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2007 APR 13

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AZ CORP COMMISSION
DOCUMENT CONTROL

April 13, 2007

Arizona Corporation Commission
DOCKETED

APR 13 2007

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

DOCKETED BY nr

RE: APS CODE OF CONDUCT – REVISIONS TO POLICIES AND AFFIRMATION STATEMENTS
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 Policies and Affirmation Statements that were revised in December, 2006 for non-material changes. Both a redline and a final version have been provided.

Listed below are the documents and applicable change:

Policy No. 1: Affiliate Accounting Policies:

Page 6, Section V.A.1, Charging Methodology. The original set of Policies and Procedures contained a clerical error where the description from the Code of Conduct, sections V. E and F is missing portions of two sentences. The corrected version, attached corrects the error so the language in the Policy is now consistent with language in the Code of Conduct Section Part 2- Section V (E) & (F).

Policy No. 8 Common Officers and Directors:

Definition of Competitive Electric Affiliate – Typographical error, word was "of" should be "or".

Page 2, paragraph 3, the word "may" was inadvertently missing.

Affirmation Statements:

- **Shared Services:** During the development and delivery of the Code of Conduct training, we determined that it was not necessary for every Shared Service employee to read the entire Code of Conduct and all implementing Policies because the revised Code is now segregated into sections which make it possible to target training and key messages to the appropriate employees and departments. For these reasons, we removed the following statement from the Affirmation Statement used by Shared Services employees: "I have read and understand the Code of Conduct and its implementing Policies and Procedures." The remaining portions of the Affirmation are unchanged. Shared Services employees, using this Affirmation, certify that they have completed and understand all required training relating to the Code of Conduct including the No Conduit Rule, that they understand and agree that they will not be a conduit for improperly sharing proprietary or confidential information and that they understand the ramifications for violating the Code of Conduct and its implementing Policies and Procedures.

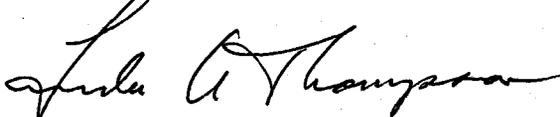
Trading Floor Services – APS Traders: The only change was to a typographical error changing the word "its" to "its".

Trading Floor Services – APS Traders On behalf Pinnacle West Marketing and Trading: This form is for the newly created PWMT Affiliate and is to replace the previous form APS Traders On behalf Pinnacle West Capital Corporation. The only change to this form is the Affiliate name.

APS previously submitted these changes to Commission Staff on December 19, 2007. Pursuant to the Code of Conduct, these are not considered to be "material changes" to the Code of Conduct, therefore we did not file in Docket Control at that time. Although these changes are immaterial and require no action from the Commission, it has since been determined that the proper process requires these changes to be filed in Docket Control.

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

Sincerely,



Linda A. Thompson

LHT/srm

Attachment

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



THE POWER TO MAKE IT HAPPEN™

ACC CODE OF CONDUCT POLICY NO. 1	CODE SECTION Part Two -- Basic Principles Sections IV and V
SUBJECT: Affiliate Accounting Policies	

Definitions:

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

“**Affiliate**” means a separate legal entity that is controlled by, controls, or is under common control with APS.

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

“**Arm’s 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.

“**Assets**” include real property, depreciable personal property, and intangible property.

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

“**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.

“**Fully Loaded Cost**” means the direct cost of a good or service and all applicable indirect charges and overheads.

“**Intangible Property**” means any asset having no physical existence, its value being set by the rights and anticipated benefits that an owner obtains by possessing it.

“**Labor Charges**” means direct payroll costs and all related costs such as pension, post employment benefits, health insurance, payroll taxes, etc.

“Liabilities” includes accounts payable, notes payable, lease obligations, debt, pension and other post retirement benefits, deferred compensation, and other employee-related benefits.

“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.

“Personal Property” means materials and supplies inventory; depreciable assets such as vehicles, machinery, furniture, fixtures not attached to land, equipment, computer hardware and related software applications; and any other tangible property, which are not goods or real property.

“Pinnacle West” means Pinnacle West Capital Corporation, the parent holding company for APS and other Affiliates.

“Proprietary Information” means written, verbal, or visual information, material, data, or knowledge belonging to APS or an Affiliate that APS or the Affiliate considers to be valuable, confidential, and proprietary. Such proprietary information could be owned by an Affiliate and/or third parties and licensed to an Affiliate. Proprietary information includes trade secrets, data, software, computer programs and related documentation, specifications, documents, methods, inventions, discoveries, drawings, customer lists, and employee or personnel information and records. Proprietary information also includes information and records relating to research, developments, operations or activities of APS, Affiliates, contractors, or others, which have not been generally released to the public by duly authorized representatives of the entity in lawful possession of the same.

