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June 15, 2006

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

RE: APS CODE OF CONDUCT  
DOCKET NOS. E-00000A-02-0051 and E-00000A-01-0630

Dear Sir/Madame:

Pursuant to Decision No. 68741 dated June 5, 2006, attached is a copy of Arizona Public Service Company's ("APS") Code of Conduct that complies with the modifications approved in the referenced Decision.

If you or your staff has any questions, please call me at 602-250-2366.

Sincerely,

Linda A. Thompson  
Director  
Compliance

LHT/srm

Attachment

CC: Docket Control (Original, plus 15 copies)  
Brian Bozzo, Compliance and Enforcement

AZ CORP COMMISSION  
DOCUMENT CONTROL

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## CODE OF CONDUCT

### Part One - - Definitions

“**APS**” means Arizona Public Service Company.

“**Arms Length Transaction**” means a transaction between or among parties, each of whom acts in its own interest and where the final decision on the transaction is not made by a single individual or group of individuals with direct management control or other authority over both parties.

“**Commission**” means the Arizona Corporation Commission.

“**Competitive Electric Affiliate**” means those affiliates of APS engaged in either Competitive Retail Services or Competitive Wholesale Services.

“**Competitive Procurement**” means a process by which power is procured by APS.

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

“**Competitive Retail Services**” means unbundled generation, unbundled metering, unbundled meter reading, and other retail electric services that have been determined to be competitive services by the Commission.

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

“**Confidential Customer Information**” means any non-public customer-specific information obtained by APS as a result of providing Noncompetitive Services. 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 and any other nonpublic information regarding Competitive Retail Services or Competitive Wholesale Services obtained solely through the provision of Noncompetitive Services or in a Competitive Procurement process. Confidential Information shall not include information that is otherwise available to non-affiliated third parties or information necessary for a Competitive Electric Affiliate to provide or receive Shared Services.

“**Distribution Information**” means information about available distribution capacity, transmission access, and curtailments.

“**Electric Service Provider**” means an entity authorized by a Certificate of Convenience and Necessity to provide Competitive Retail Services in Arizona.

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**“Extraordinary Circumstance”** means any situation that requires APS to act in a manner contrary to this Code of Conduct to ensure the reliability of APS’ system, or ensure the safety of employees or the public, or to respond to any other emergency where such action is required.

**“FERC”** means the Federal Energy Regulatory Commission.

**“Noncompetitive Services”** means unbundled distribution service, Standard Offer Service and other services that have been determined to be noncompetitive services by the Commission.

**“Operating Employees”** means employees, contractors, consultants, or agents who have day-to-day duties and responsibilities for planning, directing, organizing, or carrying out energy-related operations. Operating employees include, but are not limited to, generation employees, transmission employees, trading desk employees, and distribution employees. Operating employees do not include employees performing support services in the areas specifically identified in the definition of Shared Services.

**“Pinnacle West”** means Pinnacle West Capital Corporation.

**“Policies and Procedures”** 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; corporate governance; tax; insurance; risk and insurance management, claims services, and public safety; 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. Unless specifically authorized in this Code of Conduct, Operating Employees are prohibited from providing Shared Services.

**“Standard Offer Service”** means the bundled provision of retail electric service.

**“Third Party”** means any Electric Service Provider or market participant other than a Competitive Retail Affiliate that may lawfully provide Competitive Retail Services in Arizona. Where not capitalized in this Code of Conduct, “third party” has its customary meaning.

# CODE OF CONDUCT FOR THE ARIZONA CORPORATION COMMISSION

## Part Two - - Basic Principles

### I. Applicability of Code of Conduct

- A. The Code of Conduct applies to APS and its interactions with its Competitive Electric Affiliates, unless an Extraordinary Circumstance excuses compliance.
- B. Regardless of any provision in this Code of Conduct, in an Extraordinary Circumstance APS may take whatever steps are necessary to ensure the reliability of APS' system, to protect the public interest, or to ensure safety for employees and the public. APS shall notify the Commission within 24 hours of or the next business day after an Extraordinary Circumstance and shall post on a public Website a description of the Extraordinary Circumstance and the actions taken by APS.

