

ELECTRIC DISTRIBUTION
UNDERGROUNDING AGREEMENT

By this Electric Distribution Undergrounding Agreement (this "Agreement") entered into this 18th day of JANUARY, 1988, Arizona Public Service Company, an Arizona corporation, ("APS") and the Town of Paradise Valley, an incorporated municipality, ("Paradise Valley") in consideration of the mutual covenants, promises, provisions and agreements stated herein, do hereby agree as follows:

RECITALS:

1. Paradise Valley is an incorporated municipality in Maricopa County, Arizona.
2. APS is a public utility company currently providing electric energy to a large portion of Paradise Valley, its occupants and residents and the surrounding area. APS has both overhead electric transmission lines of 69 kilovolts (69kV) and more and approximately 55 miles of overhead electric distribution lines of 12 kilovolts (12kV) and less (the "12kV Lines") within the corporate limits of Paradise Valley.
3. Paradise Valley desires to have all overhead electric distribution lines within its boundaries systematically removed and converted to an underground system during the next ten (10) years.

4. APS is interested in cooperating with and assisting Paradise Valley in converting its overhead distribution system to an underground system in an efficient and timely manner.

PROMISES AND COVENANTS:

NOW THEREFORE, in consideration of the foregoing recitals and in further consideration of the following covenants, promises, and provisions, the parties hereto, for themselves, their agents, employees, successors and assignees, do hereby agree as follows:

5. Underground Conversion:

APS agrees to remove all of the 12kV Lines then owned by it pursuant to the priority list referred to in Section 7 below and replace them with equivalent underground lines at the rate of approximately 5-1/2 miles per year or as otherwise agreed to by the parties.

APS will be responsible for the total coordination of all activities required to convert the 12kV Lines, including: (i) providing all materials, labor, trenching, backfill, conduits, ducts and surface restoration; (ii) interfacing with other utilities; and (iii) coordinating conversion of service entrances with APS' customers.

6. Qualified Contractors

Paradise Valley and APS will agree to a jointly prepared list of prequalified contractors which will be updated periodically, but in no event later than July 1 of each year.

These contractors will be requested to bid on selected portions of underground conversion projects.

Paradise Valley and APS will jointly review the bids received and select the successful bidders. If the parties fail to agree, the lowest responsible bidder shall be chosen.

Paradise Valley at its option may provide such services as earth work and surface restoration, or such other services as agreed to by the parties. The value of any such services provided by Paradise Valley shall be included in the total cost of each individual line conversion to be funded pursuant to Section 7 below.

7. Project Funding:

The conversion from overhead to underground of the entire 55 miles of 12kV Lines will be completed in 10 years unless Paradise Valley fails to meet its obligations set forth herein, in which case this Agreement may be renewed pursuant to Section 11 hereof. The cost of the entire conversion project is currently estimated at Twenty Million Dollars (\$20,000,000.00) calculated in today's dollars not adjusted for inflation.

APS agrees to pay 45% and Paradise Valley agrees to pay 55% of the cost of the entire conversion project. It is understood by the parties that these percentages are based on the completion of the entire project and may vary from line conversion to line conversion and from year to year in accordance with the Arizona Corporation Commission's Rules and

Regulations and APS' tariffs approved by the Commission pursuant thereto.

8. Priority List:

Paradise Valley and APS shall jointly prepare a prioritized list of the 12kV Lines to be converted, taking into account among other things the long range plans of both parties.

If the parties cannot agree on the order of priority for converting the 12kV Lines, APS agrees to accept Paradise Valley's preferred ordering unless to do so would cause APS undue hardship in operating or maintaining its system, in which case Paradise Valley agrees to accept APS' preferred priority ordering.

9. Undergrounding Ordinances:

Paradise Valley shall assist APS in the conversion of the 12kV Lines during the term of this Agreement including passing ordinances as needed to facilitate APS customers' participation in the conversion projects.

10. Mummy Mountain Substation:

APS will present to Paradise Valley's Council a plan for the beautification of its Mummy Mountain Substation, which includes: (i) improving or replacing the existing fence with materials appropriate for the surrounding area; (ii) upgrading and maintaining the substation landscaping; and (iii) sharing in the cost of undergrounding the transmission lines running between the substation and the transmission lines on Lincoln Drive.

Construction on the fence will be completed by December 31, 1988 and will comply with Paradise Valley's fencing ordinances where possible. It is understood, however, that due to public safety concerns all fencing must comply with the National Electric Safety Code.

11. 69kV Transmission Line on Lincoln Drive:

APS plans to rebuild the 69kV transmission line along Lincoln Drive in 1995 to improve system performance and reliability. APS agrees that at that time it will present to Paradise Valley a plan to improve the appearance of the line by; (i) using steel poles which may be painted a neutral color; (ii) increasing spacing between poles which effectively eliminates approximately 40% of the existing poles; and (iii) using non-specular conductors which reduces their visibility.

12. Term:

The term of this Agreement is 10 years. This Agreement may be renewed for consecutive one year terms by the written mutual consent of the parties.

13. Effective Date


This Agreement shall become effective on the date upon which the Electors of Paradise Valley approve the franchise agreement submitted by APS.

IN WITNESS WHEREOF, the parties have executed this Agreement the day and year first above written.


MAYOR OF PARADISE VALLEY


ROBERT W. PLENCE

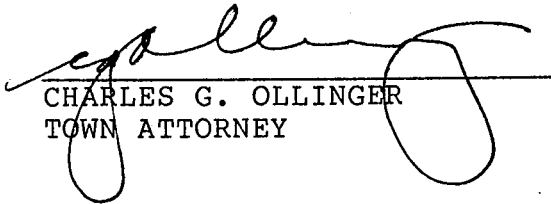
ARIZONA PUBLIC SERVICE COMPANY

BY: 
JAN H. BENNETT
Manager, Eastern Division

ATTEST:


MARY ANN BRINES, TOWN CLERK

APPROVED AS TO FORM:


CHARLES G. OLLINGER
TOWN ATTORNEY

SIGNED THIS 18th DAY OF
JANUARY, 1988.