

EL PASO ELECTRIC COMPANY, a
Texas corporation

By: _____

Printed Name: _____

Its: _____

State of Texas

County of _____

The foregoing instrument was acknowledge before me this _____ day of
_____, 20__ by _____
the _____ (Name)
_____ of EL PASO ELECTRIC
(Title)
COMPANY, a Texas corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

PUBLIC SERVICE COMPANY OF
NEW MEXICO, a New Mexico
corporation

By: Patricia K. Callahan

Printed Name: Patricia K. Callahan

Its: President - CEO

State of New Mexico

County of Bernalillo

The foregoing instrument was acknowledge before me this 8th day of
November, 2010 by Patricia K. Callahan
the President - CEO (Name)
_____ of PUBLIC SERVICE
(Title)
COMPANY OF NEW MEXICO, a New Mexico corporation, on behalf of the corporation.

James H. Smith
Notary Public

My Commission Expires:

SOUTHERN CALIFORNIA EDISON
COMPANY, a California Corporation

By: RW Krieger

Printed Name: RW Krieger

Its: Vice President

State of California

County of Los Angeles

The foregoing instrument was acknowledge before me this 8th day of
November, 2010 by Jean E Lambrecht

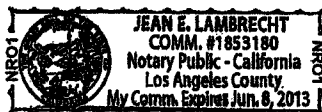
(Name)
the Notary of SOUTHERN CALIFORNIA
(Title)

EDISON COMPANY, a California corporation, on behalf of the corporation.

Jean E Lambrecht
Notary Public

My Commission Expires:

June 8, 2013



TUCSON ELECTRIC POWER
COMPANY, an Arizona Corporation

By: _____

Printed Name: _____

Its: _____

State of Arizona

County of _____

The foregoing instrument was acknowledge before me this _____ day of
_____, 20__ by _____

(Name)
the _____ of TUCSON ELECTRIC
(Title)

POWER COMPANY, an Arizona corporation, on behalf of the corporation.

Notary Public

My Commission Expires:

SALT RIVER PROJECT AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an agricultural improvement district organized under the laws of the State of Arizona

By:

David Rousseau
David Rousseau, President or
John R. Hoopes, Vice President

Date:

11/23/2010

Reviewed by SRP Legal Services

By:

Karlee Ramaley
Signature

Karlee Ramaley
Printed Name

Date:

11/23/2010

Attest and Countersign:

By:

Terrill A. Lonon
Terrill A. Lonon, Secretary or
Stephanie K. Reed, Assistant Secretary

Date:

11/23/2010

State of Arizona

County of Maricopa

The foregoing instrument was acknowledge before me this 23rd day of
November, 2010 by David Rousseau
(Name)
the President of SALT RIVER PROJECT
(Title)

AGRICULTURAL IMPROVEMENT AND POWER DISTRICT, an agricultural improvement district organized under the laws of the State of Arizona.

Stephanie K. Reed
Notary Public

My Commission Expires:

August 5, 2011



Exhibit B

Item	Existing § 323 Grants	Property or Facility	APS File #	Grant Date	Expiration Date	Acreage
1	Plant Site	Amended Original Lease (Units 1-3)		12/01/60	07/06/16	
		New Lease (Units 4-5)		07/06/66	07/06/16	3,466.42
2	Ancillary Facilities	Utah Mine Haul Road (Communication Lines and Access Road)	IN-13	07/28/61	07/28/11	19.25
		Plant - Coal Lease Area - 69 kV	IN-15	12/15/61	12/15/11	3.75
		Pumping Station to Plant Access Road & Pipeline	IN-12	04/02/62	04/02/12	40.91
		River Pumping Station to Plant - 69 kV	IN-11	04/02/62	04/02/12	21.74
		Plant - EPNG Bridge / Access Rd	IN-16	07/03/63	07/03/13	37.57
		Pumping Station to Plant Access Road & Pipeline Addition	IN-92	04/21/69	04/21/19	10.36
3	500 kV ROW					133.58
		El Dorado 500 kV (Navajo portion only)	IN78 INH-79, INH-80	03/22/67	03/22/17	3,959.29
		Four Corners to Cholla	IN-17	05/26/61	05/26/11	5,658.91
		Flagstaff to Leupp	IN-4	09/12/57	09/12/07	102.82
4	Substation Sites	Cholla to Leupp	IN-7	09/21/60	09/21/10	249.16
		12 kV line and Roadway to Moenkopi Switchyard	INH-88	04/24/70	04/27/95	1.12
		Leupp Substation	IN-5	05/06/59	05/06/09	.43
5	Communication Sites	Moenkopi Switchyard	INH-83	04/09/68	04/09/18	211.09
		Preston Mesa Communication Site	IN-1182	12/30/96	12/30/14	0.23
		Jacks Peak Communication Site	IN-1181	04/16/02	04/15/17	1.75
		Dezra Bluff Communication Site	IN-1357	12/15/97	12/14/17	0.08
		Zilmez Mesa Microwave Site, Navajo Reservation	IN-113	01/03/73	01/03/23	2.40
		Roof Butte Communication Site	IN-85	07/07/70	07/07/20	0.02
		Marsh Pass Communication Site	IN-116	01/03/73	01/03/23	3.90

*Certificate of the terms used to describe the listed property or facilities have the meanings given to them in the 1960 Lease and 1966 Lease.

Exhibit C

**FOUR CORNERS GENERATING STATION
PREFERENCE PLAN**

March 7, 2011

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I. INTRODUCTION

The purpose of this Preference Plan is to clarify and delineate Arizona Public Service Company's ("APS") Indian Preference Plan for the Four Corners Generating Station ("Four Corners") and specifically, the procedures for giving preference in employment to Indians.