Purpose:

The purpose of these Policies is to provide guidelines and standards to ensure compliance with the ACC’s regulatory requirements related to Competitive Electric Affiliate relationships. All transactions between APS and its Competitive Electric Affiliates, including the provision of services and transfer of assets and liabilities, shall be accounted for in accordance with these policies.

Policies:

I. APPLICABILITY

These Affiliate Accounting Policies set forth business practices for transactions between APS and its Competitive Electric Affiliates.

II. COMPLIANCE

The Corporate Controller is responsible for issuing, updating, and monitoring compliance with these policies.

III. OVERVIEW

These accounting policies provide guidelines and standards to ensure compliance with regulatory accounting requirements related to Affiliate financial relationships, including those requirements of the Arizona Corporation Commission ("ACC"), the Federal Energy Regulatory Commission ("FERC") and the Securities and Exchange Commission ("SEC"). All transactions between APS and its Competitive Electric Affiliates, including the provision of services and transfer of assets or liabilities, shall be accounted for in accordance with these policies.

It is the policy of APS and Pinnacle West to ensure that the costs related to their Competitive Electric Affiliates are segregated and accounted for separately. Specifically:

- All relationships between APS and its Competitive Electric Affiliates are to be conducted in a manner that prevents subsidization of Competitive Retail Services or Competitive Wholesale Services provided by the Competitive Electric Affiliates through any rate or charge by APS for noncompetitive electric services.
- Compensation or reimbursement for all assets, liabilities, goods or services transferred or provided between APS and its Competitive Electric Affiliates shall be in accordance with these Affiliate Accounting Policies.
- All transactions between APS and its Competitive Electric Affiliates shall be segregated and shall separately account for all costs incurred and revenues received by APS as a result of such transaction.
- All agreements between APS and its Competitive Electric Affiliates for Shared Services must be in writing prior to any Shared Services being provided. The Shared Services agreements must be reviewed by the Compliance Department and signed by the authorized representative of APS and the Competitive Electric Affiliate.
- Copies of the Shared Services agreements are to be retained by the Compliance Department.

IV. SHARED SERVICES GENERAL

Shared services are those corporate support services performed by Pinnacle West or APS on behalf of its Affiliates. These services are organized at Pinnacle West or APS in order to ensure consistency, efficiency and the leverage of resources for the mutual benefit of all Pinnacle West Affiliates. Examples of shared services include, but are not limited to, the following:

- Accounting
- Audit Services
- Contract Management
- Communications
- Corporate Governance
- Energy Risk Management
- Enterprise Finance
- Environmental, Health and Safety
- Facilities
- Human Resources
- Information and Communications Technology
- Insurance
- Law
- Public Affairs
- Regulatory Services
- Risk and Insurance Management, Claims Services and Public Safety
- Security
- Shareholder Services
- System Dispatch
- Tax
- Transportation

Unless specifically authorized in the Code of Conduct, Operating Employees are **prohibited** from providing Shared Services.

Charges for shared services to the various Affiliates are either direct or indirect. Direct charges result from shared services that benefit a single Affiliate and will be directly assigned to that Affiliate in accordance with this policy. Indirect charges are allocated to the appropriate Affiliate based on a measure representing the Affiliate's proportionate relationship to other Affiliates. The allocation method used is based on Pinnacle West's net equity and debt invested in its Affiliates. Pinnacle West's net equity and debt is reported to the Commission on an annual basis in its Affiliated Interests Reports.

A. DIRECT CHARGES

1. Identification:

Direct charges are applicable to those shared services that are assignable to a specific Affiliate based on a causal or beneficial relationship to that Affiliate. Where direct shared services benefit more than one Affiliate, such services may be assigned to more than one Affiliate based on the support provided. In other cases, such services will be based on the actual demands for such services by the Affiliate. Examples of direct support services may include human resources services, information technology support, communications services, and legal services.

2. Charging Methodology:

Direct labor charges will be captured on an "as-provided basis" and charged to a specific account number for that Affiliate, using variable payroll distribution when the provider can specifically identify the actual hours to provide the service. When the service is provided on a regular or monthly basis and the specific Affiliate is not easily identifiable, as in the case of accounts payable or payroll processing, the time to be charged will be based on a time estimate or another measurable quantity (i.e., number of invoices processed or number of employees being paid) to determine the "average" time spent as a percent of total time, with the subsequent use of a payroll fixed distribution.

3. Rationale:

If labor directly benefits specific Affiliates that either request the service or receive a direct benefit from the labor, then the Affiliate must pay for that labor. Direct charges are charged to specific Affiliates based on a causal or beneficial relationship or, in the case of special services requested by the Affiliate, on the basis of the service level provided.

B. INDIRECT CHARGES

1. Identification:

Indirect charges are made for those shared services that are essential for the overall corporate enterprise. An allocation of the associated costs is assigned to each Affiliate. Examples of indirect shared services include preparing consolidated financial statements, filing tax returns, and meetings of the Pinnacle West Board of Directors and shareholder services.

