



UNS Energy Corporation

BOARD OF DIRECTORS

**CORPORATE GOVERNANCE
GUIDELINES**

Last Reviewed and Approved: 05/2013

TABLE OF CONTENTS

	Page
1. THE BOARD'S ROLE	1
2. THE BOARD AND ITS RESPONSIBILITIES	1
3. THE BOARD AND ITS RELATIONSHIP WITH MANAGEMENT	3
4. THE BOARD CHAIR	4
5. RELATIONSHIP OF THE CHIEF EXECUTIVE OFFICER TO THE BOARD	5
6. CONTACTS BETWEEN BOARD MEMBERS AND OTHERS IN THE ORGANIZATION	6
7. COMPOSITION OF THE BOARD	6
8. SPECIFIC BOARD NOMINEE SELECTION PROCEDURE	7
9. DIRECTOR RETIREMENT, CHANGE IN CIRCUMSTANCES AND RESIGNATION	10
10. CONTINUING EDUCATION	11
11. ACTIONS BY THE BOARD	12
12. DELEGATION OF RESPONSIBILITY	15
13. SUCCESSION PLANNING	17
14. CONFLICTS OF INTEREST	18
15. BASIC DUTIES OF BOARD MEMBERS	19
16. COMMITTEES OF THE BOARD	20
17. SECURITIES LAW COMPLIANCE	22
18. COMPENSATION OF OUTSIDE BOARD MEMBERS	23
19. ARTICLES OF INCORPORATION AND BYLAWS	23
20. GENERAL	23

CORPORATE GOVERNANCE GUIDELINES

1. THE BOARD'S ROLE

- a. The role of the UNS Energy Corporation (the "Company") Board of Directors ("Board") is to manage the business and affairs of the Company and its subsidiaries. The Board governs actively by being well-informed and having ample time to analyze the recommendations of management, offering its counsel and support and evaluating management's success in achieving corporate goals.
- b. The Board is a critical link between the Company and its various constituencies. Its purpose is to assure that the Company acts in the best interests of its shareholders while meeting its public service obligations under Arizona law. The Board is also mindful of the interests of its customers, employees and the community in which it does business.

2. THE BOARD AND ITS RESPONSIBILITIES

- a. Because effective corporate governance is the foundation of effective corporate management, the Board plays a key role in the success of the Company.
- b. Key responsibilities of Board members, collectively and individually, in managing the business and affairs of the Company include:
 - i. Providing wise and responsible governance from financial, ethical, social and federal, state and local legal and regulatory perspectives;

- ii.** Representing, protecting and enhancing the interests of shareholders;
- iii.** Ensuring that appropriate codes of conduct and ethical standards are in place to further the objective of scrupulous management oversight;
- iv.** Attending a substantial majority of Board meetings and appropriate Board committee ("Committee") meetings throughout the year;
- v.** Reviewing in advance all provided Board and Committee materials;
- vi.** Ensuring that a highly competent management team is in place and overseeing top management succession;
- vii.** Reviewing, evaluating and approving corporate objectives and strategies;
- viii.** Ensuring the adequacy of financial reserves and overseeing the commitment of corporate resources;
- ix.** Assessing the performance of management;
- x.** Making those corporate decisions that cannot be delegated, including, without limitation, those with respect to corporate objectives and strategies, dividends, mergers and acquisitions and executive compensation; and
- xi.** Selecting new Board members to replace Board members who have resigned or have been removed and nominating Board members for election at the Annual Meeting of

shareholders.

- c. Board members are expected to exercise independent judgment and, toward that end, participate actively in Board deliberations, to challenge and stimulate, and to exert a strong, positive influence on the Company.