II. PREFERENCE POLICY STATEMENT

Employment at Four Corners is based on qualifications without regard to race, color, creed, religion, national origin, sex, or age, except that preference will be given to qualified Indians, provided, however, that to the extent allowed by law (as set forth in Section 7.2 of the Amendment, to which this Preference Plan is attached), APS will give preference to qualified Navajos rather than to Indians. Each member of APS's management is responsible for implementing this policy in his/her areas and is held accountable for it in the same way each manager is held accountable for other company policies. In particular, the Plant Manager for Four Corners has overall accountability and responsibility for implementation of this Preference Plan.

III. SELECTION

In order to conduct operations at Four Corners in a safe and effective manner, all positions must be filled by persons qualified to perform the work required. APS has procedures to evaluate the qualifications (knowledge, skills and abilities) required for each job position. In general, these job qualifications are documented in "job descriptions" maintained by APS's Human Resource Department. Employees may also obtain a copy of their job descriptions by contacting their supervisors.

Job requirements consist of standards which identify the skills, education, and experience necessary to perform a particular job. These job requirements are the basis for hiring decisions and are also used to formulate employee training programs for job classifications with few incumbent-Indian employees. Hence, it is important that the job descriptions describe the true requirements of the job. For this reason, APS will review its job descriptions to assure that the job qualifications are relevant to the job requirements.

Qualifications are assessed on the basis of performance reviews, skills evaluations, experience and education, as appropriate for the position under consideration. Supervisors (and previous employers, in the case of external applicants) may be contacted. Skills may be evaluated by written tests, skill demonstrations, or by supervisory interview. Tests will be validated for job relevancy.

APS is committed to Indian preference in employment. Preference will be given to Indians who possess the skills and abilities to fulfill the job requirements established above.

IV. GOALS

The purpose of this Preference Plan is to provide a means to increase the employment of Indians at Four Corners, in both regular full-time and temporary positions. In particular, APS intends to focus on increasing the overall employment of Indians at Four Corners and promoting Indians into management positions.

Analysis of Indian employment levels by job classification will lead to establishing goals for job placement and training. These goals will be reviewed annually to evaluate the progress made toward the objective, and revised as necessary.

The commitment of APS is to offer available job opportunities to Indians who satisfy job requirements, whether the person is a current employee or a non-employee identified through recruitment and advertising. Through the adoption and implementation of training programs at Four Corners, the long-range goal is to develop a pool of Indian candidates qualified for all positions.

Openings created through resignation, discharge, transfer, promotion, or a newly created position cause the posting of an internal "bid" and create opportunities for internal movement through the bid process. Bidding is the established process by which job vacancies are announced, advertised and filled. When vacancies occur, employees, who feel they have the qualifications for a particular job, may submit their internal applications (bids) for consideration.

The bid process frequently creates a cascading effect, as employees vacate existing jobs to fill positions that result from another employee accepting a bid to fill the original vacancy. When an Indian bidder accepts a position vacated by another Indian, the net effect on the overall percentage of Indian employment is zero. While Indian bidders will be given preference in accordance with this Preference Plan, an increase in the total percentage of Indian employees at Four Corners can be expected only when the cascading effect of the bid system results in the employment of external Indian candidates.

Nevertheless, the potential for increasing the number of Indian employees is greater in certain job classifications than in others. Some of these job classifications are:

- First and second level supervision
- Operations (Operator Trainee through Control Operator)
- Machinist
- Plant Mechanic
- Electrician
- Equipment Operator
- Plant Chemist
- Scheduler

Four Corners management will give these job classifications particular attention to increase employment of Indians. Additionally, technical and professional recruiting will be increased to locate, identify, and employ suitable Indian candidates for engineers, technicians, and professional positions.

V. TRAINING

When there are too few qualified Indian bidders, internal training programs to increase the availability of Indian bidders may be appropriate. Training programs should focus on raising the level of skills, knowledge and abilities of Indians in "feeder jobs." These are jobs which typically provide employees for higher level jobs, particularly when the lower level job has skill, knowledge and ability requirements that are prerequisites for a higher level job. Training should continue until the goal has been met. Other "in-place" training programs, such as apprenticeships and operations training, are on-going and continue to provide trained replacements for journeymen.

Indians will be encouraged to enhance their careers at APS by taking advantage of on--the-job training, apprenticeships, and in-house and off-the-job educational courses. As a specific part of this Preference Plan, the following actions will be taken to provide opportunities for Indians to advance to journeyman-level and supervisory positions.

1. New apprenticeships will be awarded only to qualified Indians.
2. Currently employed Indian journeymen will be selected for supervisory training to make them better qualified for future opportunities in foreman positions.

Because of the magnitude of the work and its accompanying time constraints, virtually everyone at Four Corners is affected by an overhaul. Four Corners has chosen to supplement the knowledge, skills and experience of its regular full-time employees with those of temporary workers with job specific skills. During an overhaul, where possible, regular full time employees are upgraded to higher level skill positions including supervisory positions. In this manner, employees may further expand the practical application of their technical and supervisory skills.

VI. RECRUITMENT/ADVERTISING FOR REGULAR EMPLOYEES

Recruitment is any activity that causes individuals to apply for employment. Advertising is one method of recruitment. Examples of other methods include meetings with graduating college seniors, participation in trade fairs, and day programs.

Since most regular full-time jobs at Four Corners are filled internally, a large recruitment effort is not needed. Thus, recruitment of regular full-time employees should be limited to those positions which are not filled by Indians internally. For purposes of this Preference Plan, recruitment will concentrate on jobs in which Indians are underutilized.

