduciary relationship; and (v) the Agent and each Lender and Arranger have not provided and will not provide any legal, accounting, regulatory or tax advice with respect to any of the transactions contemplated hereby (including any amendment, waiver or other modification hereof or of any other Loan Document) and the Borrower has consulted its own legal, accounting, regulatory and tax advisors to the extent it has deemed appropriate. The Borrower hereby waives and releases, to the fullest extent permitted by Law, any claims that it may have against the Agent and each Lender and Arranger with respect to any breach or alleged breach of agency or fiduciary duty in connection with the Loan Documents.

Section 8.16 Survival of Representations and Warranties. All representations and warranties made hereunder and in any other Loan Document or other document delivered pursuant hereto or thereto or in connection herewith or therewith shall survive the execution and delivery hereof and thereof. Such representations and warranties have been or will be relied upon by the Agent and each Lender, regardless of any investigation made by the Agent or any Lender or on their behalf, and shall continue in full force and effect as long as any Advance or any other Obligation hereunder shall remain unpaid or unsatisfied or any Letter of Credit shall remain outstanding.

Section 8.17 Severability. If any provision of this Agreement or the other Loan Documents is held to be illegal, invalid or unenforceable, (a) the legality, validity and enforceability of the remaining provisions of this Agreement and the other Loan Documents shall not be affected or impaired thereby and (b) the parties shall endeavor in good faith negotiations to replace the illegal, invalid or unenforceable provisions with valid provisions the economic effect of which comes as close as possible to that of the illegal, invalid or unenforceable provisions. The invalidity of a provision in a particular jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

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IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their respective officers thereunto duly authorized, as of the date first above written.

PINNACLE WEST CAPITAL CORPORATION

By /s/ Lee R. Nickloy

Name: Lee R. Nickloy

Title: Vice President and Treasurer

ADMINISTRATIVE AGENT:

BARCLAYS BANK PLC , as Agent, Issuing Bank and Lender

By /s/ Ann E. Sutton

Name: Ann E. Sutton
Title: Director

LENDERS:

THE ROYAL BANK OF SCOTLAND , as a Lender and as an
Issuing Bank

By /s/ Tyler J. McCarthy

Name: Tyler J. McCarthy
Title: Director

BANK OF AMERICA, N.A. , as a Lender and as an Issuing Bank

By /s/ William Merritt

Name: William Merritt
Title: Vice President

JPMORGAN CHASE BANK, N.A., as a Lender and as an Issuing Bank

By /s/ Nancy R. Barwig

Name: Nancy R. Barwig
Title: Credit Executive

SUNTRUST BANK , as a Lender and as an Issuing Bank

By /s/ Andrew Johnson

Name: Andrew Johnson
Title: Director

WELLS FARGO BANK, NATIONAL ASSOCIATION, as a
Lender and as an Issuing Bank

By /s/ Yann Blindert

Name: Yann Blindert
Title: Director

CITIBANK, N.A. , as a Lender

By /s/ Anita Brickell

Name: Anita Brickell
Title: Vice President

CREDIT SUISSE AG, CAYMAN ISLANDS BRANCH, as a
Lender

By /s/ Michael Spaight

Name: Michael Spaight
Title: Authorized Signatory

By /s/ Tyler Smith

Name: Tyler Smith
Title: Authorized Signatory

DEUTSCHE BANK AG NEW YORK BRANCH , as a Lender

By /s/ Heidi Sandquist

Name: Heidi Sandquist
Title: Director

By /s/ Virginia Cosenza

Name: Virginia Cosenza
Title: Vice President

KEYBANK NATIONAL ASSOCIATION , as a Lender

By /s/ Kevin D. Smith

Name: Kevin D. Smith
Title: Senior Vice President

TD BANK, N.A. , as a Lender

By /s/ David Perlman

Name: David Perlman
Title: Senior Vice President

THE BANK OF NEW YORK MELLON, as a Lender

By /s/ Mark W. Rogers

Name: Mark W. Rogers
Title: Vice President

THE BANK OF NOVA SCOTIA , as a Lender

By /s/ Thane Rattew

Name: Thane Rattew
Title: Managing Director

U.S. BANK NATIONAL ASSOCIATION, as a Lender

By /s/ Holland H. Williams

Name: Holland H. Williams
Title: Vice President

UNION BANK, N.A. , as a Lender

By /s/ Kevin Zitar

Name: Kevin Zitar
Title: Managing Director

BANK OF THE WEST , as a Lender

By /s/ Joshua R. Shade

Name: Joshua R. Shade
Title: VP

BRANCH BANKING & TRUST COMPANY , as a Lender

By /s/ Janet L. Wheeler

Name: Janet L. Wheeler
Title: Vice President

COBANK, ACB , as a Lender

By /s/ John H. Kemper

Name: John H. Kemper
Title: Vice President

NATIONAL BANK OF ARIZONA , as a Lender

By /s/ Sabina Anthony

Name: Sabina Anthony
Title: Vice President

PNC BANK, NATIONAL ASSOCIATION , as a Lender

By /s/ Jon R. Hinard

Name: Jon R. Hinard
Title: Senior Vice President

THE NORTHERN TRUST COMPANY , as a Lender

By /s/ John Lascody

Name: John Lascody
Title: Vice President

UMB BANK, N.A., as a Lender

By /s/ Henry Yee

Name: Henry Yee
Title: Senior Vice President

BNP PARIBAS , as a Lender

By /s/ Denis O' Meara

Name: Denis O' Meara
Title: Managing Director

BNP PARIBAS , as a Lender

By /s/ Roberto Impeduglia

Name: Roberto Impeduglia
Title: Vice-President

SCHEDULE 1.01
COMMITMENTS AND RATABLE SHARES

Bank	Revolving Credit Commitment	Ratable Share
Barclays Bank PLC	\$ 13,500,000.00	6.750000000%
The Royal Bank of Scotland plc	\$ 13,500,000.00	6.750000000%
Bank of America, N.A.	\$ 13,500,000.00	6.750000000%
JPMorgan Chase Bank, N.A.	\$ 13,500,000.00	6.750000000%
SunTrust Bank	\$ 13,500,000.00	6.750000000%
Wells Fargo Bank, National Association	\$ 13,500,000.00	6.750000000%
Citibank, N.A.	\$ 9,285,714.29	4.642857145%
Credit Suisse AG, Cayman Islands Branch	\$ 9,285,714.29	4.642857145%
Deutsche Bank AG New York Branch	\$ 9,285,714.29	4.642857145%
KeyBank, N.A.	\$ 9,285,714.29	4.642857145%
TD Bank, N.A.	\$ 9,285,714.29	4.642857145%
The Bank of New York Mellon	\$ 9,285,714.29	4.642857145%
The Bank of Nova Scotia	\$ 9,285,714.29	4.642857145%
U.S. Bank National Association	\$ 9,285,714.29	4.642857145%
Union Bank, N.A.	\$ 9,285,714.29	4.642857145%
Bank of the West	\$ 6,493,506.50	3.246753250%
Branch Banking & Trust Company	\$ 4,357,142.85	2.178571425%
CoBank, ACB	\$ 4,357,142.85	2.178571425%
National Bank of Arizona	\$ 4,357,142.85	2.178571425%
PNC Bank, National Association	\$ 4,357,142.85	2.178571425%
The Northern Trust Company	\$ 4,357,142.85	2.178571425%
UMB Bank, N.A.	\$ 4,357,142.85	2.178571425%
BNP Paribas	\$ 2,792,207.79	1.396103895%
TOTAL	\$ 200,000,000.00	100.000000000%

**SCHEDULE 4.01(j)
SUBSIDIARIES**

Arizona Public Service Company

**SCHEDULE 4.01(k)
EXISTING INDEBTEDNESS**

None.

SCHEDULE 8.02
CERTAIN ADDRESSES FOR NOTICES

BORROWER:

Pinnacle West Capital Corporation
400 North 5th Street
Mail Station 9040
Phoenix, AZ 85004
Attention: Treasurer
Telephone: (602) 250-3300
Telecopier: (602) 250-3902
Electronic lee.nickloy@pinnaclewest.com

AGENT :

Agent's Office
(for payments and Requests for Credit Extensions):

Barclays Bank PLC
1301 6th Avenue
New York, NY 10019
Attention: Omer Khan
Telephone: (212) 320-6864
Email: omer.khan@barclays.com / xrausloanops5@barclays.com

with copies to:

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Alicia Borys
Facsimile: (212) 526-5115
Telephone: (212) 526-4291
Email: Alicia.borys@barclays.com

Agent's Account/Barclays Bank Agency Service Wiring Information

Barclays Bank PLC
New York, New York
ABA: 026002574
Account Number: 050-01910-4
Account Name: Clad Control Account
Ref: Pinnacle West Capital Corporation

Other Notices as Agent :

Barclays Bank PLC
745 Seventh Avenue
New York, NY 10019
Attention: Alicia Borys
Facsimile: (212) 526-5115
Telephone: 212) 526-4291
Email: Alicia.borys@barclays.com

ISSUING BANKS:Barclays Bank PLC

Barclays Bank PLC
200 Park Avenue
New York, NY 10166
Attn. Letters of Credit / Dawn Townsend
Facsimile (212) 412-5011
Telephone (201) 499-2081
Email xraletterofcredit@barclays.com

The Royal Bank of Scotland plc

The Royal Bank of Scotland plc
600 Washington Boulevard
Stamford, CT 06901
Attention: Richard Emmich
Facsimile: (203) 873-3569
Telephone: (203) 897-7619
Email: richard.emmich@rbs.com

and

Attention: Marchette Major
Facsimile: (203) 873-3569
Telephone: (203) 897-7638
Email: marchette.major@rbs.com

Wells Fargo Bank, National Association

Wells Fargo Bank, National Association
Corporate Banking - Utility and Power Group
1300 SW 5th Avenue, 6th Floor
Mail Code: MAC P6101-066
Portland, OR 97201
Attention: Yann Blindert
Telephone: (503) 886-2215
Facsimile: (866) 629-0771
E-mail: yann.blindert@wellsfargo.com

JPMorgan Chase Bank, N.A.

JPMorgan Chase Bank, N.A.
10 South Dearborn, 9th Floor
Mail Code: IL1-0090
Chicago, IL 60603
Attention: Nancy R. Barwig
Telephone: (312) 732-1838
Facsimile: (312) 732-1762
E-mail: nancy.r.barwig@jpmorgan.com
With a cc to: jpm.standbylc.ccb@jpmorgan.com

Bank of America, N.A.

Bank of America, N.A.
100 N. Tryon Street
Charlotte, NC 28255-0001
Attention: William A. Merritt, III
Telephone: (980) 386-9762
Facsimile: (980) 683-6339
E-mail: william.merritt@baml.com

SunTrust Bank

SunTrust Robinson Humphrey, Inc.
SunTrust Bank
3333 Peachtree Road
Atlanta, GA 30326
Attention: Andrew Johnson
Telephone: (404) 439-7451
Facsimile: (404) 439-7470
E-mail: andrew.johnson@suntrust.com

**EXHIBIT A — FORM OF
PROMISSORY NOTE**

, 20

FOR VALUE RECEIVED, the undersigned, PINNACLE WEST CAPITAL CORPORATION, an Arizona corporation (the “Borrower”), hereby promises to pay to the order of _____ or its registered assigns (the “Lender”), in accordance with the provisions of the Credit Agreement (as hereinafter defined), the principal amount of each Advance from time to time made by the Lender to the Borrower pursuant to the Five-Year Credit Agreement dated as of May 9, 2014 among the Borrower, the Lender and certain other lenders parties thereto, Barclays Bank PLC, as Agent for the Lender and such other lenders, and the issuing banks and other agents party thereto (as amended or modified from time to time, the “Credit Agreement”; the terms defined therein being used herein as therein defined) outstanding on such date.

The Borrower promises to pay interest on the unpaid principal amount of each Advance from the date of such Advance until such principal amount is paid in full, at such interest rates, and payable at such times, as are specified in the Credit Agreement.

Both principal and interest are payable in lawful money of the United States of America to the Agent for the account of the Lender in same day funds at the address and account specified on Schedule 8.02. Each Advance owing to the Lender by the Borrower pursuant to the Credit Agreement, and all payments made on account of principal thereof, shall be recorded by the Lender and, prior to any transfer hereof, endorsed on the grid attached hereto which is part of this Promissory Note.