2. Charging Methodology:

Indirect charges are allocated to the appropriate Affiliate based on Pinnacle West's net equity and debt invested in its Affiliates, including APS and its Competitive Electric Affiliates.

3. Rationale:

Indirect shared services generally benefit all Affiliates. Because such services represent functions not specifically identifiable to a specific Affiliate, it is impractical to charge those costs to a specific Affiliate as the costs are incurred.

V. GOODS OR SERVICES PROVIDED BETWEEN APS AND AFFILIATES

A. GENERAL

This section provides guidelines for the transfer of goods or services, other than shared services described in Section IV, between APS and its Competitive Electric Affiliate. It provides guidelines to assign monetary value to other goods or services transferred between APS and its Competitive Electric Affiliate. There are two general types of transactions that can occur: Tariffed or Non-tariffed.

1. Charging Methodology:

If APS sells tariffed goods or services to its Competitive Electric Affiliates, the price will be at the rates, terms and conditions set forth in the tariff. If APS sells non-tariffed goods or services to its Competitive Electric Affiliates, the price shall be the higher of cost or market. If APS's Competitive Electric Affiliates sell to APS non-tariffed goods or services, the price shall not exceed market .

2. Recording:

Charges for goods or services will be calculated by the entity providing the service. Goods or services will be a direct charge to the recipient Affiliate or APS based upon the pricing described above. The entity receiving the goods or services may request an audit of the transaction. APS will record the fully loaded cost of any such goods or services provided by APS, and any corresponding revenues, below-the-line.

a. Labor:

No APS employee may perform any work for a Competitive Electric Affiliate unless a written agreement is in place. Where an agreement calls for direct labor, such Labor Charges will be based on the rate for that employee and the actual number of hours devoted to providing services. All direct labor will be priced at Fully Loaded Cost by Corporate Accounting.

b. Materials:

Purchases of materials or services by a Competitive Electric Affiliate from APS or by APS from a Competitive Electric Affiliate require the preparation of a requisition form or purchase order. The related costs shall be charged to the appropriate Affiliate charge numbers.

3. Arm's Length Transactions:

Unless otherwise provided in the Code of Conduct, 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.

Examples of non-Arm's Length Transaction include:

- If the price is either higher of or lower of Fully Loaded Costs or fair market value.
- Transactions pursuant to 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.
- Shared Services, when accounted for in accordance with Section IV set forth above.

D. TRANSFER OF ASSETS & LIABILITIES

1. Identification:

Transfers of assets include transfers of tangible real or Personal Property and Intangible Property used in a trade or business.

Real property:

Includes, but is not limited to:

- Land
- Buildings
- Improvements
- Easements
- Other real property rights

Personal property:

Includes, but is not limited to:

- Automobiles
- Power-operated equipment
- Computer hardware
- Computer software or application software
- Furniture
- Materials and supplies

Intangible Property:

Includes, but is not limited to:

- Copyrights
- Patent rights
- Royalty interests

- Licenses
- Trademarks
- Other proprietary information

Transfers of liabilities include, but are not limited to, accounts payable, notes payable, lease obligations, debt, pension and other post retirement benefits, deferred compensation and other items related to employees of APS and the Competitive Electric Affiliate.

2. Valuation:

Transfers of Assets and Liabilities between APS and its Competitive Electric Affiliates will be at net book value as of the date of the transfer in accordance with Generally Accepted Accounting Principles and SEC requirements.

3. Recording:

Transfers of Assets or Liabilities will be recorded through a direct charge.

VI. INTER-COMPANY BILLINGS AND REIMBURSEMENTS

A. GENERAL

Billing for inter-company transactions shall be issued on a timely basis, at least monthly, for goods or services and at the time of transfer for Assets or Liabilities. Sufficient detail will be provided to ensure an adequate audit trail and enable prompt reimbursement from the recipient of the assets, liabilities, goods, or services.