In an effort to attract qualified Indian applicants, contacts with key organizations throughout the Navajo Reservation will be maintained, although contacts within the Western Navajo Agency will be emphasized. In addition, Four Corners will work with appropriate tribal agencies to develop other potential recruitment sources.

Universities, vocational schools, Joint Training and Partnership Act classroom training programs, the Navajo Division of Education, the ONLR, and employment service offices located in the vicinity of Four Corners will be included in the recruitment and advertising efforts of Four Corners. Technical and professional jobs will be emphasized in recruitment efforts at colleges, universities, and in periodic advertisements to attempt to locate and identify suitable Indian candidates for employment opportunities.

Advertising and recruiting efforts will include a statement that APS at Four Corners recognizes Indian preference in employment. The following statement will be included in all advertisements for employment opportunities at Four Corners and on bid sheets posting jobs at Four Corners:

APS follows a policy of giving preferential treatment to Indians in connection with employment at the Four Corners Generating Station.

VII. ADVERTISING/RECRUITING FOR TEMPORARY EMPLOYEES

Each year, temporary employees are hired for certain specific assignments at Four Corners. Only when no qualified Indian applicant is found, after a thorough review of returning Indian applicants, existing files on temporary Indian employees, and new applications from Indians (generated by advertising), will a temporary position be filled by a non-Indian.

VIII. CONTRACT LABOR/SERVICES

APS will select qualified Indian-owned businesses, when available, to provide contract labor or services at Four Corners. APS will notify its vendors (a) of the employment and contracting preference policy at Four Corners; and (b) that they are expected to comply with applicable laws and regulations.

IX. CROSS CULTURAL COMMUNICATIONS PROGRAM

APS will develop and implement a cross-cultural program designed to provide a forum for Indian and non-Indian employees to openly examine and discuss the culturally significant customs, beliefs, values, and social mores that all individuals bring with them to the workplace.

X. DISPUTE RESOLUTION FOR EMPLOYEES

APS acknowledges the value of maintaining a work environment free of prejudice and discrimination. Nevertheless, despite even the best of intentions, complaints do arise, and the parties have determined that complaints of whatever nature are best handled internally, without the involvement of external agencies; Therefore, employees are encouraged to take advantage of

APS's existing internal processes. Through this approach, a wide variety of employment related complaints may be addressed and resolved.

If Navajo Nation officials become aware of an employment concern at Four Corners, the Navajo Nation must bring the issue to the Advisory Committee, formed pursuant to the Lease (to which this Preference Plan is attached), for resolution.

XI. ENTIRE AGREEMENT; NO THIRD PARTY BENEFICIARIES

This Preference Plan is the entire agreement between the Parties concerning its subject matter and supersedes all prior agreements and understandings, whether or not written, including without limitation the letter agreement dated March 8, 1985 between APS and the Navajo Nation and signed by G. Mark De Michele and Peterson Zah. This Preference Plan also is not intended to confer upon any person other than the Parties any rights, privileges, waivers, obligations or remedies granted hereunder.

Exhibit D

Annual Payment for 2016 and all subsequent years:

$$7,000,000.00 \times \frac{\text{CPI for April in year which Annual Payment is due}}{\text{CPI for April 2011}}$$

Exhibit E

This exhibit intentionally not used.

Exhibit F
(Includes Exhibits A-D of the Restated and Amended Settlement and Closing Agreement)

DRAFT

11/4/2010 3:30 PM

Restated and Amended Settlement and Closing Agreement

This Restated and Amended Settlement and Closing Agreement (the "**Restated Agreement**") amends the Settlement and Closing Agreement dated August 15, 2002 ("**Original Agreement**") and is entered into as of the Effective Date (as defined in Section 18) by Arizona Public Service Company ("**APS**") and the Office of the Navajo Tax Commission ("**ONTC**"), acting on its own behalf and, pursuant to Section 103 of the Navajo Nation Uniform Tax Administration Statute ("**UTAS**"), on behalf of the Navajo Nation. APS and the ONTC may be referred to herein individually as a "Party" or collectively as the "Parties."

Recitals

A. Pursuant to Section 105 of UTAS, the ONTC, on behalf of the Navajo Nation, issued an assessment to APS on [Date] seeking to assess the Possessory Interest Tax ("**PIT**") on APS in connection with its ownership and operation of the Four Corners Power Plant (the "**Plant**"), switchyards, and transmission and distribution facilities within the Navajo Nation (hereinafter, the Plant, switchyards, and transmission and distribution facilities within the Navajo Nation are collectively referred to as the "**Facilities**"). Pursuant to Regulation 1.125 of the ONTC Tax Administration Regulations, the ONTC also issued on [Date] a private ruling asserting that it has jurisdictional authority to impose the Business Activity Tax ("**BAT**") upon APS' activities related to the Facilities. Pursuant to Section 133 of UTAS, the ONTC is entering into this Restated Agreement.

B. APS and the other participants in the Plant (collectively, the "**Participants**") assert that neither the Navajo Nation nor the ONTC has jurisdictional authority to impose any tax on APS, the Participants or the Facilities based on (i) certain agreements between the Navajo Nation, APS and Participants, including without limitation, certain covenants in leases entered into by APS, the Participants and the Navajo Nation and approved by the United States ("**Leases**") and in federal grants of rights-of-way issued to APS and the Participants by the United States ("**Grants**"), (ii) the location of the Facilities on federally granted rights-of-way, (iii) the non-Indian character of APS and the Participants, and (iv) relevant case law.

