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AZ CORP COMMISSION
DOCUMENT CONTROL

November 12, 2002

Docket Control
Arizona Corporation Commission
1200 W. Washington
Phoenix, Arizona 85007

RE: MODIFIED CODE OF CONDUCT UNDER DOCKET NUMBERS E-00000A-02-0051, E-01345A-01-0822, E-00000A-01-0630; E-01933A-02-0069, E-01933A-02-0471

Dear Sir or Madam:

Pursuant to Decision No. 65154, dated September 16, 2002, Arizona Public Service Company ("APS") and Tucson Electric Power ("TEP") were ordered to submit modifications to their Codes of Conduct as adopted in Decision No. 62416 (April 3, 2000) and Decision No. 62726 (August 2, 2000).

APS hereby submits such modifications to our Code of Conduct.

If you or your staff have any questions, please feel free to call me.

Sincerely,

Jana Van Ness
Manager
State Regulation

Attachment

JVN/srm

Cc: Docket Control (Original, plus 18 copies)

Arizona Corporation Commission
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CODE OF CONDUCT

I. Definitions

“APS” means Arizona Public Service Company as it currently exists, as its name may be changed, or as any successor enterprise.

“Arm’s Length Transaction” means a transaction between or among parties, each of whom acts in its own interest and where the final decision is not made by a single individual.

“Bill” means the billing invoice for Noncompetitive Services.

“Commission” means the Arizona Corporation Commission.

“Competitive Electric Affiliate” means those affiliates of APS engaged in Competitive Electric Services.

“Competitive Electric Services” means Competitive Retail Services and Competitive Wholesale Services.

“Competitive Procurement Process” means the process approved by the Commission and required by Decision No. 65154 by which APS will acquire power that cannot be produced from its own existing assets.

“Competitive Retail Activities” means Competitive Retail Services or Permitted Competitive Retail Activities, as those terms are defined in this Code of Conduct.

“Competitive Retail Affiliate” means any affiliate of APS that is engaged in Competitive Retail Services and is an Electric Service Provider.

“Competitive Retail Services” means all aspects of retail electric services described in A.A.C. R14-2-1601(7).

“Competitive Wholesale Services” means the provision of energy products or services to the wholesale market.

“Confidential Customer Information” means any non-public customer-specific information obtained by APS as a result of providing Noncompetitive Services or Permitted Competitive Retail Activities. Confidential Customer Information also includes non-public customer-specific information obtained by APS from customers of special districts and public power entities on behalf of such special districts and public power entities.

“Confidential Information” means Confidential Customer Information as that term is defined in this Code of Conduct and any other nonpublic information regarding Competitive Electric Services obtained solely through the provision of Noncompetitive Services or in the conduct of the Competitive Procurement Process; provided, however, Confidential Information shall not include (i) information that is otherwise available to non-affiliate third parties or (ii) information necessary for a Competitive Electric Affiliate to provide or receive Shared Services.

“Distribution Service” means those services described in A.A.C. R14-2-1601(14).

“Electric Competition Rules” means A.A.C. R14-2-1601 to -1617 as are lawfully in effect as of the date of approval of this Code of Conduct by the Commission.

“Electric Service Provider” means an entity as described in A.A.C. R14-2-1601(15).

“Extraordinary Circumstance” means any situation that requires APS to act in a manner contrary to this Code of Conduct to protect public interest or safety. Examples include the following: (i) an abnormal system condition requiring manual or automatic action to maintain system frequency, to prevent loss of firm load, to prevent equipment damage, or to prevent disconnection of system elements that could adversely affect reliability or safety; (ii) a fuel shortage requiring departure from normal operating procedures to minimize the use of a particular fuel; (iii) a condition that requires implementation of emergency procedures as defined in the AISA operating protocols, the protocols of any regional transmission or similar organization, or the Western Electric Coordinating Council (“WECC”) or any similar organization; or (iv) any applicable law, regulation, court order, tariff, or directive of a regulatory agency, regional transmission or similar organization or the WECC or any similar organization requiring APS to act in a manner contrary to the Code of Conduct.