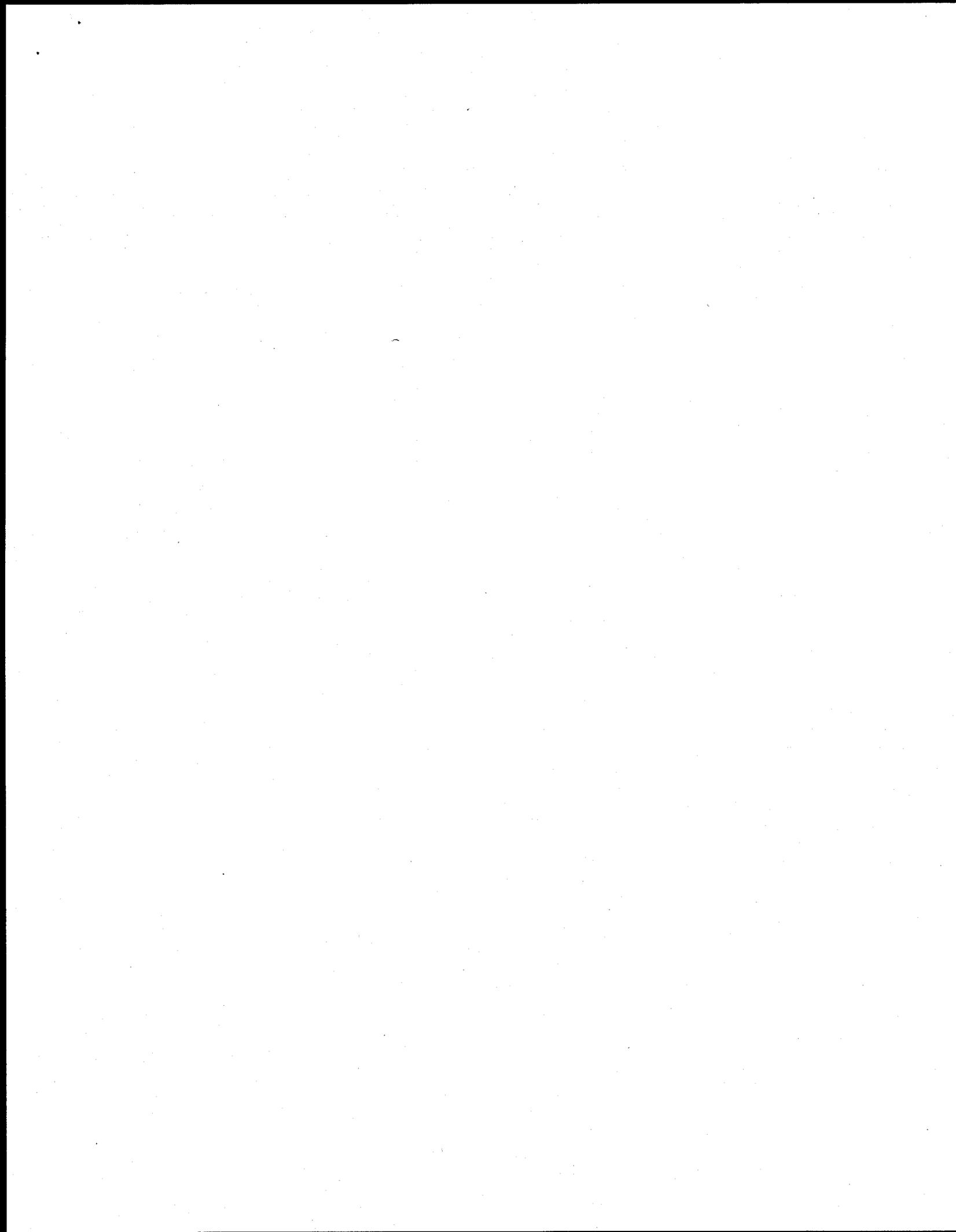
B. INTER-COMPANY BILLINGS AND PAYMENTS

Inter-company billing issued for transfers of Assets, Liabilities, goods, or services will be accompanied by or referenced to appropriate supporting documents. Allocations will be based upon methods set forth in these policies or applicable references. Such computations must be documented in order to facilitate verification of the costs of transferred Assets, Liabilities, goods, or services. Costs incurred on behalf of APS or the Competitive Electric Affiliate shall be accumulated, priced, and billed no later than the end of the following month to enable timely payment.

Payments, or formal arrangement for payment, for Assets, Liabilities, goods, or services received from APS or the Competitive Electric Affiliate shall be made no later than 30 days after receipt of an invoice. Inter-company billing and payments shall be adequately documented so that an audit trail exists to facilitate verification of the accuracy and completeness of all billings and reimbursements.

C. RECORDING

The receipt of an inter-company billing shall promptly be recorded in the accounting records of APS or the Competitive Electric Affiliate, whichever receives the billing. Disputes shall not preclude recording of the billing. Adjustments to prices, if necessary, will be proposed and resolved as soon as practicable after the billing is recorded.





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ACC CODE OF CONDUCT POLICY NO. 1	CODE SECTION Part Two -- Basic Principles Sections IV and V
SUBJECT: Affiliate Accounting Policies	

Definitions:

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“Affiliate” means a separate legal entity that is controlled by, controls, or is under common control with APS.

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“Arm’s 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.

“Assets” include real property, depreciable personal property, and intangible property.

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

“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.

“Fully Loaded Cost” means the direct cost of a good or service and all applicable indirect charges and overheads.

“Intangible Property” means any asset having no physical existence, its value being set by the rights and anticipated benefits that an owner obtains by possessing it.

“Labor Charges” means direct payroll costs and all related costs such as pension, post employment benefits, health insurance, payroll taxes, etc.

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“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.

“Personal Property” means materials and supplies inventory; depreciable assets such as vehicles, machinery, furniture, fixtures not attached to land, equipment, computer hardware and related software applications; and any other tangible property, which are not goods or real property.

“Pinnacle West” means Pinnacle West Capital Corporation, the parent holding company for APS and other Affiliates.