C. The ONTC asserts that it possesses jurisdictional authority to administer taxes enacted by the Navajo Nation with respect to the Participants, including APS, and the Facilities based on (i) certain agreements between the Navajo Nation, APS and the Participants, including without limitation, certain covenants in the Leases and Grants, (ii) the location of the Facilities on lands held in trust by the United States for the benefit of the Navajo Tribe, and (iii) relevant case law.

D. The Parties entered into the Original Agreement for purposes of settling the dispute and to avoid litigation over the question of the jurisdictional authority of the Navajo Nation and ONTC to tax the Facilities and APS, based on its ownership interest in and operation of the Facilities.

E. The Parties desire to restate, amend and extend the Original Agreement and are thus entering into this Restated Agreement in accordance with the express terms set forth below.

WHEREFORE, THE PARTIES AGREE AS FOLLOWS:

1. Settlement Payments. Subject to the terms and conditions contained in this Restated Agreement, APS will make settlement payments as specified below ("**Settlement Payments**"):

a. PIT Settlement Payments.

(i) Beginning with calendar year 2001 and continuing through July 7, 2041 (the "**Amended Term**"), APS will pay to ONTC the following amount as a PIT Settlement Payment for the APS-owned Facilities, subject to adjustment as provided in subsection a(ii) of this Section 1:

<u>Calendar Year</u>	<u>PIT Settlement Payment</u>
2001	\$2,993,515.00
2002-2003	\$5,987,030.00 per year
2004-2040	\$6,342,600 per year
2041	\$3,171,300.00

(ii) Beginning July 8, 2016 and continuing through July 7, 2041, the PIT Settlement Payment is subject to reduction in the event APS and/or the Participants permanently shut down any of the Facilities and/or unit(s) of the Plant in which APS has an ownership interest, including but not limited to the permanent shut down of the entire Plant (the "**Permanently Shut Down Facilities**"). For any Permanently Shut Down Facilities salvage value will be determinative of value, and

salvage value will be based on 5% of original or acquisition cost of the Permanently Shut Down Facilities in question. In the event of any permanent shut down under this Section 1a(ii), the PIT Settlement Payment will be recalculated in two steps:

- a. Step One: PIT Settlement Payment will be proportionally reduced by multiplying the PIT Settlement Payment by a factor that represents the ratio of the original or acquisition cost of the APS-owned Facilities within the Navajo Nation that are not Permanently Shut Down Facilities divided by the total original or acquisition cost of the APS-owned Facilities.
- b. Step Two: The proportionately reduced PIT Settlement Payment derived under Step One will then be increased by adding the product of a 3% in-lieu-of tax rate and the salvage value (i.e., 5% of original or acquisition cost) of the Permanently Shut Down Facilities. A sample calculation is included as Exhibit D to this Restated Agreement.

(iii) In the event APS constructs a new unit or units at the Plant during the Amended Term, the PIT Settlement Payment will be proportionally increased by an amount that represents the product obtained by multiplying the original or acquisition cost of the new APS-owned unit or units by the following factor:

- a. The PIT Settlement Payment of \$6,342,600 divided by the original or acquisition cost of the APS-owned Facilities within the Navajo Nation as of the Effective Date of this Restated Agreement. A sample calculation is included as Exhibit 1 to this Restated Agreement

(iv) APS will pay the PIT Settlement Payment specified above (as may be adjusted pursuant to Section 1a(ii) or Section 1a(iii), above) for calendar years 2002-2040 on a semi-annual basis, with the first half for each calendar year due November 1 and the second half due May 1 of the following year. APS will pay the PIT Settlement Payment specified above for calendar year 2041 on or before November 1, 2041. On or before June 1 of each calendar year during the term of this Restated Agreement, APS will provide to the ONTC, for informational purposes only, the form attached as Exhibit A.

(v) Interest on any late payment of the PIT Settlement Payment will be computed from the date the PIT Settlement Payment was first due to the date such payment is received by the ONTC. The rate of interest on any late payment will be equal to the rate then being used by the Internal Revenue Service for an underpayment of taxes by an

individual. If APS fails to timely pay the PIT Settlement Payment, APS also will pay an additional amount equal to 5% of its PIT Settlement Payment. For each full month the payment is overdue, APS will pay an additional amount equal to 0.5% of its PIT Settlement Payment; provided, however, that the maximum additional amount APS must pay for the failure to timely pay shall not exceed 10% of the PIT Settlement Payment amount due. If APS fails to timely provide the Report for PIT Settlement Payment, attached as Exhibit A, as required by Section 1(a)(iv) of this Restated Agreement, APS will pay an additional 5% of its PIT Settlement Payment due for the period for each month or fraction thereof that the Report for PIT Settlement Payment is not provided; provided, however, that the minimum additional amount to be paid for failure to timely provide such Report for PIT Settlement Payment shall be \$50 and the maximum additional amount shall not exceed 25% of APS' PIT Settlement Payment for that period. For good cause shown, the ONTC may in its discretion relieve APS from all or part of the requirements imposed under this Section 1.a(v).

(vi) APS will provide, within six (6) months of the Effective Date of this Restated Agreement, a schedule of original or acquisition cost for the Facilities in which APS has an ownership interest (including the Permanently Shut Down Facilities) for use in connection with the calculations provided for in Section 1.a(ii). In addition, if APS constructs a new unit or units at the Plant for purposes of Section 1.a(iii), APS will provide a schedule of original or acquisition cost for such new unit or units within six (6) months after its/their completion, for use in connection with the calculations provided for in Section 1.a(iii).

(vii) The ONTC expressly agrees that APS is hereby released from any obligation and will not be required or requested to make any other payment with respect to any other amounts that the ONTC asserted or could have asserted were payable prior to execution of this Restated Agreement.

b. BAT Settlement Payment.