“FERC” means the Federal Energy Regulatory Commission.

“Noncompetitive Services” means those services described in A.A.C. R14-2-1601(29).

“Permitted Competitive Retail Activities” means those Competitive Retail Services that APS may provide pursuant to A.A.C. R14-2-1615(B), except for any service provided as part of Standard Offer Service.

“Pinnacle West” means Pinnacle West Capital Corporation as it currently exists, as its name may change, or as any successor enterprise.

“Policies and Procedures” or “P&Ps” means those policies and procedures developed by APS to implement this Code of Conduct.

“Shared Services” means those support services provided by Pinnacle West or any of its affiliates, including but not limited to: human resources; accounting; tax; insurance; risk management; energy risk management; audit services; contract management; information and communication technology; communications; environmental, health and safety; regulatory services; system dispatch; transportation; security; facilities; shareholder services; law and business practices; public affairs and enterprise finance.

“Standard Offer Service” means the bundled provision of retail electric service as described in A.A.C. R14-2-1601(38).

“Third Party” means any Electric Service Provider or market participant other than a Competitive Retail Affiliate that may lawfully provide Competitive Retail Services.

II. Applicability of Code of Conduct

The Code of Conduct applies to the conduct of APS in its interactions with its Competitive Electric Affiliates relating to Competitive Electric Services, unless an Extraordinary Circumstance excuses compliance. All employees of APS in their interactions with APS' Competitive Electric Affiliates shall comply with this Code of Conduct. Failure to comply with this Code of Conduct will subject the employee to disciplinary actions as described in Section XIII.C of this Code of Conduct.

III. Treatment of Similarly Situated Persons

- A. APS shall apply its retail tariffs in the same manner to similarly situated entities. If a retail tariff provision allows for discretion in its application, APS shall apply that provision in a non-discriminatory manner between its Competitive Electric Affiliates and non-affiliate third parties and their respective customers.
- B. APS shall process all similar requests for Noncompetitive Services and for Permitted Competitive Retail Activities, if applicable, in the same manner and within the same time period.
- C. APS shall offer access to Distribution Service-specific information (including information about available distribution capability, transmission access, and curtailments) to its Competitive Retail Affiliates and Third Parties concurrently and under the same material terms and conditions.
- D. APS shall act in accordance with the Competitive Procurement Process and will not give preferential treatment to its Competitive Electric Affiliates in such process.

IV. Use of Confidential Information

- A. APS shall not provide Confidential Customer Information to any Competitive Electric Affiliate or other party engaged in Competitive Electric Services without the customer's written authorization. Such information may be provided only to the extent specifically authorized.
- B. APS shall inform any Competitive Electric Affiliate or other party engaged in Competitive Electric Services seeking Confidential Customer Information that such information may be released only after APS receives the customer's written authorization.
- C. APS shall not provide Confidential Information to a Competitive Electric Affiliate, except as provided in Section IV.A of this Code of Conduct with respect to Customer Confidential Information.
- D. Except as required by Section IX.B of this Code of Conduct, nothing herein or in the P&Ps shall be construed to require any Competitive Electric Affiliate to disclose competitively sensitive or other legally protected information.

V. Use of the Bill and Promotions within the Bill Envelope

- A. If APS decides to include any amounts due for its Competitive Retail Activities within the Bill, APS shall develop a section in its P&Ps to ensure equal access to billing services for any party engaged in Competitive Retail Services which shall provide that APS will offer to include in its Bill the amounts due for Competitive Retail Services to any Third Party on the same material terms and conditions, upon request.
- B. This provision shall not prevent a Competitive Retail Affiliate or any Third Party from including amounts due for Noncompetitive Services in its own consolidated billing statement, as long as the customer receiving such consolidated billing statement has authorized APS' Competitive Retail Affiliate or a Third Party, as applicable, to act as its agent for such purpose.
- C. If APS chooses to insert any advertising or promotional materials for its Competitive Retail Affiliate or for any Third Party's Competitive Retail Services into the envelope for the Bill or to print such advertisements on the Bill or billing envelope, APS shall develop a section in its P&Ps to ensure equal access to advertising space in or on the Bill or billing envelope.

