



UNS Energy Corporation
A Fortis Company

**DIRECTOR INDEPENDENCE
STANDARDS**

UNS Energy Corporation

Director Independence Standards

I. Policy

The UNS Energy Corporation (Company) Board of Directors (Board) recognizes that the expertise and perspective of independent directors is of great value and benefit to the Company and its shareholders. Accordingly, and in keeping with the other high standards of corporate governance which the Board has established for itself, the listing standards of the New York Stock Exchange, and laws and regulations applicable to the Company, the Board establishes the following guidelines on director independence and for determining whether its members are independent.

II. Director Independence - General

The Board affirms that in order to be considered independent its members should satisfy these standards for independence consistent with the rules of the Securities and Exchange Commission and the New York Stock Exchange.

No director may be deemed independent unless the Board affirmatively determines, after due deliberation, that the director has no material relationship with the Company either directly or as a partner, shareholder or officer of an organization that has a relationship with the Company. In each case, the Board shall broadly consider all the relevant facts and circumstances from the standpoint of the director as well as from that of persons or organizations with which the director has an affiliation and shall apply these standards. Trivial or *de minimis* affiliations or connections to the Company by a director or his or her immediate family will not generally be cause for the Board to determine that the director is not independent. A director is not independent if:

- (1) The director is, or has been within the last three years, an employee of the Company, or an immediate family member is, or has been within the last three years, an executive officer, of the Company. Employment on an interim basis as Board Chair, Chief Executive Officer or other executive officer shall not disqualify a director from being considered independent following that employment.

- (2) The director has received, or has an immediate family member who has received, during any twelve-month period within the last three years, more than \$120,000 in direct compensation from the Company, other than director and committee fees and pension or other forms of deferred compensation for prior service (provided such compensation is not contingent in any way on continued service). Compensation received by a director for former service on an interim basis as Board Chair, Chief Executive Officer or other executive officer shall not be considered in determining independence under this test. Compensation received by an immediate family member for service as an employee of the Company (other than an executive officer) need not be considered.
- (3) (A) The director or an immediate family member is a current partner of a firm that is the Company's internal or external auditor; (B) the director is a current employee of such a firm; (C) the director has an immediate family member who is a current employee of such a firm and who personally works on the Company's audit; or (D) the director or an immediate family member was within the last three years (but is no longer) a partner or employee of such a firm and personally worked on the Company's audit within that time.
- (4) The director or an immediate family member is, or has been within the last three years, employed as an executive officer of another company where any of the Company's present executive officers at the same time serves or served on that company's compensation committee.
- (5) The director is a current employee, or an immediate family member is a current executive officer, of a company that has made payments to, or received payments from, the Company for property or services in an amount which, in any of the last three fiscal years, exceeds the greater of \$1 million, or 2% of such other company's consolidated gross revenues. Relationships involving a director's affiliation with another company that account for lesser amounts than those specified will not be considered to be material relationships that would impair the director's independence, provided that the related payments for goods or services or in connection with other contractual arrangements are made in the ordinary course of business and on substantially the same terms as those prevailing at the time for comparable transactions with non-affiliated parties. In the case of Company charitable contributions to tax-exempt organizations that exceed the threshold in the first sentence of this clause (5), a director will be considered independent unless the director is a paid executive officer (exclusive of expense reimbursement) of any such organization.

For the purpose of these Director Independence Standards, an "immediate family member" includes a person's spouse, parents, children, siblings, mothers and fathers-in-law, sons and daughters-in-law, brothers and sisters-in-law, and anyone (other than domestic employees) who shares such person's home.

III. Director Independence - Audit and Risk Committee Members

No director who is a member of the Audit and Risk Committee of the Board may accept any consulting, advisory or compensatory fee from the Company, or from any of its subsidiary companies, other than in that director's capacity as a member of the Board or any of the Board's committees.

In addition, no director who is a member of the Audit and Risk Committee may be an affiliated person of the Company or any of its subsidiary companies apart from affiliation occasioned by the director's service as a member of the Board or any of the Board's committees. A director would be deemed an affiliated person of the Company if that director directly or indirectly, through one or more intermediaries, controls, or is controlled by, or is under common control with the Company.

IV. Director Independence - Human Resources and Governance (HR&G) Committee Members

In affirmatively determining the independence of any director who will serve on the HR&G Committee, the Board must consider all factors specifically relevant to determining whether the director has a relationship to the Company that is material to the director's ability to be independent from management in connection with the duties of a HR&G Committee member, including, but not limited to:

- (1) The source of compensation of such director, including any consulting, advisory or other compensatory fee paid by the Company to such director; and
- (2) Whether such director is affiliated with the Company, a subsidiary of the Company or an affiliate of a subsidiary of the Company.

When considering the sources of a director's compensation in determining the director's independence for purposes of HR&G Committee service, the Board shall consider whether the director receives compensation from any person or entity that would impair the director's ability to make independent judgments about the Company's executive compensation. Similarly, when considering any affiliate relationship a director has with the Company, a subsidiary of the Company, or an affiliate of a subsidiary of the Company, in determining

the director's independence for purposes of HR&G Committee service, the Board shall consider whether the affiliate relationship places the director under the direct or indirect control of the Company or its senior management, or creates a direct relationship between the director and members of senior management, in each case of a nature that would impair the director's ability to make independent judgments about the Company's executive compensation.

V. Other

The Board shall review and assess the adequacy of the Director Independence Standards periodically and at such other times as it considers appropriate and shall make such changes as it considers necessary or appropriate.