“Proprietary Information” means written, verbal, or visual information, material, data, or knowledge belonging to APS or an Affiliate that APS or the Affiliate considers to be valuable, confidential, and proprietary. Such proprietary information could be owned by an Affiliate and/or third parties and licensed to an Affiliate. Proprietary information includes trade secrets, data, software, computer programs and related documentation, specifications, documents, methods, inventions, discoveries, drawings, customer lists, and employee or personnel information and records. Proprietary information also includes information and records relating to research, developments, operations or activities of APS, Affiliates, contractors, or others, which have not been generally released to the public by duly authorized representatives of the entity in lawful possession of the same.

Purpose:

The purpose of these Policies is to provide guidelines and standards to ensure compliance with the ACC’s regulatory requirements related to Competitive Electric Affiliate relationships. All transactions between APS and its Competitive Electric Affiliates, including the provision of services and transfer of assets and liabilities, shall be accounted for in accordance with these policies.

Policies:

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- All agreements between APS and its Competitive Electric Affiliates for Shared Services must be in writing prior to any Shared Services being provided. The Shared Services agreements must be reviewed by the Compliance Department and signed by the authorized representative of APS and the Competitive Electric Affiliate.
- Copies of the Shared Services agreements are to be retained by the Compliance Department.

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- Facilities
- Human Resources
- Information and Communications Technology
- Insurance
- Law
- Public Affairs
- Regulatory Services
- Risk and Insurance Management, Claims Services and Public Safety
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Unless specifically authorized in the Code of Conduct, Operating Employees are **prohibited** from providing Shared Services.

Charges for shared services to the various Affiliates are either direct or indirect. Direct charges result from shared services that benefit a single Affiliate and will be directly assigned to that Affiliate in accordance with this policy. Indirect charges are allocated to the appropriate Affiliate based on a measure representing the Affiliate's proportionate relationship to other Affiliates. The allocation method used is based on Pinnacle West's net equity and debt invested in its Affiliates. Pinnacle West's net equity and debt is reported to the Commission on an annual basis in its Affiliated Interests Reports.

A. DIRECT CHARGES

1. Identification:

Direct charges are applicable to those shared services that are assignable to a specific Affiliate based on a causal or beneficial relationship to that Affiliate. Where direct shared services benefit more than one Affiliate, such services may be assigned to more than one Affiliate based on the support provided. In other cases, such services will be based on the actual demands for such services by the Affiliate. Examples of direct support services may include human resources services, information technology support, communications services, and legal services.

2. Charging Methodology:

Direct labor charges will be captured on an "as-provided basis" and charged to a specific account number for that Affiliate, using variable payroll distribution when the provider can specifically identify the actual hours to provide the service. When the service is provided on a regular or monthly basis and the specific Affiliate is not easily identifiable, as in the case of accounts payable or payroll processing, the time to be charged will be based on a time estimate or another measurable quantity (i.e., number of invoices processed or number of employees being paid) to determine the "average" time spent as a percent of total time, with the subsequent use of a payroll fixed distribution.

3. Rationale:

If labor directly benefits specific Affiliates that either request the service or receive a direct benefit from the labor, then the Affiliate must pay for that labor. Direct charges are charged to specific Affiliates based on a causal or beneficial relationship or, in the case of special services requested by the Affiliate, on the basis of the service level provided.

B. INDIRECT CHARGES

1. Identification:

Indirect charges are made for those shared services that are essential for the overall corporate enterprise. An allocation of the associated costs is assigned to each Affiliate. Examples of indirect shared services include preparing consolidated financial statements, filing tax returns, and meetings of the Pinnacle West Board of Directors and shareholder services.

2. Charging Methodology:

Indirect charges are allocated to the appropriate Affiliate based on Pinnacle West's net equity and debt invested in its Affiliates, including APS and its Competitive Electric Affiliates.

3. Rationale:

Indirect shared services generally benefit all Affiliates. Because such services represent functions not specifically identifiable to a specific Affiliate, it is impractical to charge those costs to a specific Affiliate as the costs are incurred.

V. GOODS OR SERVICES PROVIDED BETWEEN APS AND AFFILIATES

A. GENERAL

This section provides guidelines for the transfer of goods or services, other than shared services described in Section IV, between APS and its Competitive Electric Affiliate. It provides guidelines to assign monetary value to other goods or services transferred between APS and its Competitive Electric Affiliate. There are two general types of transactions that can occur: Tariffed or Non-tariffed.

1. Charging Methodology:

If APS sells tariffed goods or services to its Competitive Electric Affiliates, the price will be at the rates, terms and conditions set forth in the tariff. If APS sells non-tariffed goods or services to its Competitive Electric Affiliates the price shall be the higher of cost or market. If APS's Competitive Electric Affiliates sell to APS non-tariffed goods or services, the price is- shall not to exceed market price.