This Promissory Note is one of the Notes referred to in, and is entitled to the benefits of, the Credit Agreement. The Credit Agreement, among other things, (i) provides for the making of Advances by the Lender to the Borrower from time to time in an aggregate amount not to exceed at any time the Lender’s Unused Commitment, the indebtedness of the Borrower resulting from each such Advance being evidenced by this Promissory Note and (ii) contains provisions for acceleration of the maturity hereof upon the happening of certain stated events and also for prepayments on account of principal hereof prior to the maturity hereof upon the terms and conditions therein specified.

THIS PROMISSORY NOTE SHALL BE GOVERNED BY AND CONSTRUED IN ACCORDANCE WITH THE LAWS OF THE STATE OF NEW YORK.

PINNACLE WEST CAPITAL CORPORATION

By _____

Name: _____

Title: _____

A-1

ADVANCES AND PAYMENTS OF PRINCIPAL

Date	Amount of Advance	Amount of Principal Paid or Prepaid	Unpaid Principal Balance	Notation Made By

A-2

**EXHIBIT B — FORM OF NOTICE OF
BORROWING**

Barclays Bank PLC, as Agent
for the Lenders parties
to the Credit Agreement
referred to below

Attention: Loan Operations

[Date]

Ladies and Gentlemen:

The undersigned, Pinnacle West Capital Corporation, refers to the Five-Year Credit Agreement, dated as of May 9, 2014 (as amended or modified from time to time, the “Credit Agreement”, the terms defined therein being used herein as therein defined), among the undersigned, certain Lenders parties thereto, Barclays Bank PLC, as Agent for said Lenders and the Issuing Banks and other agents party thereto, and hereby gives you notice, irrevocably, pursuant to Section 2.02 of the Credit Agreement that the undersigned hereby requests a Borrowing under the Credit Agreement, and in that connection sets forth below the information relating to such Borrowing (the “Proposed Borrowing”) as required by Section 2.02(a) of the Credit Agreement:

- (i) The Business Day of the Proposed Borrowing is , 20 .
- (ii) The Type of Revolving Advances comprising the Proposed Borrowing is [Base Rate Advances] [Eurodollar Rate Advances].
- (iii) The aggregate amount of the Proposed Borrowing is \$.
- [iv] The initial Interest Period for each Eurodollar Rate Advance made as part of the Proposed Borrowing is month[s].

The undersigned hereby certifies that the following statements are true on the date hereof, and will be true on the date of the Proposed Borrowing:

- (A) the representations and warranties contained in Section 4.01 (other than Sections 4.01(k), 4.01(e)(ii) and 4.01(f)(ii)) of the Credit Agreement are correct, before and after giving effect to the Proposed Borrowing and to the application of the proceeds therefrom, as though made on and as of such date;
- (B) no event has occurred and is continuing, or would result from such Proposed Borrowing or from the application of the proceeds therefrom, that constitutes a Default; and
- (C) before and after giving effect to the Proposed Borrowing and to the application of

the proceeds therefrom, as though made on and as of such date, the Indebtedness of the Borrower does not exceed that permitted by (i) applicable resolutions of the Board of Directors of the Borrower or (ii) applicable Laws of any Governmental Authority.

Very truly yours,

PINNACLE WEST CAPITAL CORPORATION

By _____

Name: _____

Title: _____

B-2

**EXHIBIT C — FORM OF
ASSIGNMENT AND ASSUMPTION**

This Assignment and Assumption (the “Assignment and Assumption”) is dated as of the Effective Date set forth below and is entered into by and between [Insert name of Assignor] (the “Assignor”) and [Insert name of Assignee] (the “Assignee”). Capitalized terms used but not defined herein shall have the meanings given to them in the Credit Agreement identified below (as amended, the “Credit Agreement”), receipt of a copy of which is hereby acknowledged by the Assignee. Annex 1 attached hereto (the “Standard Terms and Conditions”) is hereby agreed to and incorporated herein by reference and made a part of this Assignment and Assumption as if set forth herein in full.

For an agreed consideration, the Assignor hereby irrevocably sells and assigns to the Assignee, and the Assignee hereby irrevocably purchases and assumes from the Assignor, subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date referred to below (i) all of the Assignor’s rights and obligations in its capacity as a Lender under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of the Assignor under the respective facilities identified below (including without limitation any letters of credit, guarantees, and swingline loans included in such facilities) and (ii) to the extent permitted to be assigned under applicable Law, all claims, suits, causes of action and any other right of the Assignor (in its capacity as a Lender) against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at Law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned pursuant to clauses (i) and (ii) above being referred to herein collectively as, the “Assigned Interest”). Each such sale and assignment is without recourse to the Assignor and, except as expressly provided in this Assignment and Assumption, without representation or warranty by the Assignor. Assignee shall deliver (if it is not already a Lender) to the Agent an Administrative Questionnaire.

