

UNISOURCE ENERGY CORPORATION
COMPENSATION COMMITTEE OF THE BOARD OF DIRECTORS
CHARTER

1. COMPOSITION

The Compensation Committee of the Board of Directors (the "Committee") consists of not fewer than three Directors appointed annually by the Board, each of whom (i) satisfies the independence requirements of the New York Stock Exchange, (ii) meets the independence requirements established by the Board under the Company's Director Independence Standards, (iii) is a "non-employee director" within the meaning of Rule 16b-3 under the Securities Exchange Act of 1934, and (iv) is an "outside director" within the meaning of Section 162(m) of the Internal Revenue Code. The Board shall designate one of the Committee members as Chairperson of the Committee. The Committee may create subcommittees and vest those subcommittees with the authority of the full Committee with respect to specific matters delegated to such subcommittees.

2. MEMBER APPOINTMENT AND REMOVAL

All members of the Committee shall be appointed and/or removed by the Board of Directors.

3. MEETINGS

The Committee will hold at least three regular meetings each year, and such additional meetings, as it may deem necessary. In addition to the Committee members and the Secretary, the Chairman of the Board, Chief Executive Officer and President and other members of management may attend as is appropriate.

4. RULES OF PROCEDURE

The Committee will determine its own rules of procedure with respect to how its meetings are to be called, as well as the place, time and frequency. In the absence of such rules, the Committee will meet at the call of its Chairman as is required to accomplish the purposes of the Committee.

5. COMPENSATION

Each member will be paid such fees as may be established from time to time by the Board for service on the Committee and will be reimbursed for travel expenses incurred by attendance at meetings.

6. COMMITTEE SECRETARY

The Secretary of the Committee will be the Corporate Secretary of the Company (or such other representative of management as the Committee may designate) and not be a member of the Committee. The Secretary will attend all meetings and maintain minutes, advise members of all meetings called, arrange with the Chairman or other convening authority for preparation and distribution of the agenda for each meeting, and carry out other functions as may be assigned from time to time by the Committee. At such meetings where attendance by a Company officer is not appropriate or practical, the Chairman shall act as secretary of the meeting or appoint another member of the Committee to act as secretary of such meetings.

7. QUORUM

A majority of the total membership of the Committee will constitute a quorum.

8. RESPONSIBILITIES

The function of the Committee is to assure an internally consistent and externally competitive executive compensation program in order to attract, motivate and retain qualified executives. It is also the Committee's function to provide incentives for the attainment of the Company's strategic goals and objectives, to produce the Compensation Committee Report and review the Compensation Discussion and Analysis required by the Securities and Exchange Commission, and to fulfill the responsibilities set forth in this Charter.

For purposes of the Committee's responsibilities, executives are defined as all officers of the Company.

9. SPECIFIC DUTIES OF THE COMMITTEE

The Committee shall:

- a. Approve the compensation philosophy and guidelines for the executive group, including base salary structure, incentive compensation, and long-range strategic

incentive programs to attract, retain and motivate executives.

- b. Review and approve corporate goals and objectives relating to CEO compensation.
- c. Evaluate CEO performance in light of corporate goals and objectives and determine and approve CEO compensation, including perquisites and other benefits based upon the Committee's (i) evaluation of the performance of such goals and objectives, (ii) the Company's performance, (iii) relative shareholder return, (iv) the value of similar incentive awards to chief executive officers at comparable companies and (v) the awards given to the CEO in the past years.
- d. Review and approve compensation for all of the Company's executives (other than the CEO), including any equity compensation awarded, perquisites and other benefits, and the ability to delegate action to management in conjunction with the aforementioned compensation.
- e. Review and approve, or make recommendations to the Board for approval, any management incentive plans, including the participants, goals, payout ratios, etc., which involve executives of the Company.
- f. Administer the Company's long-term incentive plan, including selection of participants, setting of objectives, and determination of awards, as more fully defined in such plan. Recommend changes to the long-term incentive program as deemed necessary [considering the Company's performance, relative shareholder return, value of similar awards at similar companies and awards given to the program's participants in past years].
- g. Review and approve any special employment contract or other special agreement, such as a supplementary pension agreement, for any of the Company's executives.
- h. Prepare the Compensation Committee Report, review the Compensation Discussion and Analysis (CD&A) required by the Securities and Exchange Commission and discuss the CD&A with management.
- i. Periodically receive a briefing by management regarding the administration and appropriateness of the total compensation package including base, short-term and long-term compensation and health and welfare plans, for non-executive employees.