2. Recording:

Charges for goods or services will be calculated by the entity providing the service. Goods or services will be a direct charge to the recipient Affiliate or APS based upon the pricing described above. The entity receiving the goods or services may request an audit of the transaction. APS will record the fully loaded cost of any such goods or services provided by APS, and any corresponding revenues, below-the-line.

a. Labor:

No APS employee may perform any work for a Competitive Electric Affiliate unless a written agreement is in place. Where an agreement calls for direct labor, such Labor Charges will be based on the rate for that employee and the actual number of hours devoted to providing services. All direct labor will be priced at Fully Loaded Cost by Corporate Accounting.

b. Materials:

Purchases of materials or services by a Competitive Electric Affiliate from APS or by APS from a Competitive Electric Affiliate require the preparation of a requisition form or purchase order. The related costs shall be charged to the appropriate Affiliate charge numbers.

3. Arm's Length Transactions:

Unless otherwise provided in the Code of Conduct, 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.

Examples of non-Arm's Length Transaction include:

- If the price is either higher of or lower of Fully Loaded Costs or fair market value.
- Transactions pursuant to 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.
- Shared Services, when accounted for in accordance with Section IV set forth above.

D. TRANSFER OF ASSETS & LIABILITIES

1. Identification:

Transfers of assets include transfers of tangible real or Personal Property and Intangible Property used in a trade or business.

Real property:

Includes, but is not limited to:

- Land
- Buildings
- Improvements
- Easements
- Other real property rights

Personal property:

Includes, but is not limited to:

- Automobiles
- Power-operated equipment
- Computer hardware
- Computer software or application software
- Furniture
- Materials and supplies

Intangible Property:

Includes, but is not limited to:

- Copyrights
- Patent rights
- Royalty interests

- Licenses
- Trademarks
- Other proprietary information

Transfers of liabilities include, but are not limited to, accounts payable, notes payable, lease obligations, debt, pension and other post retirement benefits, deferred compensation and other items related to employees of APS and the Competitive Electric Affiliate.

2. Valuation:

Transfers of Assets and Liabilities between APS and its Competitive Electric Affiliates will be at net book value as of the date of the transfer in accordance with Generally Accepted Accounting Principles and SEC requirements.

3. Recording:

Transfers of Assets or Liabilities will be recorded through a direct charge.

VI. INTER-COMPANY BILLINGS AND REIMBURSEMENTS

A. GENERAL

Billing for inter-company transactions shall be issued on a timely basis, at least monthly, for goods or services and at the time of transfer for Assets or Liabilities. Sufficient detail will be provided to ensure an adequate audit trail and enable prompt reimbursement from the recipient of the assets, liabilities, goods, or services.