### II. No Discrimination in Service

APS shall not give preferential treatment to its Competitive Electric Affiliates and shall treat affiliated and non-affiliated entities in a nondiscriminatory manner in providing service.

### III. Confidential Information

- A. APS shall not provide Confidential Customer Information to any Competitive Electric Affiliate or a Third Party without the customer's prior written authorization, which may include a printed version of an electronic authorization. Such information may be provided only to the extent specifically authorized.
- B. APS shall not provide Confidential Information to a Competitive Electric Affiliate unless such information is also made available to Third Parties under similar terms and conditions. This restriction shall not apply to Customer Confidential Information provided with the customer's prior written authorization.
- C. If Customer Confidential Information is properly requested by a Third Party, APS shall not unreasonably delay or withhold the release of the requested Customer Confidential Information.

### IV. Separation Requirements

- A. APS shall be a separate corporate entity from its Competitive Electric Affiliates.
- B. Unless otherwise permitted by the Code of Conduct, APS shall operate separately from its Competitive Electric Affiliates to the extent practical.
- C. 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, which shall be made available to the Commission in accordance with A.A.C. R14-3-804(A). The indirect and direct cost allocation methodology and

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rationale shall be included in the Policies and Procedures filed with the Commission.

- D. APS and its Competitive Electric Affiliates may share equipment and facilities only in accordance with the functional separation requirements set forth in this Code of Conduct and the Policies and Procedures.
- E. APS and its Competitive Electric Affiliates shall not jointly employ the same employees, except that APS and its Competitive Electric Affiliates may utilize common officers and directors for corporate support, oversight, and governance. 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 during the development or conduct of any Competitive Procurement process, or in any subsequent negotiations in which a Competitive Electric Affiliate employing the common officer or director participates as a bidder.
- F. Contracts for services accounted for in conformance with Part 2, Section V 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 any Competitive Electric Affiliate.
- G. APS and its Competitive Electric Affiliates may utilize Shared Services in accordance with Part 2, Section V of this Code of Conduct, but Shared Services shall not act as conduit for Confidential Information to Competitive Electric Affiliates. Unless specifically authorized in this Code of Conduct, Operating Employees cannot provide Shared Services nor shall a shared attorney represent both APS and a Competitive Electric Affiliate in a transaction. Each employee who provides Shared Services shall be trained regarding the Code of Conduct and shall certify, either in writing or electronically, that he or she will not be a conduit for improperly sharing information.
- H. Shared risk management employees shall not be Operating Employees of either APS or its Competitive Electric Affiliates.
- I. Because Pinnacle West engages in wholesale marketing and trading, but does not have a separate marketing and trading affiliate, APS Operating Employees may provide trading desk services to Pinnacle West, but only if the following safeguards are instituted and maintained: APS Operating Employees who provide trading desk services to Pinnacle West are prohibited from providing trading services to APS, and APS Operating Employees who provide trading desk services to APS are prohibited from providing trading desk services to Pinnacle West. Each employee who provides trading desk services shall be trained regarding the Code of Conduct and shall certify that he or she will not be a

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conduit for improperly sharing information. As set forth in Section VIII.D of this Part Two below, APS shall report all transfers of all trading desk employees.