1. Assignor:
2. Assignee:
[and is an Affiliate of [identify Bank](1)]
3. Borrower: Pinnacle West Capital Corporation
4. Agent: Barclays Bank PLC, as the administrative agent under the Credit Agreement
5. Credit Agreement: The Five-Year Credit Agreement dated as of May 9, 2014, by and among the Borrower, the Lenders party thereto, the Agent and the Issuing Banks and other agents party thereto.
6. Assigned Interest:

Aggregate Amount of Commitment for all Lenders	Amount of Commitment Assigned	Percentage Assigned of Commitment(2)	CUSIP Number
\$	\$	%	

(1) Select as applicable.

(2) Set forth, to at least 9 decimals, as a percentage of the Commitment of all Banks thereunder.

[7. Trade Date:](3)

Effective Date: , 20 [TO BE INSERTED BY AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

The terms set forth in this Assignment and Assumption are hereby agreed to:

ASSIGNOR
[NAME OF ASSIGNOR]

By _____
Name: _____
Title: _____

ASSIGNEE
[NAME OF ASSIGNEE]

By _____
Name: _____
Title: _____

[Consented to and](4) Accepted:
BARCLAYS BANK PLC, as Agent

By _____
Name:
Title:

[Consented to:](5)
[BARCLAYS BANK PLC, as Issuing Bank]

By _____
Name:
Title:

-
- (3) To be completed if the Assignor and the Assignee intend that the minimum assignment amount is to be determined as of the Trade Date.
(4) To be added only if the consent of the Agent is required by the terms of the Credit Agreement.
(5) To be added only if the consent of the Borrowers and/or other parties (e.g. Issuing Bank) is required by the terms of the Credit Agreement.

[THE ROYAL BANK OF SCOTLAND plc, as Issuing Bank]

By _____
Name:
Title:

[WELLS FARGO BANK, NATIONAL ASSOCIATION, as Issuing Bank]

By _____
Name:
Title:

[JPMORGAN CHASE BANK, N.A., as Issuing Bank]

By _____
Name:
Title:

[BANK OF AMERICA, N.A., as Issuing Bank]

By _____
Name:
Title:

[SUNTRUST BANK, as Issuing Bank]

By _____
Name:
Title:

PINNACLE WEST CAPITAL CORPORATION

By _____
Name:
Title:

**ANNEX 1 TO ASSIGNMENT AND ASSUMPTION
STANDARD TERMS AND CONDITIONS FOR
ASSIGNMENT AND ASSUMPTION**

1. Representations and Warranties.

1.1 **Assignor.** The Assignor (a) represents and warrants that (i) it is the legal and beneficial owner of the Assigned Interest, (ii) the Assigned Interest is free and clear of any lien, encumbrance or other adverse claim and (iii) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby; and (b) assumes no responsibility with respect to (i) any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, (ii) the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Loan Documents, (iii) the financial condition of the Borrower, any of its Subsidiaries or Affiliates or any other Person obligated in respect of any Loan Document or (iv) the performance or observance by the Borrower of any of its obligations under any Loan Document.

1.2 **Assignee.** The Assignee (a) represents and warrants that (i) it has full power and authority, and has taken all action necessary, to execute and deliver this Assignment and Assumption and to consummate the transactions contemplated hereby and to become a Lender under the Credit Agreement, (ii) it meets all the requirements to be an Eligible Assignee under Section 8.07 of the Credit Agreement (subject to such consents, if any, as may be required under Section 8.07 of the Credit Agreement), (iii) from and after the Effective Date, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of the Assigned Interest, shall have the obligations of a Lender thereunder, (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by the Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire the Assigned Interest, is experienced in acquiring assets of such type, (v) it has received a copy of the Credit Agreement, and has received or has been accorded the opportunity to receive copies of the most recent financial statements referred to in Section 4.01(e) or delivered pursuant to Section 5.01(h), as applicable, thereof, as applicable, and such other documents and information as it deems appropriate to make its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest, (vi) it has, independently and without reliance upon the Agent, the Assignor or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Assumption and to purchase the Assigned Interest, and (vi) if it is a foreign lender, attached to the Assignment and Assumption is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by the Assignee; and (b) agrees that (i) it will, independently and without reliance on the Agent, the Assignor or any other Lender, and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents, and (ii) it will perform in accordance with their terms all of the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. **Payments.** From and after the Effective Date, the Agent shall make all payments in respect of the Assigned Interest (including payments of principal, interest, fees and other