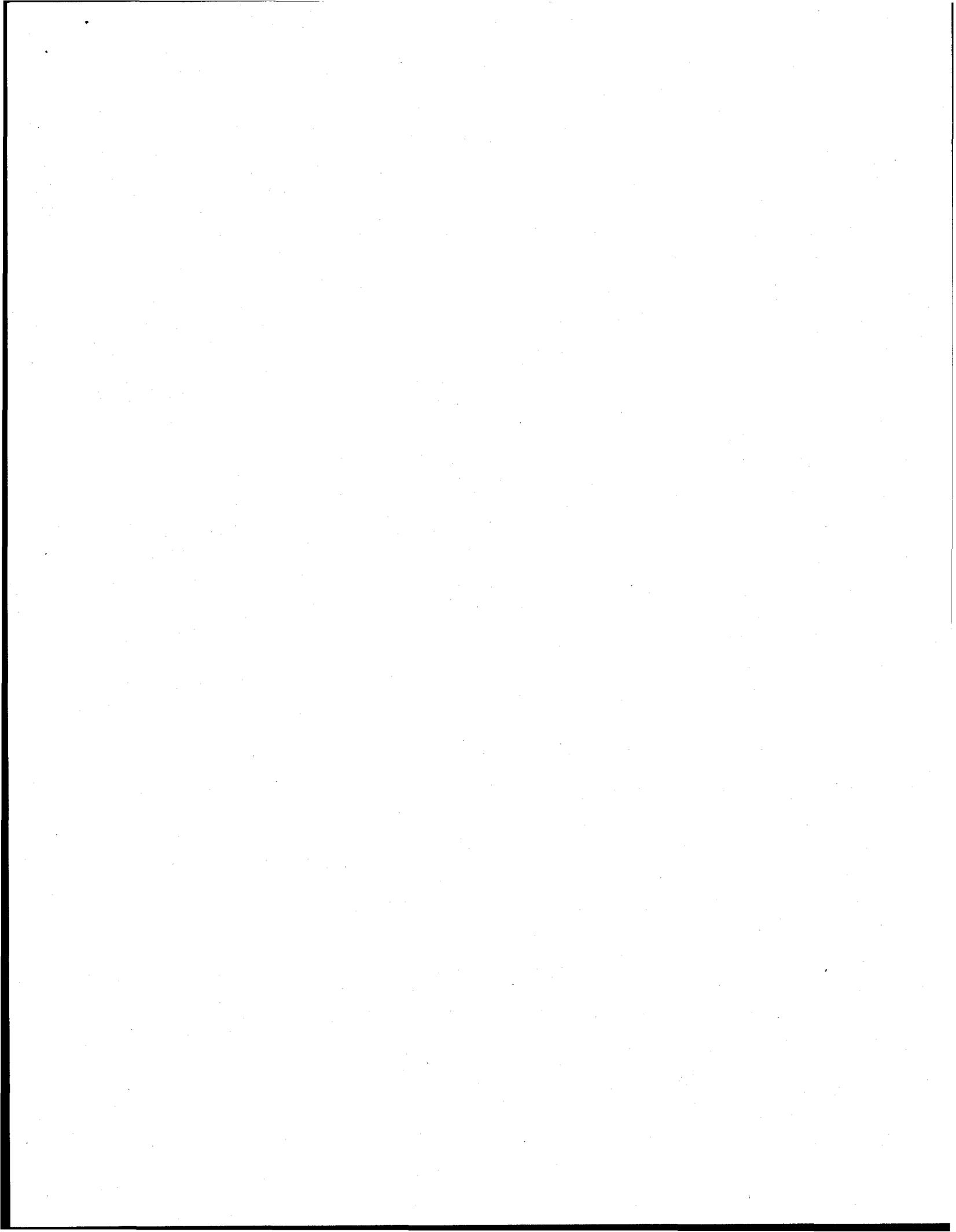
B. INTER-COMPANY BILLINGS AND PAYMENTS

Inter-company billing issued for transfers of Assets, Liabilities, goods, or services will be accompanied by or referenced to appropriate supporting documents. Allocations will be based upon methods set forth in these policies or applicable references. Such computations must be documented in order to facilitate verification of the costs of transferred Assets, Liabilities, goods, or services. Costs incurred on behalf of APS or the Competitive Electric Affiliate shall be accumulated, priced, and billed no later than the end of the following month to enable timely payment.

Payments, or formal arrangement for payment, for Assets, Liabilities, goods, or services received from APS or the Competitive Electric Affiliate shall be made no later than 30 days after receipt of an invoice. Inter-company billing and payments shall be adequately documented so that an audit trail exists to facilitate verification of the accuracy and completeness of all billings and reimbursements.

C. RECORDING

The receipt of an inter-company billing shall promptly be recorded in the accounting records of APS or the Competitive Electric Affiliate, whichever receives the billing. Disputes shall not preclude recording of the billing. Adjustments to prices, if necessary, will be proposed and resolved as soon as practicable after the billing is recorded.





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ACC CODE OF CONDUCT POLICY NO. 8	CODE SECTION. Part Two – Basic Principles Section IV.E
SUBJECT: Common Officers and Directors	

Definitions:

“ACC” means the Arizona Corporation Commission.

“APS” means Arizona Public Service Company.

“**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 acquired on behalf of APS for Standard Offer Service customers.

“**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 ACC.

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

“**Line Officers**” means an officer directly responsible for operational matters, such as Vice President; Marketing and Trading; Vice President; Fossil Generation, or Executive Vice President; Energy Delivery.

“**Policies and Procedures**” means those policies or procedures developed by APS to implement the Code of Conduct.