(i) Effective as of July 6, 2001 and continuing through the Amended Term, APS will calculate its BAT Settlement Payment amount using the following formula:

BAT Settlement Payment=

$$[(R * AI * \text{Net KWhrs}) \text{ less (Deductions) less (10\% Standard Deduction) }] * 5\%$$

Where $R = \$0.0256 / \text{KWhr}$.

Where Net KWhrs = APS' share of actual net kilowatt hours generated from the Plant during the quarterly period.

Where Deductions = (1) Salaries and/or other compensation paid to members of the Navajo Nation; (2) Purchases of Navajo goods and services; and (3) Any payment made to the government of the Navajo Nation, except for the BAT Settlement Payment paid pursuant to this Restated Agreement and any penalties or fines.

Where Standard Deduction = an amount equal to the greater of ten percent of ($R * AI * \text{Net KWhrs}$) or \$125,000.00.

As set forth on Exhibit C, APS will include in its Operating Report provided to the ONTC a statement of actual net generation for each quarter.

Where AI = an adjustment calculated in the 3rd Quarter of each year based upon a 5-year rolling average of Producer Price Index data published by the Bureau of Labor Statistics. Annual adjustments shall be cumulative, i.e., the total current year adjustment shall be equal to the incremental current year adjustment multiplied by the previous year's adjustment. The incremental adjustment shall be calculated utilizing the following methodology:

$AI = (75\% * \text{Cost Index}) \text{ plus } (25\% * \text{Revenue Index})$.

Where Cost Index =

42.3% * Bituminous Coal and Lignite: West (BLS Series PCU1211#214)
plus 0.9% * Natural Gas (BLS Series PCU1331#A2)
plus 7.6% * Other Heavy Construction (BLS Series PCUBHVVY#)
plus 49.2% * Unit Labor Costs: Non-Farm Business (BLS Series PRS85006112)

Where Revenue Index =

65.2% * Electric Power and Natural Gas Utilities, Other, Mountain (BLS Series PCU4981#148)
plus 34.8% * Electric Power and Natural Gas Utilities, Other, Pacific (BLS Series PCU4981#149)

If any of the BLS indices used in this calculation are discontinued, the Parties shall mutually agree upon an equivalent substitute BLS index. The Parties agree that, beginning January 1, 2002, the Bituminous Coal and Lignite: Surface

Mining (BLS Series PCU1211#1) will be substituted into the calculation in place of Bituminous Coal and Lignite: West (BLS Series PCU1211#214).

A calculation of AI for the 3rd Quarter 2001 through the 2nd Quarter 2002 BAT Settlement Payments is attached as Exhibit B. The 5-year average of index data for 1996 through 2000 is used to develop this initial adjustment.

Each subsequent annual adjustment will be made for the 3rd Quarter BAT Settlement Payment using the 5-year rolling average of index data through the end of the previous year.

A sample calculation of AI for the 3rd Quarter 2002 through 2nd Quarter 2003 BAT Settlement Payments using estimated data is included in Exhibit B. Calculations in subsequent years will follow this same formula.

(ii) APS will make its BAT Settlement Payments on a quarterly basis, with payments due 45 days after the end of each calendar quarter. APS will, at the time of making such payments, provide to the ONTC an Operating Report containing the following information used to calculate APS' BAT Settlement Payment:

- (a) APS revenue requirement, as adjusted by AI;
- (b) Net KWhrs for the quarter;
- (c) Deductions as defined above; and
- (d) Standard Deduction.

The format for the Operating Report is set forth in Exhibit C.

(iii) Interest on any late payment of a BAT Settlement Payment will be computed from the date the BAT Settlement Payment was first due to the date such payment is received by the ONTC. The rate of interest on any late payments will be equal to the rate then being used by the Internal Revenue Service for an underpayment of taxes by an individual. If APS fails to timely pay the BAT Settlement Payment, APS will pay an additional amount equal to 5% of the BAT Settlement Payment due. For each full month the payment is overdue, APS will pay an additional amount equal to 0.5% of the amount of its BAT Settlement Payment; provided, however, that the maximum additional amount that APS will be required to pay for the failure to timely pay shall not exceed 10% of the BAT Settlement Payment amount due. If APS fails to timely provide to the ONTC an Operating Report required by this Restated Agreement, APS will pay an additional 5% of its BAT Settlement Payment for each month or fraction thereof that the Operating Report has not been provided to the ONTC; provided, however, that the minimum additional amount to be paid for APS' failure to timely provide such

Operating Report will be \$50 and the maximum additional amount will not exceed twenty-five percent (25%) of APS' BAT Settlement Payment for that period. For good cause shown, the ONTC may in its discretion relieve APS from all or part of the requirements imposed under this Section 2.b(iii).

(iv) The ONTC expressly agrees that APS is hereby released from any obligation and will not be required or requested to make any other payment with respect to any other amounts that the ONTC asserted or could have asserted were payable prior to execution of this Restated Agreement.