3. THE BOARD AND ITS RELATIONSHIP WITH MANAGEMENT

- a. The Company's success depends on a meaningful and constructive relationship between the Board and management. The Board cannot by itself cause the Company to realize its opportunities or fulfill its obligations, but it can hold management accountable to that end. Management is expected to keep the Board well-informed and fully apprised of all material issues which affect the business and affairs of the Company.
- b. In selecting the Chief Executive Officer, the Board looks for an individual with outstanding leadership ability and business acumen. It expects the Chief Executive Officer to develop a top-quality management team.
- c. Management responsibilities include:
 - i. Developing proposed objectives, strategies and plans to support the Company's mission and presenting them to the Board for review, discussion and approval;
 - ii. Executing approved objectives, strategies and plans to attain agreed-upon objectives;
 - iii. Organizing, developing and motivating a capable staff;

- iv.** Protecting and enhancing corporate assets and seeking to provide a fair return to shareholders;
- v.** Providing customer service of the highest quality;
- vi.** Providing a work environment and a compensation and benefits strategy to attract, retain and motivate employees;
- vii.** Ensuring compliance with laws and regulations; and
- viii.** Fulfilling social and community responsibilities.

4. THE BOARD CHAIR

- a.** The Board Chair is responsible to the Board for organizing and leading it in the performance of its role. The Board Chair presides at non-executive meetings of the Board and of any Committees of the Board on which he or she serves as chair.
- b.** The Board Chair maintains effective communication, and joint work as necessary, with management in order to meet the objectives and responsibilities of both the Board and management. In the process, the Board Chair assures that the Board and management each perform and limit themselves to their appropriate roles.
- c.** In collaboration with the Lead Director, the Board Chair develops meeting schedules and agendas for the Board. The Board Chair obtains for the Board such staff services as it may require.
- d.** The Board Chair also presides at all meetings of shareholders

and communicates to shareholders on behalf of the Board as necessary.

5. RELATIONSHIP OF THE CHIEF EXECUTIVE OFFICER TO THE BOARD

- a.** The Company's Chief Executive Officer is responsible to the Board for leading the management in conducting the business of the Company and is the chief spokesman for the management of the Company to the Board.
- b.** The Chief Executive Officer's obligations to the Board are to:

 - i.** Operate within legal and regulatory requirements and within corporate policy as established by the Board;
 - ii.** Develop proposals for the Board of the Company's purpose, direction and plan, obtain the Board's approval thereof and report progress thereon;
 - iii.** Keep the Board informed of major issues and developments that affect the Company and of management's position and plans with regard to such issues. When appropriate, involve the Board in the consideration of such issues and developments while management's position and plans are still being developed;
 - iv.** Use the necessary resources to respond to Board and Committee requests for information. In addition, make provision for officers and employees to respond individually, as well as part of the management team, in accordance with a policy communicated to the

organization; and

- v. Collaborate with the Board Chair and Committee chairs to develop Board and Committee meeting schedules and agendas that meet the needs of the Board and of management.

6. **CONTACTS BETWEEN BOARD MEMBERS AND OTHERS IN THE ORGANIZATION**

The Company's policy of free and open communication between people at all levels applies equally to contacts between Board members and others in the organization.

7. **COMPOSITION OF THE BOARD**

Board members should be selected and retained in office with a view towards the existing regulatory requirements and creating the most effective and efficient Board possible. A majority of the Board shall be independent as defined by the New York Stock Exchange and in accordance with the Company's Director Independence Standards. Board members should not be selected based upon personal relationships or other similar contacts. Matters which should generally be considered with respect to the composition of the Board include:

- a. **Director Attributes.** The qualities of an effective Board member include strength of character, an inquiring and independent mind, practical wisdom and mature judgment. An ideal Board member should also have vision, keen insight, imagination, resourcefulness in dealing with unusual situations and a cooperative attitude. Board members must

have sufficient time and interest to devote the necessary energies to the job and to satisfy their legal obligations as directors. Persons possessing expertise or experience in different substantive areas affecting the Company may provide desirable breadth to the Board.

b. Independent Directors. The Board must act independently from management and be willing to question and analyze the recommendations of the executive officers.

i. When selecting Board members, the candidate's background and other business affiliations should be closely examined to determine potential conflicts of interest.

ii. Directors shall be selected and their independence determined in accordance with applicable regulations and the Company's Director Independence Standards.

c. Self-evaluation. The Board and its Committees will annually analyze their collective performance as required by, and in conformance with, applicable regulations.