### **V. Transfers of Goods and Services**

- A. APS shall not subsidize its Competitive Electric Affiliates through any rates or charges for Noncompetitive Services and, except as otherwise provided below, all transactions between APS and its Competitive Electric Affiliates shall be Arm's Length Transactions. The same lawyer or other negotiator may not represent both sides in an Arm's Length Transaction between APS and one of its Competitive Electric Affiliates.
- B. Shared Services may be provided by APS to its Competitive Electric Affiliates, and such services shall be accounted for in accordance with the Policies and Procedures.
- C. APS may acquire Shared Services from Pinnacle West and such services shall be accounted for in accordance with the Policies and Procedures.
- D. 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. APS shall not be required to charge its Competitive Electric Affiliates more than its authorized tariff rate for any Noncompetitive Service.
- E. If APS sells to its Competitive Electric Affiliates non-tariffed goods or services, the transfer price shall be the higher of cost or market.
- F. If APS' Competitive Electric Affiliates sell to APS non-tariffed goods or services, the transfer price shall be at a price not to exceed market.
- G. Examples of non-Arm's Length Transactions include transactions where the price is either the higher of or lower of fully allocated cost or fair market value; transactions under a tariff where a price or rate is specified; corporate transactions such as dividends or payments of any entity's share of taxes, benefits, or other pass-through costs; and Shared Services when accounted for in accordance with the Policies and Procedures.

### **VI. Compliance, Dissemination and Education**

- A. Compliance with the Code of Conduct is mandatory.
- B. The failure or refusal of an employee of APS or its affiliates to abide by or to act according to the Code of Conduct or the Policies and Procedures may subject the employee to disciplinary action, up to and including discharge from employment.

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- C. Copies of this Code of Conduct shall be provided to employees and agents of APS and its Competitive Electric Affiliates that are likely to be engaged in activities subject to the Code of Conduct.
- D. A copy of the Code of Conduct shall be made available to all employees of APS and its Competitive Electric Affiliates on the corporate Intranet site.
- E. 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 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. This provision is in addition to the more specific education and certification requirements set forth in other provisions of this Code of Conduct.
- F. Any activity that would constitute engagement in unlawful anticompetitive behavior shall constitute a violation of this Code of Conduct.
- G. APS shall propose to Staff and obtain agreement from Staff on a process for employees, without fear or threat of retribution or intimidation, to raise questions and report non-compliance regarding this Code of Conduct to APS Management and the Commission Compliance Section. APS shall include the agree-to process in its filing of the Policies and Procedures.

### **VII. Modifications to the Code of Conduct or Policies and Procedures**

- A. APS 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 may not make and implement any material change to the Policies and Procedures, including modifications to allocation methods or the direct and indirect allocators used in the Policies and Procedures, without filing an update with 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.

### **VIII. Reporting Requirements**

APS shall submit the following information to the Commission on an annual basis each April 15th, which shall be available to the public:

- A. A list of all Extraordinary Circumstances that explains the nature, cause and duration of each incident.
- B. A report summarizing the charges associated with all non-tariffed 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.

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- 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.
- D. A report identifying all transfers between APS and its Competitive Electric Affiliates of employees at the manager level or above. In addition, this report shall identify all transfers between APS and its Competitive Electric Affiliates of all trading desk employees.
- E. An attestation, signed by the chief executive officer or an executive vice president of APS, that APS has complied with the Code of Conduct.

### **IX. 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.

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## **Part Three - - Retail Electric Competition**

### **I. Non-Discrimination**

- A. If a retail tariff provision allows for discretion in its application, APS shall apply that provision in a non-discriminatory manner between its Competitive Retail Affiliates and Third Parties and their respective customers.
- B. APS shall process requests for service by Competitive Retail Affiliates and Third Parties and their respective customers in the same manner and within the same time period.
- C. APS shall offer access to Distribution Information to its Competitive Retail Affiliates and Third Parties concurrently and under the same material terms and conditions.

### **II. Consolidated Billing and Promotions within the Bill Envelope**

- A. If APS includes charges for Competitive Retail Services in its bills for Noncompetitive Services, APS shall offer the same service to any Third Party on the same material terms and conditions.
- 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 if authorized by the customer.
- C. If APS includes with its bills for Noncompetitive Services advertising or promotional materials from its Competitive Retail Affiliate, APS shall offer the same service to any Third Party on the same material terms and conditions.