2. Releases.

a. APS hereby releases and forever discharges the ONTC, its predecessors, successors, affiliates, and assigns, of and from any and all claims, demands, damages, actions, causes of action, or suits of whatsoever kind and nature, existing as of the Effective Date of this Restated Agreement, whether now known or unknown to the Parties, or whether asserted or unasserted, related, either directly or indirectly, to any and all PIT and BAT tax assessments and taxes, and interest and penalties thereon, allegedly owed by the ONTC, its predecessors, successors, affiliates, and assigns, to APS arising from APS' ownership interests or operation of the Facilities.

b. The ONTC hereby releases and forever discharges APS, its predecessors, successors, affiliates, and assigns, of and from any and all claims, demands, damages, actions, causes of action, or suits of whatsoever kind and nature, existing as of the Effective Date of this Restated Agreement, whether now known or unknown to the Parties, or whether asserted or unasserted, related, either directly or indirectly, to any and all PIT and BAT tax assessments and taxes, and interest and penalties thereon, allegedly owed by APS, its predecessors, successors, affiliates, and assigns, to the ONTC or Navajo Nation arising from APS' ownership interests or operation of the Facilities.

c. The ONTC expressly covenants that it will not seek to apply or assess the Navajo Sales Tax, approved by the Navajo Nation Council pursuant to Resolution No. CO-84-01 on October 18, 2001 (as amended), with respect to any electricity generated at, from or by the Plant except for retail sales of electricity to persons who purchase electricity for that person's own use, including use in that person's trade or business and not for resale, redistribution or retransmission, within the Navajo Nation.

3. Case Closure.

The Parties agree that the following cases shall be closed:

Possessory Interest Tax: Case No. 01-042

Business Activity Tax: Case No. 01-056

4. Preservation of Rights.

It is understood and agreed that this is a settlement of disputed claims, whether asserted or unasserted, and that nothing contained herein shall be construed as an admission of liability, guilt, or wrongdoing by or on behalf of any of the undersigned Parties, all such liability, guilt, or wrongdoing being expressly denied. The Parties acknowledge and agree that this Restated Agreement shall not prejudice or limit in any way the rights or contentions of any Party. The Parties further agree that this Restated Agreement shall not in any way be deemed a waiver or amendment of any provisions of any other agreement between the Navajo Nation, APS and/or any of the Participants, including but not limited to the Leases and Grants. This Restated Agreement, and the actions of the Parties contemplated hereunder, are not intended, nor shall they be deemed, to constitute any waiver, consent or admission with respect to the existence or lack of regulatory, taxing, or adjudicatory authority or jurisdiction of the Navajo Nation or the ONTC over the Facilities or any Party hereto.

5. Enforcement and Judicial Review.

a. Neither Party shall commence any judicial or administrative action challenging the validity of this Restated Agreement or any Party's authority to enter into it. Any commencement of such an action by a Party shall constitute a material breach of this Restated Agreement by that Party.

b. Challenge to Validity of the Restated Agreement.

(i) If the ONTC, or any of its representatives, officers, employees, departments or agents (a) commences any judicial or administrative action challenging this Agreement or the ONTC's authority to enter into it, or (b) otherwise in any manner invalidates or breaches this Restated Agreement or takes any action contrary to this Restated Agreement, APS may, in its sole discretion, elect to seek specific performance of or terminate this Restated Agreement. If the ONTC, or any of its representatives, officers, employees, departments or agents, repeals the PIT or BAT and enacts a replacement tax that the ONTC seeks to assert against APS or the Facilities, APS may terminate this Restated Agreement. The ONTC agrees and recognizes that if APS terminates this Restated Agreement, APS shall have no further obligation or liability to make any Settlement Payments from the date of termination forward. The ONTC further agrees and recognizes that in such circumstance, APS has preserved its rights to contest the

jurisdiction of the ONTC or the Navajo Nation to assert or assess any taxes against APS with respect to the Facilities, APS' activities at the Facilities, or with respect to any other properties or activities within the Navajo Nation.

(ii) If APS, or any of its representatives, officers, employees, departments, or agents (a) commences any judicial or administrative action challenging this Restated Agreement or APS' authority to enter into it, or (b) otherwise in any manner invalidates or breaches this Restated Agreement or takes any action contrary to this Restated Agreement, the ONTC may, in its sole discretion, elect to seek specific performance of or terminate this Restated Agreement. APS agrees and recognizes that, if the ONTC elects to terminate this Restated Agreement, the ONTC has preserved its rights to assert jurisdiction to assess taxes against APS from and after the date of termination with respect to the Facilities, APS' activities at the Facilities, or with respect to any other properties or activities of APS within the Navajo Nation. If the ONTC elects to terminate this Restated Agreement, the ONTC shall be under no further obligation to accept Settlement Payments in satisfaction of APS' obligations.

(iii) If any person or entity not a Party to this Restated Agreement or the Navajo Nation, or any of their representatives, officers, employees, agencies, departments or agents, commences any judicial, administrative or other action challenging in any way the Restated Agreement's validity, the Parties shall jointly request that the court, tribunal, agency, or official before which the action is pending dismiss the action. If the action is not dismissed, either Party may file an appropriate responsive pleading, or otherwise act as reasonably necessary to respond to the action or to otherwise protect such Party. If any person, including the Navajo Nation or ONTC, brings an action or proceeding to assert or challenge the jurisdictional authority of the Nation or ONTC to tax the Facilities or activities at the Facilities with respect to such other person other than APS, each Party agrees not to rely on any ruling in such action or proceeding for purposes of challenging the validity of this Restated Agreement as long as the other Party is not in material breach hereof.

(iv) If any court, tribunal, agency or official determines that this Restated Agreement is non-binding on the ONTC or the Navajo Nation, APS may elect to terminate this Restated Agreement, and if so terminated, APS shall have no further obligation or liability to make any Settlement Payments from the date of termination forward. The ONTC agrees and recognizes that in such circumstance APS has preserved its rights to contest the jurisdiction of the Navajo Nation and ONTC to

assert or assess any taxes against APS with respect to the Facilities, APS' activities at the Facilities, or with respect to any other properties or activities within the Navajo Nation.