amounts) to the Assignor for amounts which have accrued to but excluding the Effective Date and to the Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Assumption shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and assigns. This Assignment and Assumption may be executed in any number of counterparts, which together shall constitute one instrument. Delivery of an executed counterpart of a signature page of this Assignment and Assumption by facsimile shall be effective as delivery of a manually executed counterpart of this Assignment and Assumption. This Assignment and Assumption shall be governed by, and construed in accordance with, the Law of the State of New York.

PINNACLE WEST CAPITAL CORPORATION
RATIO OF EARNINGS TO FIXED CHARGES
(dollars in thousands)

	Six Months Ended June 30,	Twelve Months Ended December 31,					
		2014	2013	2012	2011	2010	
Earnings:							
Income from continuing operations attributable to common shareholders	\$ 148,224	\$ 406,074	\$ 387,380	\$ 328,110	\$ 324,688	\$ 236,839	
Income taxes	80,945	230,591	237,317	183,604	160,869	138,551	
Fixed charges	108,480	206,089	219,437	246,462	248,664	241,807	
Total earnings	<u>\$ 337,649</u>	<u>\$ 842,754</u>	<u>\$ 844,134</u>	<u>\$ 758,176</u>	<u>\$ 734,221</u>	<u>\$ 617,197</u>	
Fixed Charges:							
Interest expense	\$ 104,720	\$ 201,888	\$ 214,616	\$ 241,995	\$ 244,174	\$ 237,766	
Estimated interest portion of annual rents	3,760	4,201	4,821	4,467	4,490	4,041	
Total fixed charges	<u>\$ 108,480</u>	<u>\$ 206,089</u>	<u>\$ 219,437</u>	<u>\$ 246,462</u>	<u>\$ 248,664</u>	<u>\$ 241,807</u>	
Ratio of Earnings to Fixed Charges (rounded down)	<u>3.11</u>	<u>4.08</u>	<u>3.84</u>	<u>3.07</u>	<u>2.95</u>	<u>2.55</u>	

ARIZONA PUBLIC SERVICE COMPANY
RATIO OF EARNINGS TO FIXED CHARGES
(dollars in thousands)

	Six Months Ended June 30, 2014	Twelve Months Ended December 31,					2009
		2013	2012	2011	2010		
Earnings:							
Income from continuing operations attributable to common shareholders	\$ 154,434	\$ 424,969	\$ 395,497	\$ 336,249	\$ 335,663	\$ 251,225	
Income taxes	85,071	245,095	244,396	192,542	170,465	152,574	
Fixed charges	106,030	202,457	214,227	238,286	234,184	227,274	
Total earnings	\$ 345,535	\$ 872,521	\$ 854,120	\$ 767,077	\$ 740,312	\$ 631,073	
Fixed Charges:							
Interest charges	\$ 100,408	\$ 194,616	\$ 205,533	\$ 229,326	\$ 225,269	\$ 218,969	
Amortization of debt discount	2,065	4,046	4,215	4,616	4,559	4,675	
Estimated interest portion of annual rents	3,557	3,795	4,479	4,344	4,356	3,630	
Total fixed charges	\$ 106,030	\$ 202,457	\$ 214,227	\$ 238,286	\$ 234,184	\$ 227,274	
Ratio of Earnings to Fixed Charges (rounded down)							
	3.25	4.30	3.98	3.21	3.16	2.77	

PINNACLE WEST CAPITAL CORPORATION
RATIO OF EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED
STOCK DIVIDEND REQUIREMENTS
(dollars in thousands)