8. SPECIFIC BOARD NOMINEE SELECTION PROCEDURE

a. It is the objective of the Corporate Governance and Nominating Committee ("CGNC") to select qualified directors whose character, judgment, insight, business experience and awareness of community and social issues demonstrate an ability to provide effective leadership and advice to the

Company. The Board member nomination process will consider not only the general basic requirements that are essential to any Board member (see "Director Attributes" in Section 7.a above), but also the particular and unique circumstances that may be facing the Company at the specific time of a nomination. Each Board member nominee will be expected to prudently represent the interests of all shareholders and to assure the Company meets its public service obligations, all in accordance with applicable legal requirements.

- b.** Each Board member nominee should possess prior community, professional or business experience that demonstrates leadership capabilities as well as the ability to review and analyze complex business issues of the type routinely encountered by the Company, thereby enabling such nominee to exercise disinterested and independent business judgment after due consideration of all the relevant factors on matters requiring Board action. Each Board member nominee should have the ability to effectively represent the interests of the shareholders while keeping in perspective the Company's public service obligations under Arizona law, and the interests of the Company's customers, employees and the community in which the Company does business. Each Board member nominee should have the ability to devote the time and interest required to attend and fully prepare for all regular and special Board and Committee meetings. Each Board member

nominee should have the ability to communicate and work effectively with the other Board members and Company personnel. Each Board member nominee should have the ability to fully adhere to any applicable laws, rules and regulations relating to the performance of a director's duties and responsibilities and to the policies and requirements established by the Company.

- c.** The Company will pursue and consider nominees from a variety of backgrounds including those who possess previous senior management or board experience with a public utility and/or demonstrated leadership in their area of expertise and who reflect the Company's commitment to diversity.
- d.** The procedure for selection of Board nominees for recommendation to the Board shall be determined by the CGNC.
- e.** The Corporate Secretary and Company personnel may assist in the process.
- f.** As appropriate, the CGNC will utilize the Candidate Evaluation Form, attached hereto as Exhibit A, to consider nominee candidates. The CGNC shall evaluate candidates based on the criteria described hereinabove. Appropriate candidates will then be selected. The CGNC shall conduct a personal interview with each of the nominee candidates, and thereafter recommend potential nominees to the Board for nomination and election. Upon election, each new Board member will receive a detailed orientation.

9. DIRECTOR RETIREMENT, CHANGE IN CIRCUMSTANCES AND RESIGNATION

- a.** The Board believes that it is in the best interest of the Company that no Director be nominated for election to the Board after attaining the age of 72 unless nominated by the Board for special circumstances.
- b.** A Director who changes employers or retires shall provide written notice of such change to the CGNC and must tender his or her resignation. The Board may accept or reject such resignation in its discretion. If a change in circumstances affects an independent Director's continuing independence, that Director shall provide written notice of such change to the CGNC and must tender his or her resignation. The Board may accept or reject such resignation in its discretion.
- c.** Any nominee for election as a director at a meeting of shareholders in an uncontested election who receives a greater number of votes cast "withheld" for his or her election than "for" such election shall promptly tender a written resignation to the CGNC. The CGNC shall evaluate the Director's tendered resignation taking into account the best interests of the Company and its shareholders and shall recommend to the Board whether to accept or reject such resignation. In making its recommendation, the CGNC may consider, among other things, the effect of the exercise of cumulative voting in the election. The Board

shall act within 120 days following certification of the shareholder vote and publicly disclose its decision. Any Director who tenders his or her resignation pursuant to this provision shall not participate in any Committee or Board consideration of such resignation.

10. CONTINUING EDUCATION

- a.** Continuing education is the responsibility of each Director. Continuing education includes reading business periodicals, books on business subjects as well as attending community, industry and institution-sponsored seminars on relevant commerce, electric/gas utility and corporate governance subjects. Continuing education subjects may also be included as a part of annual Board retreats, regularly scheduled Board meetings and at scheduled Committee meetings. The CGNC will support Director continuing education activities by:
 - i.** recommending to the Board conferences and seminars that Directors might attend to enhance their skills; and
 - ii.** establishing an appropriate annual budget for tuition, travel and related expenses.
- b.** Attendance at externally sponsored programs requires that each attendee prepare a general evaluation of the program so the cost effectiveness of each such program can be measured for future attendance. This general evaluation should be attached to the Director's request for expense reimbursement when submitted to the Corporate Secretary.