(v) If any court, tribunal, agency or official determines that this Restated Agreement is non-binding on APS, the ONTC may elect to terminate this Restated Agreement, and if so terminated, APS agrees and recognizes that in such circumstance, the ONTC has preserved its rights to assert jurisdiction to assess any taxes against APS with respect to the Facilities, APS' activities at the Facilities, or with respect to any other properties or activities within the Navajo Nation.

c. Other Taxes. Nothing in this Restated Agreement affects the rights, if any, of (i) the Navajo Nation or ONTC to seek to enforce taxes other than the Sales Tax (except as otherwise provided in Section 2(c) above), PIT or BAT on APS or the Facilities or (ii) APS to challenge any such action by the Navajo Nation or ONTC, including when permitted by federal law, bringing such an action in federal court.

d. Enforcement of the Restated Agreement. Enforcement of this Restated Agreement by either Party shall be pursuant to this Restated Agreement and not pursuant to any Navajo Nation or other law independent of this Restated Agreement. Nothing in this Restated Agreement shall or may be deemed to limit a Party's right to seek enforcement of this Restated Agreement or defend any claim in federal or tribal court where otherwise permitted by law. Nothing in this Restated Agreement shall or may be deemed as a consent to federal or tribal court jurisdiction by either Party.

6. Assignment.

APS may transfer or assign, without the consent of the Navajo Nation or ONTC, all or any portion of its interests and obligations under this Restated Agreement to any parent, subsidiary, affiliate or successor in interest of APS by merger, acquisition, or consolidation or to any other current or future owner of the Facilities, provided that the assignee assumes in writing all of APS' obligations under this Restated Agreement.

7. Representations.

Each Party represents and warrants as of the Effective Date of this Restated Agreement as follows:

a. It has full legal right, power and authority to execute, deliver and perform this Restated Agreement;

b. It has taken all appropriate and necessary action to authorize the execution, delivery and performance of this Restated Agreement;

c. It has obtained all consents, approvals and authorizations necessary for the valid execution and delivery of this Restated Agreement;

d. This Restated Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms, except as such enforceability may be limited by applicable bankruptcy or insolvency laws or by limitation upon the availability of equitable remedies;

e. It is not in violation of any applicable law promulgated or judgment entered by any federal, state, local or other governmental body, which violations, individually or in the aggregate, would adversely affect the performance of its obligations under this Restated Agreement; and

f. The execution, delivery and performance by it of this Restated Agreement, the compliance with the terms and provisions hereof and the carrying out of the transactions contemplated hereby, (i) do not conflict with and will not conflict with or result in a breach or violation of any of the terms and provisions of its organizational documents, and (ii) to the best of its knowledge, do not conflict with and will not conflict with or result in a breach or violation of any of the terms and provisions of any law, rule or regulation, or any order, writ, injunction, judgment or decree by any court or other governmental body against it or by which it or any of its properties is bound, or any loan agreement, indenture, mortgage, note, resolution, bond or contract or other agreement or instrument to which it is a party or by which it or any of its properties is bound, or constitute or will constitute a default thereunder or will result in the imposition of any lien upon any of its properties.

8. Successors and Assigns.

This Restated Agreement shall be binding on and inure to the benefit of the Parties hereto and their successors and assigns.

9. Entire Agreement.

Except for any separate agreement of the Parties settling disputed claims related to applicability of the BAT to certain transmission and distribution facilities within the Navajo Nation, this Restated Agreement reflects the entire agreement of the Parties relating to taxation of the Facilities and no other agreement written or oral shall be used to effect any changes of the provisions retained herein. No amendment of this Restated Agreement shall be valid unless in writing and signed by all Parties.

10. Counterparts.

This Restated Agreement may be signed in counterparts, each of which shall be deemed an original. Facsimile signatures shall be as valid as original signatures until each Party receives a fully signed counterpart with original signatures. Each Party shall provide the other Party with original signatures so that each Party shall have a fully signed counterpart within five business days after the date of the last signature.

11. Relationship of Parties.

Nothing herein may be construed to create an association, joint venture, trust, or partnership, or to impose a trust or partnership covenant, obligation or liability on or with regard to any one or more of the Parties.

12. Severability.

Subject to the provisions of and except as otherwise provided in Section 5, Enforcement and Judicial Review, of this Restated Agreement, if any term or condition of this Restated Agreement is held to be invalid, void, or unenforceable by any court or tribunal of competent jurisdiction, that holding shall not affect the validity or enforceability of any other term or condition of this Restated Agreement; unless either Party determines in its sole discretion that enforcing the balance of the Restated Agreement would deprive that Party of a fundamental benefit of its bargain.

13. Adjustment of PIT and BAT Settlement Payment Amounts; Termination.

a. One year prior to the expiration of the Amended Term, the Parties shall commence good faith negotiations to establish PIT and BAT Settlement Payment amounts for APS to run concurrently with any extension of the Leases and Grants. If the Parties are not able to reach agreement upon new PIT and BAT Settlement Payment amounts before expiration of the Amended Term, the Parties will either continue this Restated Agreement in effect with the PIT and BAT Settlement Payment amounts set forth in Section 1 above, or either Party may elect to terminate this Restated Agreement.

b. The Parties recognize and agree that, upon termination or expiration of this Restated Agreement for any reason, (i) each Party has preserved all of its rights and arguments regarding the question of the jurisdictional authority of the Navajo Nation and ONTC to tax the Facilities and/or APS and its successors and assigns based on ownership interests in and operation of the Facilities; (ii) this Restated Agreement shall not in any way be deemed a waiver or amendment of any provisions of any agreement between the Navajo Nation, APS and/or any of the Participants, including but not limited to the Leases and Grants; and (iii) neither Party may assert any claim, demand, damages, action, cause of action, or suit of whatsoever kind and nature, whether known or unknown to the Parties, or whether asserted or unasserted, related, either directly or indirectly, to any and all PIT and BAT tax assessments and taxes, and interest and penalties thereon, that arose or may have arisen while this Restated Agreement was in effect.