	Six Months Ended June 30,		Twelve Months Ended December 31,				
	2014	2013	2012	2011	2010	2009	
Earnings:							
Income from continuing operations attributable to common shareholders	\$ 148,224	\$ 406,074	\$ 387,380	\$ 328,110	\$ 324,688	\$ 236,839	
Income taxes	80,945	230,591	237,317	183,604	160,869	138,551	
Fixed charges	108,480	206,089	219,437	246,462	248,664	241,807	
Total earnings	<u>\$ 337,649</u>	<u>\$ 842,754</u>	<u>\$ 844,134</u>	<u>\$ 758,176</u>	<u>\$ 734,221</u>	<u>\$ 617,197</u>	
Fixed Charges:							
Interest expense	\$ 104,720	\$ 201,888	\$ 214,616	\$ 241,995	\$ 244,174	\$ 237,766	
Estimated interest portion of annual rents	3,760	4,201	4,821	4,467	4,490	4,041	
Total fixed charges	<u>\$ 108,480</u>	<u>\$ 206,089</u>	<u>\$ 219,437</u>	<u>\$ 246,462</u>	<u>\$ 248,664</u>	<u>\$ 241,807</u>	
Preferred Stock Dividend Requirements:							
Income before income taxes attributable to common shareholders	\$ 229,169	\$ 636,665	\$ 624,697	\$ 511,714	\$ 485,557	\$ 375,390	
Net income from continuing operations attributable to common shareholders	148,224	406,074	387,380	328,110	324,688	236,839	
Ratio of income before income taxes to net income	1.55	1.57	1.61	1.56	1.50	1.59	
Preferred stock dividends	—	—	—	—	—	—	
Preferred stock dividend requirements — ratio (above) times preferred stock dividends	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	
Fixed Charges and Preferred Stock Dividend Requirements:							
Fixed charges	\$ 108,480	\$ 206,089	\$ 219,437	\$ 246,462	\$ 248,664	\$ 241,807	
Preferred stock dividend requirements	—	—	—	—	—	—	
Total	<u>\$ 108,480</u>	<u>\$ 206,089</u>	<u>\$ 219,437</u>	<u>\$ 246,462</u>	<u>\$ 248,664</u>	<u>\$ 241,807</u>	
Ratio of Earnings to Fixed Charges (rounded down)	<u>3.11</u>	<u>4.08</u>	<u>3.84</u>	<u>3.07</u>	<u>2.95</u>	<u>2.55</u>	

CERTIFICATION

I, Donald E. Brandt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pinnacle West Capital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the

audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Donald E. Brandt

Donald E. Brandt

Chairman, President and Chief Executive Officer

CERTIFICATION

I, James R. Hatfield, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Pinnacle West Capital Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the

audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ James R. Hatfield

James R. Hatfield
Executive Vice President and Chief Financial Officer

CERTIFICATION

I, Donald E. Brandt, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arizona Public Service Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the

audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ Donald E. Brandt

Donald E. Brandt

Chairman, President and Chief Executive Officer

CERTIFICATION

I, James R. Hatfield, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of Arizona Public Service Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the

audit committee of the registrant's board of directors (or persons performing the equivalent functions):

- a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: July 31, 2014

/s/ James R. Hatfield

James R. Hatfield
Executive Vice President and Chief Financial Officer

**CERTIFICATION
OF
CHIEF EXECUTIVE OFFICER
AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donald E. Brandt, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Pinnacle West Capital Corporation for the quarter ended June 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Pinnacle West Capital Corporation.

Date: July 31, 2014

/s/ Donald E. Brandt

Donald E. Brandt
Chairman, President and
Chief Executive Officer

I, James R. Hatfield, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Pinnacle West Capital Corporation for the quarter ended June 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Pinnacle West Capital Corporation.

Date: July 31, 2014

/s/ James R. Hatfield

James R. Hatfield
Executive Vice President and
Chief Financial Officer

**CERTIFICATION
OF
CHIEF EXECUTIVE OFFICER
AND
CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

I, Donald E. Brandt, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Arizona Public Service Company for the quarter ended June 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Arizona Public Service Company.

Date: July 31, 2014

/s/ Donald E. Brandt

Donald E. Brandt
Chairman, President and
Chief Executive Officer

I, James R. Hatfield, certify, pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of Arizona Public Service Company for the quarter ended June 30, 2014 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Arizona Public Service Company.

Date: July 31, 2014

/s/ James R. Hatfield

James R. Hatfield
Executive Vice President and
Chief Financial Officer