### **III. Company Contact Information**

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

### **IV. 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 Retail Affiliates will receive preferential treatment in the provision of Noncompetitive Services or have any other advantage regarding the provision of Noncompetitive Services nor may APS require the purchase of any Competitive Electric Service from APS' Competitive Retail Affiliates as a condition to providing Noncompetitive Services.
- B. The name or logo of APS as a utility distribution company shall not be used in promotional advertising material circulated by a Competitive Retail Affiliate.

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- C. APS personnel shall not state to any retail customer or potential retail customer a preference for any Competitive Electric Service provided by APS' Competitive Retail Affiliates or any Third Party.
- D. APS shall either direct customers who inquire about Competitive Retail Services to the Commission for a list of Electric Service Providers or may provide such customers with a copy of the current Commission list of such providers. APS and its employees may not state any recommendation or preference or otherwise attempt to influence a potential customer in their choice of an Electric Service Provider.
- E. APS may not enter into special contracts which provide generation service at a discount to Standard Offer Service customers without the express authorization of the Commission.

### **V. Joint Marketing**

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

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## **Part Four - Competitive Procurement**

### **I. Applicability**

- A. These Competitive Procurement principles shall apply to wholesale acquisition of energy, capacity and physical hedge transactions for APS Standard Offer Service customers.
- B. These Competitive Procurement principles do not apply in cases of emergencies or for short-term acquisitions to maintain system reliability, nor unless otherwise stated, to transactions to satisfy APS' obligations under the Commission's Environmental Portfolio Standard, proposed Renewable Energy Standard and Tariff, and Demand Side Management programs.

### **II. Acceptable Procurement Methods**

- A. Purchases through third party, on-line trading systems, including but not limited to the Intercontinental Exchange, Bloomberg, California Independent System Operator, New York Mercantile Exchange or other similar on-line third party systems.
- B. Purchases from qualified, third party, independent energy brokers.
- C. Purchases from non-affiliated entities through auctions or a request for proposals process administered by APS.
- D. Bilateral contracts with non-affiliated entities.
- E. Bilateral contracts with affiliated entities, provided that if APS proposes to procure energy or capacity from an affiliate through a bilateral contract APS will provide, through its Competitive Procurement Website, non-affiliated entities notice of and an opportunity to beat any proposed contract before executing the transaction.
- F. Any other Competitive Procurement process approved by the Commission.

### **III. Participation of Competitive Electric Affiliate**

- A. APS shall not give preferential treatment to its Competitive Electric Affiliates in any Competitive Procurement or in the procurement of Demand Side Management, proposed Renewable Energy Standard and Tariff, or Environmental Portfolio Standard resources.
- B. If a Competitive Electric Affiliate participates as a bidder in a Competitive Procurement request for proposals or auction process, an independent monitor selected by Staff will oversee the process.

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- C. If a Competitive Electric Affiliate participates as a bidder in a Competitive Procurement, APS shall keep detailed records of any and all contacts with the Competitive Electric Affiliate, including employees and contractors, regarding the Competitive Procurement for the life of the contract plus five years.
- D. If a Competitive Electric Affiliate participates as a bidder in a Competitive Procurement, personnel involved in the preparation of a Competitive Electric Affiliate's bid in the solicitation process shall not have contact with personnel conducting the solicitation or advising APS in the solicitation concerning any business matter related to the Competitive Procurement except as provided below.
- E. The content of any communication between a Competitive Electric Affiliate that is a bidder in a Competitive Procurement and APS personnel (including contractors and agents) conducting the Competitive Procurement must be contemporaneously posted on the Competitive Procurement Website. A Competitive Electric Affiliate may, however, attend bidders' conferences and other public meetings regarding a Competitive Procurement.
- F. Copies of all bilateral power contracts between APS and Competitive Electric Affiliates shall be retained by APS for a minimum of the life of the contract plus five years.