11. ACTIONS BY THE BOARD

a. **Procedural Considerations.** The Board should periodically review and agree upon various procedural issues relating to Board meetings, including the frequency and scheduling of regular Board meetings, the timing and content of notice of meetings, advance distribution of agenda and other documents, and the persons other than Board members who should attend the meetings.

i. **Board Meetings.** Attendance at Board meetings is critical to keep Board members informed and to provide them with the opportunity for meaningful input into the decision-making process. Accordingly, both regular and special Board meetings should be scheduled with a view towards maximizing attendance.

ii. **Attendance By Non-Board Members.** Although no one other than Board members has a legal right to attend a Board meeting, officers or other key members of management may be invited to meetings or instructed to remain available during meetings. Employees and outside advisors, including lawyers, investment bankers and accountants, who have been involved in, are knowledgeable about or consulted in connection with particular matters under consideration by the Board, may be invited to attend meetings or remain available as needed.

iii. **Duration Of Meetings.** Although the quantity of time

spent on a particular decision does not necessarily equate to quality of time, adequate time should be scheduled for Board members to analyze and discuss the matters under consideration.

b. Presentation Of Information.

- i.** Adequate information concerning all important matters requiring Board attention should be distributed to the Board in time to permit a review of the information before any vote is taken.
- ii.** For regular Board meetings, a detailed agenda, sufficient background information and copies of the minutes of the previous Board and Committee meetings should be distributed to the Directors in advance of the meeting recognizing, however, that circumstances may not always permit advance notification of all matters. For special meetings, circumstances usually will not permit as much advance notice or planning.
- iii.** If information cannot be disseminated in advance, adequate time should be set aside at the meeting to permit Board members to review and understand the information presented. If for any reason Board members have not received sufficient information or time to evaluate the information, action by the Board should be deferred until the Board members have received all relevant information and had sufficient time to arrive

at an informed decision. However, it must be recognized that matters under consideration may require that decisions be made within certain time periods and the time available for analysis may be limited by such circumstances.

iv. A Board member should carefully and critically analyze meeting documents prior to the Board meeting.

c. Conduct Of Meeting.

i. Board meetings should be conducted in a manner designed to encourage open discussion.

ii. It is essential that Board members be provided ample opportunity to actively question management and outside advisors in connection with matters under consideration. The purpose of the meeting is not for Board members to act as a single unit but rather to enable them to exercise independent judgment about proposals and to hear different viewpoints and ideas. Board members should demand, and the management should facilitate, the existence of such an environment. Reliance upon management recommendations without due consideration as to whether such reliance is warranted can subject Board members to potential liability.

iii. Discussion should not be arbitrarily terminated and no Board member should be deprived of an opportunity to question any aspect of a decision.

iv. Board members will meet in Executive Session each time that there is a Board meeting.

d. Documentation. Maintenance of accurate and complete minutes of all Board and Committee meetings is an important aspect of corporate governance. Board minutes should document the matters discussed, record any instructions given to management and set forth resolutions passed, actions taken or other decisions made.

12. DELEGATION OF RESPONSIBILITY

Although Board members may not abrogate their duties, they may rely in good faith on advice or input from Board committees, officers, employees or outside experts in accordance with applicable law.

a. Board Committees. The use of Board committees permits a small number of Board members to perform a more in-depth analysis of a particular matter than would otherwise be practicable for the entire Board. Board member appointment to the various Committees should be considered in view of each Board member's special talents, experience or expertise.

b. Management Delegation. In managing the business and affairs of the Company the Board does not and should not engage in direct operations of the Company. However, the Board has responsibility to ensure that satisfactory executive management personnel and policies are in place. Essential to the fulfillment of this responsibility is the periodic

performance evaluation of executive management (particularly the Chief Executive Officer) and assurance that clear decision-making procedures are implemented.

c. **Access to Independent Advisors.** The Board and, subject to any limitations in any Committee charter, its Committees have the right at any time to retain independent outside auditors and financial, legal or other advisors. The Company will provide appropriate funding, as determined by the Board or any Committee, to compensate those independent outside auditors or advisors.