VI. Customer Telephone Calls

Telephone numbers and websites used by APS for provision of Noncompetitive Services shall be different from those used by its Competitive Electric Affiliates.

VII. Prohibition on Suggestion of Utility Advantage

- A. APS shall not state in any advertising, promotional materials, or sales efforts that a consumer who purchases services from APS' Competitive Electric Affiliates will receive preferential treatment in the provision of Noncompetitive Services or that any other advantage regarding the provision of Noncompetitive Services will accrue to that consumer.
- B. The name or logo of APS as a utility distribution company shall not be used in promotional advertising material circulated by a Competitive Electric Affiliate.
- C. APS personnel shall not specify to any retail customer or potential retail customer a preference for any Competitive Electric Service provided by APS' Competitive Electric Affiliates.
- D. APS personnel shall not specify to any retail customer or potential retail customer a preference for any Competitive Electric Service provided by any party over any Competitive Electric Service provided by any other party.
- E. APS personnel providing Noncompetitive Services shall either inform customers who inquire about Competitive Retail Services that a list of Electric Service Providers is available at no charge from the Commission on its website or by telephone, and upon request shall provide the customers with the appropriate Commission website address and telephone number, or may provide such customers with a copy of the current Commission list of such providers.
- F. APS shall not require the purchase of any Competitive Electric Service from APS' Competitive Electric Affiliates as a condition to providing Noncompetitive Services.
- G. APS generation service shall not be sold on a discounted basis to Standard Offer Service customers without the express authorization of the Commission.

VIII. Reporting Requirements

APS shall submit the following information to the Commission on an annual basis each April 15th, beginning on April 15, 2004:

- A. A list of all Extraordinary Circumstances excusing APS' compliance with this Code of Conduct and a report explaining the nature, cause, and duration of each incident.

- B. A report summarizing the charges associated with all nontariffed transactions between APS and its Competitive Electric Affiliates, with the associated charges reported separately for each Competitive Electric Affiliate and for each category of service.
- C. A report detailing (i) how many non-Standard Offer Service customers were provided metering services or meter reading services and (ii) how many Electric Service Providers received consolidated billing services from APS, both pursuant to R14-2-1615(B).
- D. A report identifying all transfers between APS and its Competitive Electric Affiliates of employees at the manager level or above.
- E. All information submitted pursuant to this Section VIII of this Code of Conduct shall be treated in accordance with A.R.S. § 40-203.

IX. Separation Requirements

- A. APS shall be a separate corporate entity from its Competitive Electric Affiliates. Unless otherwise permitted herein, APS shall, to the extent practical, operate separately from its Competitive Electric Affiliates. Sharing of equipment and facilities shall be permitted only in accordance with the functional separation requirements set forth in the P&Ps.
- B. APS shall keep separate books and records and shall keep accounting records that set forth appropriate cost allocations between APS and its Competitive Electric Affiliates. All APS records shall be kept in accordance with the FERC Uniform System of Accounts and Generally Accepted Accounting Principles. Books and records of APS' Competitive Electric Affiliates will be made available for inspection by the Commission in accordance with A.A.C. R14-2-804.A.
- C. APS and its Competitive Electric Affiliates shall not jointly employ the same employees; provided, however, that APS and its Competitive Electric Affiliates may utilize common officers and directors for corporate support, oversight, and governance, but APS officers directly responsible for operational matters shall not serve as officers or directors of a Competitive Electric Affiliate. Common officers and directors shall not be utilized to circumvent the prohibition on providing Confidential Information to a Competitive Electric Affiliate, nor shall such common officers or directors be permitted to participate in the Competitive Procurement Process. Contracts for services accounted for in conformance with Section X of this Code of Conduct shall not constitute prohibited joint employment if measures are taken to prevent the transfer of Confidential Information between APS and a Competitive Electric Affiliate.

- D. APS and its Competitive Electric Affiliates may utilize Shared Services in accordance with Section X of this Code of Conduct and the P&Ps; provided, however, that APS shall take appropriate measures to prevent access to Confidential Information by its Competitive Electric Affiliates through such Shared Services.

