

**Tucson Electric Power Company
Transmission Creditworthiness Determination Policy
July 2007**

Purpose:

The purpose of this credit policy is to establish credit standards for entities ("Transmission Customers") who request transmission service from Tucson Electric Power Company ("TEP", "the Company" or "Transmission Provider") under the Tucson Electric Power Company's Open Access Transmission Tariff ("OATT"). This policy is designed to mitigate Transmission Provider's risk of non-payment or late payment by Transmission Customers and defines the procedures used by TEP to evaluate credit risk. TEP reserves the right to modify this policy at any time, subject to acceptance of such modifications by the FERC (to the extent necessary).

Credit Requirements

Transmission Customers requesting services are required to provide the following:

- Rating agency reports for Transmission Customer from Standard & Poor's (S&P), Moody's Investor Services (Moody's) and Fitch Ratings (Fitch), to the extent such reports are available;
- The most recent two (2) years of audited financial statements and the most recent quarterly unaudited financial statement of Transmission Customer and/or from an entity willing to provide a guarantee of the financial obligations of Transmission Customer;
- Transmission Customer's Dun & Bradstreet number; and
- Proof of access by Transmission Customer to internal or external financing resources which indicate sufficient liquidity to support the requested and existing obligations.

Credit Evaluation

Transmission Provider will evaluate Transmission Customer's creditworthiness based upon a combination of quantitative and qualitative factors including the following:

- Audited and unaudited financial statements;
- Senior long-term unsecured debt ratings by S&P, Moody's, or Fitch;
- Financial ratios calculated by Transmission Provider's Finance Department;

- Access to short-term liquidity from banks or related entities;
- Dun & Bradstreet scores and reports;
- Payment history with Transmission Provider;
- Length of time Transmission Customer has been in business;
- Transmission Customer's ownership structure;
- Other publicly available information (e.g., press releases, SEC filings, other regulatory filings); and
- Whether Transmission Customer is or has been in default on payments to Transmission Provider, or is or has been in bankruptcy/reorganization.

Determination of Creditworthiness

Transmission Customer will qualify for unsecured credit if the rating on its senior unsecured long-term debt is greater than or equal to BBB- by S&P, Baa3 by Moody's, or BBB- by Fitch. If split rated, the lowest of the available ratings will be used to determine creditworthiness.

If Transmission Customer is not rated, it may provide a guarantee of a party that meets the ratings criteria defined above to qualify for unsecured credit.

If Transmission Customer is not rated or if its ratings are below the criteria set forth above, Transmission Provider will consider certain financial ratios (including leverage and interest coverage ratios), as well as the qualitative factors described above under "Credit Evaluation", to determine creditworthiness.

A Transmission Customer that does not qualify for unsecured credit will be required to provide additional security in an amount sufficient to cover expected monthly usage. Transmission Provider will provide Transmission customer with a written explanation of how the credit evaluation was determined.

Acceptable Forms of Security

- Cash deposit or prepayment.
- Irrevocable Letter of Credit with language and from an institution acceptable to Transmission Provider. The letter of credit must have an expiration date that exceeds the transmission agreement sought by Transmission Customer by thirty (30) days, be automatically extendible, or be renewed at least sixty days (60) prior to the expiration date.
- An unconditional guarantee from an entity that meets the minimum investment grade rating criteria defined above in "Determination of Creditworthiness" of BBB- by S&P, Baa3 by Moody's, and BBB- by Fitch. If split rated, the lowest of the available ratings will be used.

Ongoing Review and Change in Condition

Transmission Provider will conduct regular reviews of the creditworthiness of its Transmission Customers and may adjust a customer's credit limits or security requirements based upon such reevaluation. Transmission Provider may require Transmission Customer to provide updated financial information to perform such evaluations.

Failure to comply with Transmission Provider's request for updated financial information shall be treated as an Event of Default under the applicable Tariff or Agreement. Upon notifying the Transmission Customer that they are in default, Transmission Provider may file with the FERC to terminate the service agreement with the Transmission Customer.