d. **Reliance.** Board members are entitled to rely in good faith upon certain legal counsel, public accountants or other experts, employees, officers, and Committees when making Board decisions. The following generally summarizes the degree to which the Board may rely on such advice:

i. **Select Competent Expert.** The Director reasonably believes the person upon whom the Director relies is reliable, competent, experienced and reputable in the area of advice. If the expert has a personal interest in the subject matter of the advice rendered, his or her competence may be compromised.

ii. **Nature Of Reliance.** Such expert advice should not be followed if the Board member otherwise has knowledge which would suggest that the advice is incorrect or which would make reliance otherwise permitted under

Section 12.d.1 above unwarranted. Similar principles apply to reliance upon corporate officers, Committees or agents of the Company. Different principles apply in the area of securities laws and are discussed in Section 17 below.

e. Use Of Legal Counsel.

- i.** Corporate counsel should be consulted and used frequently. Qualified corporate counsel can help protect Board decisions from later legal challenge to the maximum extent possible. Legal advice not only helps guide the Board into legally acceptable conduct, but also improves the Board members' ability to defend their conduct if their actions are taken in reliance upon the legal advice.
- ii.** Only qualified counsel meeting the requirements set forth in Section 12.d.1 above should be relied upon. The Board should not feel compelled to use the same counsel for all legal issues, but should seek the most competent counsel reasonably available for the issue under consideration.

13. SUCCESSION PLANNING

The Board shall develop and adopt a plan of succession for the selection of the Board Chair, Chief Executive Officer and Company President in the event of death, disability, removal or resignation. The plan will be reviewed by the Board annually.

Additionally, the Board or a Committee thereof shall adopt policies and principles for an annual performance review of the Board Chair and Chief Executive Officer and will conduct such annual performance review.

14. CONFLICTS OF INTEREST

- a.** Board decisions must be made by disinterested Directors. Even the appearance of a conflict of interest should be avoided, if possible, and disclosed if unavoidable.
- b.** Consistent with their duty of loyalty, Board members should avoid placing themselves or other representatives of the Company in a situation where their personal interest may, or appears to, conflict with the best interests of the Company. If an actual or perceived conflict exists, Board members may be required to prove the intrinsic fairness of the challenged transaction to avoid liability.
- c.** The General Counsel and/or Corporate Secretary of the Company shall alert the Board to potential Director conflicts.
- d.** Where a potential conflict is identified, the interested Director should not participate in any manner in the decision-making process. When the interested Director must unavoidably participate in the corporate decision, full disclosure of the conflict should be made to all other Directors involved in the decision-making process.
- e.** A Board member shall disclose all real or potential conflicts and relevant business or personal relationships to the Board

before Board action is taken on any matter. The Board minutes shall contain a summary of any such disclosures made by a Board member, any actions taken by the Board with respect thereto and any measures taken to remove the interested Board member from the decision-making process with respect to such matter.

- f.** Examples of potential conflict of interest situations include the following:
 - i.** any ownership interest (other than nominal amounts of stock in publicly traded companies) in any key supplier or competitor of the Company;
 - ii.** any consulting or employment relationship with any key supplier or competitor of the Company;
 - iii.** any outside business activity which is competitive with any of the Company's businesses;
 - iv.** service on any board of directors of any key supplier or competitor of the Company; or
 - v.** any activity of any type which calls into question the ability of the individual to devote appropriate time and attention to his/her responsibilities with the Company.
- g.** This Section 14 is not intended to affect the application or operation of the Company's Policy on Review of Transactions with Related Persons.

15. BASIC DUTIES OF BOARD MEMBERS

Under Arizona Law, a Director's duties, including duties as

member of a Committee, shall be discharged:

- a. In good faith;
- b. With the care an ordinarily prudent person in a like position would exercise under similar circumstances; and
- c. In a manner the Director reasonably believes to be in the best interests of the Company.