14. No Third Party Beneficiaries.

Nothing herein, either express or implied is intended or may be construed to confer upon or to give to any person or entity other than the Parties any rights or remedies under or by reason of this Restated Agreement.

15. Limited Responsibility.

The Parties acknowledge and agree that it is their mutual intent that the obligations, representations, warranties and undertakings under this Restated Agreement or as a result of the transactions contemplated by this Restated Agreement are limited to only those expressly set forth herein, and not enlarged by implication, creation of law, or otherwise.

16. Survival.

The provisions of Sections 2(a) and (b), 4, 7 and 13.b of this Restated Agreement survive expiration or termination of this Restated Agreement. Provided that the Restated Agreement remains in effect through the Amended Term, APS' obligation to make the calendar year 2041 PIT Settlement Payment specified in this Restated Agreement and APS' obligation to make BAT Settlement Payments for any periods prior to expiration or termination of this Restated Agreement also shall survive expiration or termination of this Restated Agreement.

17. Notices.

Notices shall be deemed to have been given if in writing and (a) hand delivered, (b) delivered by a reputable overnight courier service (such as but not limited to FedEx and UPS), (c) mailed by certified or registered mail, return receipts requested, first class postage prepaid, or (d) transmitted by telecopy or electronic mail, followed within 24 hours by transmittal under option (a), (b) or (c) above addressed as follows:

If to ONTC:

President
The Navajo Nation
P.O. Box 9000
Window Rock, Arizona 86515

With a copy to:

Attorney General
Navajo Nation Department of Justice
P.O. Drawer 2010

Window Rock, Arizona 86515

Executive Director
Office of the Navajo Tax Commission
P.O. Box 1903
Window Rock, Arizona 86515

If to APS:

Arizona Public Service Corporation
400 North 5th Street
Phoenix, Arizona 85004
Attn: Corporate Secretary

With a copy to:

Pinnacle West Capital Corporation
400 North 5th Street
Phoenix, Arizona 85004
Attn: Executive Vice President and General Counsel

or at such other address as the Parties may, from time to time, designate in writing. Service by overnight courier or mail shall be deemed made on the first business day delivery is attempted or upon receipt, whichever is earlier. Service by telecopy or electronic mail shall be deemed made upon confirmed transmission.

18. Effective Date; Effect of this Restated Agreement.

This Restated Agreement is effective upon the date when duly executed by both Parties (the "**Effective Date**"). It is the Parties' intention that through the Effective Date of this Restated Agreement, the terms and conditions of the Original Agreement in effect at the date of execution of this Restated Agreement shall continue to govern the Parties' rights and obligations thereunder. Upon and after the Effective Date of this Restated Agreement, the Parties' right and obligations shall be governed by the terms and conditions of this Restated Agreement.

By signing, the undersigned certify that they have read and agreed to the terms of this Restated Agreement.

ARIZONA PUBLIC SERVICE COMPANY

By: _____
Donald G. Robinson
President

Date

NAVAJO NATION

By: _____
Martin Ashley, Executive Director
Office of the Navajo Tax Commission

Date

APPROVED:

By: _____
Louis Denetsosie, Attorney General
Navajo Nation Department of Justice

Date

May 8, 2014

El Paso Electric Company
El Paso, Texas

Re: Registration Statement Nos. 333-17971, 333-82129, 333-142557, and 333-178319

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated May 8, 2014 related to our review of interim financial information.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

Very truly yours,

/s/ KPMG LLP

Kansas City, Missouri

CERTIFICATIONS

I, Thomas V. Shockley III, certify that:

1. I have reviewed this quarterly report on Form 10-Q of El Paso Electric 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 Company as of, and for, the periods presented in this report;
4. The Company's other certifying officers 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 Company 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 Company, 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 Company'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 Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's

auditors and the audit committee of the Company'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 Company'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 Company's internal control over financial reporting.

Dated: May 8, 2014

EL PASO ELECTRIC COMPANY

By: /s/ Thomas V. Shockley III

Thomas V. Shockley III

Chief Executive Officer

(Principal Executive Officer)

I, Nathan T. Hirschi, certify that:

1. I have reviewed this quarterly report on Form 10-Q of El Paso Electric 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 Company as of, and for, the periods presented in this report;
4. The Company's other certifying officers 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 Company 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 Company, 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 Company'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 Company's internal control over financial reporting that occurred during the Company's most recent fiscal quarter (the Company's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting; and
5. The Company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the Company's auditors and the audit committee of the Company'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 Company'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 Company's internal control over financial reporting.

Dated: May 8, 2014

EL PASO ELECTRIC COMPANY

By: /s/ Nathan T. Hirschi

Nathan T. Hirschi

Senior Vice President -

Chief Financial Officer

(Principal Financial Officer)

May 8, 2014

The certification set forth below is being submitted in connection with the Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 (the "Report") of El Paso Electric Company (the "Company") for the purpose of complying with Rule 13a-14(b) or Rule 15d-14(b) of the Securities Exchange Act of 1934 (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code.

Thomas V. Shockley III and Nathan T. Hirschi, each certifies that, to the best of his knowledge:

1. such Report fully complies with the requirements of Section 13(a) of the Exchange Act; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas V. Shockley III

Thomas V. Shockley III
Chief Executive Officer

/s/ Nathan T. Hirschi

Nathan T. Hirschi
Senior Vice President -
Chief Financial Officer