- j. Review and recommend to the Board Director compensation, including short- and long-term incentives.
- k. Review and recommend to the Board policies for reimbursement of Director expenses.
- l. As necessary, carry out other duties assigned by the Board to the Committee that are related to compensation and management development.
- m. Retain and terminate any consulting firms to be used to assist in the evaluation of director, CEO or executive compensation and approve the consulting firm's fees and other related terms. This authority shall be exclusive to this Committee.
- n. Annually review and update the Charter for this Committee as needed.
- o. Annually evaluate the performance of this Committee to determine whether the Committee is functioning effectively.

10. RESPONSIBILITIES OF THE COMMITTEE CHAIR

The Chair of the Committee will periodically provide the Board, for its information, with a summary of the Committee's determinations and approvals.

11. OTHER AUTHORITY

The Committee may call upon any person including employees of the Company or its subsidiaries, knowledgeable in matters discussed by the Committee, for information and counsel.

12. ANNUAL SCHEDULE

The routine business of the Committee shall be considered in accordance with the Annual Schedule attached as Exhibit A, which may be modified from time to time by the Committee.

UNS COMPENSATION COMMITTEE - MASTER MEETING SCHEDULE

EXHIBIT A - Feb. 2010

FEBRUARY (1st week)

Minutes
Results of Prior Year Corporate Goals/PEP
Discussion re Financial Targets for Current Year Corporate Goals/PEP
Discussion/Review of LTI Program; Certify Results for Section 162M
Purposes & Approval of Payout if Appropriate
Discussion re Current Year LTI Program
Discussion re Draft CD&A
Review and Approval of Payment of Prior Year Short-Term
Incentive Awards; Certify Results for Section 162M Purposes

FEBRUARY (end of Month)

Minutes
Discussion and Approval of Current Year LTI Program
Review and Grant Current Year LTI Awards
Discussion re Draft CD&A and Supporting Tables & Narrative
Discussion and Approval of Financial Targets for Current Year
Corporate Goals/PEP
Discussion & Approval of Current Year Goals for Short-Term and
LTI Plan (if applicable) for Section 162M Purposes

MARCH

Minutes
Discussion and Recommendation of Approval of CD&A, Comp Com
Report and Supporting Tables & Narrative in Proxy

MAY

Will meet if appropriate

OCT/NOV

Minutes
Review Status of Current Year Corporate Goals/PEP
Discussion re Next Year's Corporate Goals/ PEP
Discussion re Compensation Philosophy and Goals
Discussion re Next Year's Compensation for Directors/Officers
Review Officer and Director Stock Ownership

DECEMBER

Minutes
Review Status of Current Year Corporate Goals/PEP
Approve Next Year's Corporate Goals/PEP (except financial goals)
Review Performance for CEO and Other Executives
Review and Establish Next Year's Compensation for Directors/Officers
Review/Revise Committee Charter

POTENTIAL ROUTINE TOPICS

Severance Program
Changes to Salaried Employees Pension Plan
Changes to Hourly Employees Pension Plan
Approval of Equity Awards for New Directors
Employment Agreements (if appropriate)
Approval of New Hire Equity Grants
Review Competitive Market Analysis
Change in Control Agreements
Changes to 401K Plan
Review of Perquisite Programs
Discussion re Committee Evaluation
Shareholder Approval of Additional Shares for 2006 Omnibus Plan
Review of Trends and Regulatory Developments (with Independent Consultant)