16. COMMITTEES OF THE BOARD

- a. The Company maintains standing audit, compensation, corporate governance and nominating, finance and environmental, safety and security committees. Other Committees may be constituted from time to time in order to perform a specific task or tasks on behalf of the Board or serve a limited purpose with respect to a specific issue facing the Company.
- b. The Board, after considering the recommendation of the CGNC and Board Chair, appoints the members and chairs of its Committees. The Committee's recommendation and the Board's appointments take into account, among other things, each Director's particular experience and expertise, as well as the input and preferences of individual Directors. Typically, the Board makes Committee appointments on an annual basis, but interim appointments also may be made in response to changes in the membership of the Board. The benefit of periodic rotation is a factor in the appointments and it is expected that Committee assignments will rotate among members of the Board from

time to time. The Board believes, however, that there also are significant benefits attributable to continuity, experience gained in service on particular Committees, and utilizing most effectively the experience and expertise of individual Directors which may outweigh the benefits of rotation in any given instance. Accordingly, the Board has not adopted a policy of mandatory rotation for either Committee membership or chairs.

c. A general description of the Company's five standing committees is as follows:

i. **Audit Committee.** All members of the Audit Committee must be independent directors in accordance with approved regulations and any Company-adopted criteria in compliance with those regulations. See the Audit Committee Charter for a complete list of Audit Committee responsibilities.

ii. **Compensation Committee.** All members of the Compensation Committee must be independent directors in accordance with approved regulations and any Company-adopted criteria in compliance with those regulations. See the Compensation Committee Charter for a complete list of Compensation Committee responsibilities.

iii. **Corporate Governance and Nominating Committee.** All members of the CGNC must be independent directors in accordance with approved regulations and any Company-

adopted criteria in compliance with those regulations. See the CGNC Charter for a complete list of CGNC responsibilities.

iv. Finance Committee. See the Finance Committee Charter for a complete list of Finance Committee responsibilities.

v. Environmental, Safety and Security (ESS) Committee. See the ESS Committee Charter for a complete list of ESS Committee responsibilities.

17. SECURITIES LAW COMPLIANCE

a. Board members must adhere to all applicable state and federal securities laws. In this connection, Board members have an obligation to safeguard sensitive information and they must not trade in the Company's securities on the basis of material, non-public information. Board members shall at all times comply with the Company's written procedures concerning transactions involving the Company's securities, which include "The Policy Statement on Securities Trades by Company Personnel."

b. Confidential information and discussions relating to that information should be limited only to those persons who need to know the information in order to participate in the Board's discussions and deliberations. Board members shall not respond to any inquiries from the news media or any other source to which a response would or could reveal confidential

or non-public information. All such inquiries should be immediately reported to the Board Chair.

18. COMPENSATION OF OUTSIDE BOARD MEMBERS

The Company offers a competitive compensation package to outside Board members, which includes an annual retainer, meeting fees, optional compensation deferral program and directors and officers liability insurance, as determined by the Board upon recommendation of the Compensation Committee. To create a direct linkage with corporate performance, a meaningful portion of a Director's compensation should be in the form of, or based upon, the Company's common stock.

19. ARTICLES OF INCORPORATION AND BYLAWS

Board members shall be responsible for knowing and understanding the contents of the Company's Articles of Incorporation and Bylaws. Copies are available upon request made to the Corporate Secretary.

20. GENERAL

These Corporate Governance Guidelines (the "Guidelines") have been adopted by the Board to assist the Board in fulfilling its responsibilities. These Guidelines are not intended to create any legally binding obligations or to change or interpret any applicable law or regulation, or the Articles of Incorporation or Bylaws of the Company. These Guidelines are subject to revision from time to time as deemed necessary by the Board.

Exhibit A

CANDIDATE EVALUATION FORM

NOMINEE NAME _____

CHARACTERISTICS	COMMENTS
Ability to exercise sound business judgment	
Attained position of leadership in business, finance, law, government, education, science or administration	
Absence of conflict of interest or other legal impediments	
Willingness to devote the time required to prepare for board and committee meetings and otherwise as required by the Company	
Availability to attend board and committee meetings	
Experience in utilities, business, finance, law, government, education, science or administration	
Potential length of service	
Representation of a specific constituency	
Familiarity with national business matters	
Applicability of experience to the business of the Company and its affiliates	
A diverse background not directly related to the Company's industry or industries	
Geographical location of candidate	