X. Transfers of Goods and Services

- A. All transactions between APS and its Competitive Electric Affiliates shall be Arm's Length Transactions, except as provided in this Section X of the Code of Conduct and in the associated provisions of the P&Ps.
- B. APS shall not subsidize its Competitive Electric Affiliates through any rates or charges for Noncompetitive Services. APS shall not, however, be required to charge its Competitive Electric Affiliates more than its authorized tariff rate for any Noncompetitive Service.
- C. Shared Services may be provided by APS to its Competitive Electric Affiliates, and such services shall be accounted for in accordance with the P&Ps, which shall describe the accounting methodology for such services and transactions in a manner that ensures there is no subsidization of the Competitive Electric Affiliates by APS.
- D. APS may acquire Shared Services from Pinnacle West and such services shall be accounted for in accordance with the P&Ps, which shall describe the accounting methodology for such services and transactions in a manner that ensures there is no subsidization of the Competitive Electric Affiliates by APS.
- E. Any services provided by APS or its Competitive Electric Affiliates that are subject to a filed tariff shall be provided at the rates and under the terms and conditions set forth in the tariff, unless an exception is permitted by the governing body with jurisdiction over such tariff.
- F. If APS sells to its Competitive Electric Affiliates nontariffed retail goods or services, the transfer price shall be the higher of cost or market.
- G. If APS' Competitive Electric Affiliates sell to APS nontariffed retail goods or services, the transfer price shall be at a price not to exceed market.
- H. Sales of Competitive Wholesale Services by and among APS and its Competitive Electric Affiliates shall be made in accordance with FERC and other applicable requirements.

XI. Joint Marketing

APS and its Competitive Retail Affiliate shall not jointly market their respective retail services.

XII. Financing Arrangements

APS shall comply with the applicable provisions of A.R.S. §§ 40-285; 40-301, et seq.; and A.A.C. R14-2-804, with respect to any financing arrangement between it and its Competitive Electric Affiliates.

XIII. Dissemination, Education, and Compliance

- A. Copies of this Code of Conduct shall be provided to employees of APS and its Competitive Electric Affiliates and those authorized agents of APS and its Competitive Electric Affiliates that are likely to be engaged in activities subject to the Code of Conduct. A copy of the Code of Conduct shall be maintained on Pinnacle West Capital Corporation's intranet.
- B. Training on the provisions of the Code of Conduct and its implementation shall be provided to the employees of APS and its Competitive Electric Affiliates that are likely to be engaged in activities subject to the Code of Conduct.
- C. Compliance with the Code of Conduct is mandatory. The failure or refusal of an employee of APS to abide by or to act according to the Code of Conduct or the P&Ps may subject the employee to disciplinary action, up to and including discharge from employment.
- D. Any activity that would constitute engagement in unlawful anticompetitive behavior shall constitute a violation of this Code of Conduct.
- E. Questions regarding this Code of Conduct should be directed to Pinnacle West's Business Practices Department. Compliance with this Code of Conduct shall be administered as part of Pinnacle West's Business Practices Program.

XIV. Procedures to Modify the Code of Conduct or P&Ps

- A. APS or any other interested party, including Commission Staff may request modifications to the Code of Conduct by filing an application with the Commission. The application shall set forth the proposed modifications and the reasons supporting them.
- B. APS shall notify the Commission of any revisions required to be made to the P&Ps to address modifications to allocation methods or the direct and indirect allocators used

in the P&Ps by filing an update to the P&Ps with the Commission. If no action is taken by the Commission or its designee within 30 days of its filing, the update shall be deemed approved.

- C. APS may not make and implement any material change to the P&Ps without seeking the prior approval of the Commission or its designee. Once notification is made by APS of an intended modification, if no action is taken by the Commission or its designee within 30 days of its filing, the modification shall be deemed approved.

XV. Dispute Resolution

To the extent permitted by law, complaints concerning violations of this Code of Conduct shall be processed under the procedures established in A.A.C. R14-2-212.