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

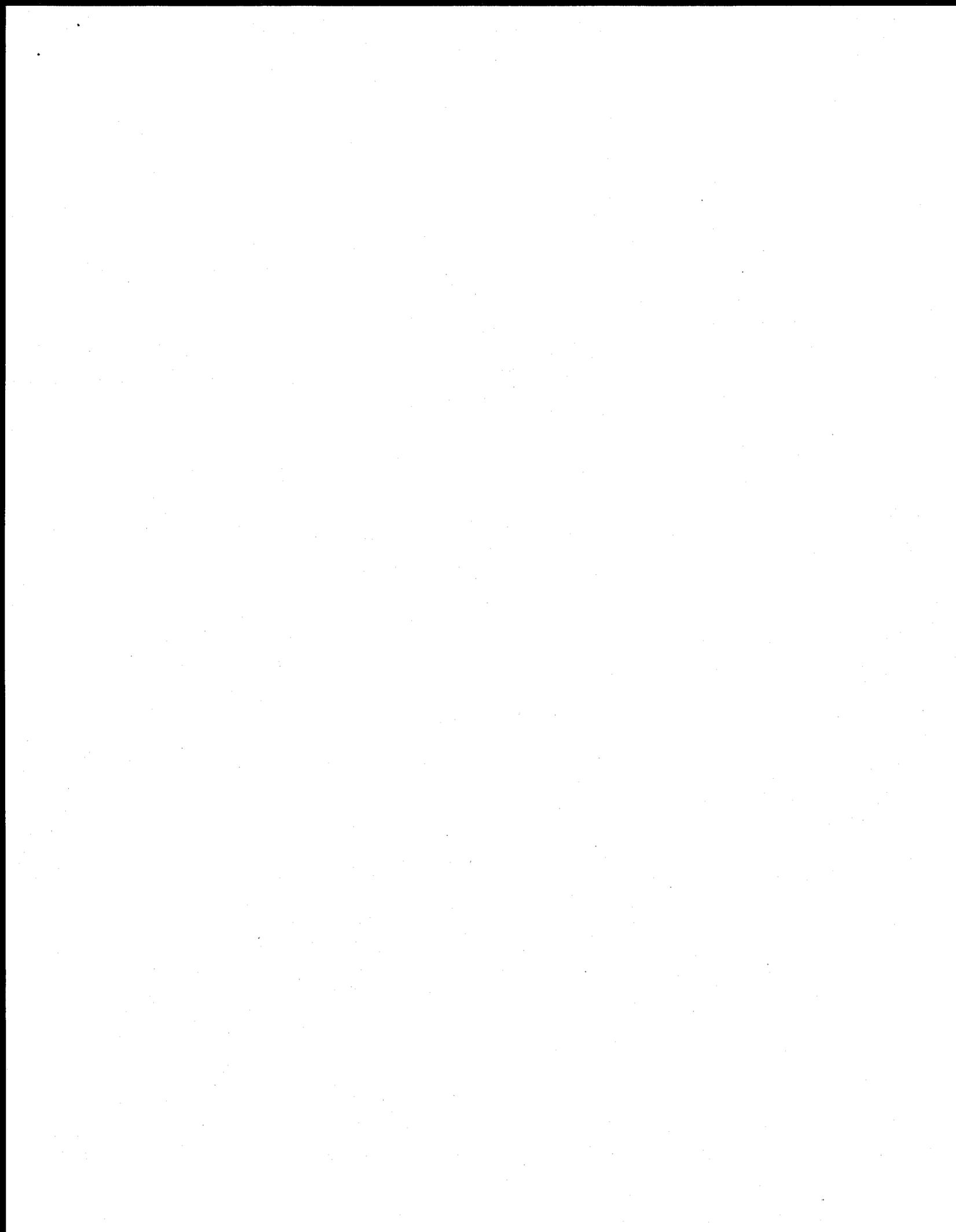
“**Support Officers**” means those officers’ responsible for corporate support, oversight, and governance services, including but not limited to General Counsel, Treasurer, or Chief Financial Officer.

Purpose:

The purpose of this policy is to set forth the circumstances that allow officers and directors of APS to also serve as officers and directors of a Competitive Electric Affiliate as long as such sharing does not result in circumventing any of the Code of Conduct provisions.

Policy:

1. An officer or director of APS may serve as an officer or director of a Competitive Electric Affiliate for purposes of corporate support, oversight, and governance under the conditions of this policy.
2. Subject to the conditions below, the Chief Executive Officer of APS may also serve in that capacity with any Competitive Electric Affiliate. Additionally, APS may share Support Officers, but shall not share Line Officers, with a Competitive Electric Affiliate.
3. Subject to the conditions below, a director of APS may also serve as a director of any Competitive Electric Affiliate, provided that the director is not also an officer that is not permitted to be shared under this policy.
4. The sharing of an officer or director shall not result in cross-subsidization, nor shall the sharing of the officer or director result in unfair preferential treatment or unfair competitive advantage for a Competitive Electric Affiliate. The shared support provided by the officer or director shall be priced, reported, and conducted in accordance with APS's Code of Conduct and the Policies and Procedures implementing the Code of Conduct, including APS's Affiliate Accounting Policies.
5. The common officer or director shall not allow or facilitate the transfer of information from APS to a Competitive Electric Affiliate if the transfer of such information is prohibited by the Code of Conduct and its implementing Policies and Procedures.
6. A common officer or director shall not participate during the development or conduct any Competitive Procurement process or in any negotiations in which a Competitive Electric Affiliate employing the common officer or director participates as a bidder.
7. Any common officer who provides Shared Services shall certify either in writing or electronically that he or she will not be a conduit for improperly sharing information as required by Code of Conduct, Policy No. 4 and No. 9.





THE POWER TO MAKE IT HAPPEN™

ACC CODE OF CONDUCT POLICY NO. 8

CODE SECTION. Part Two – Basic Principles
Section IV.E

SUBJECT: Common Officers and Directors

Definitions:

“ACC” means the Arizona Corporation Commission.

“APS” means Arizona Public Service Company.

“**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 acquired on behalf of APS for Standard Offer Service customers.

“**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 ACC.

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

“**Line Officers**” means an officer directly responsible for operational matters, such as Vice President; Marketing and Trading; Vice President; Fossil Generation, or Executive Vice President; Energy Delivery.

“**Policies and Procedures**” means those policies or procedures developed by APS to implement the Code of Conduct.

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

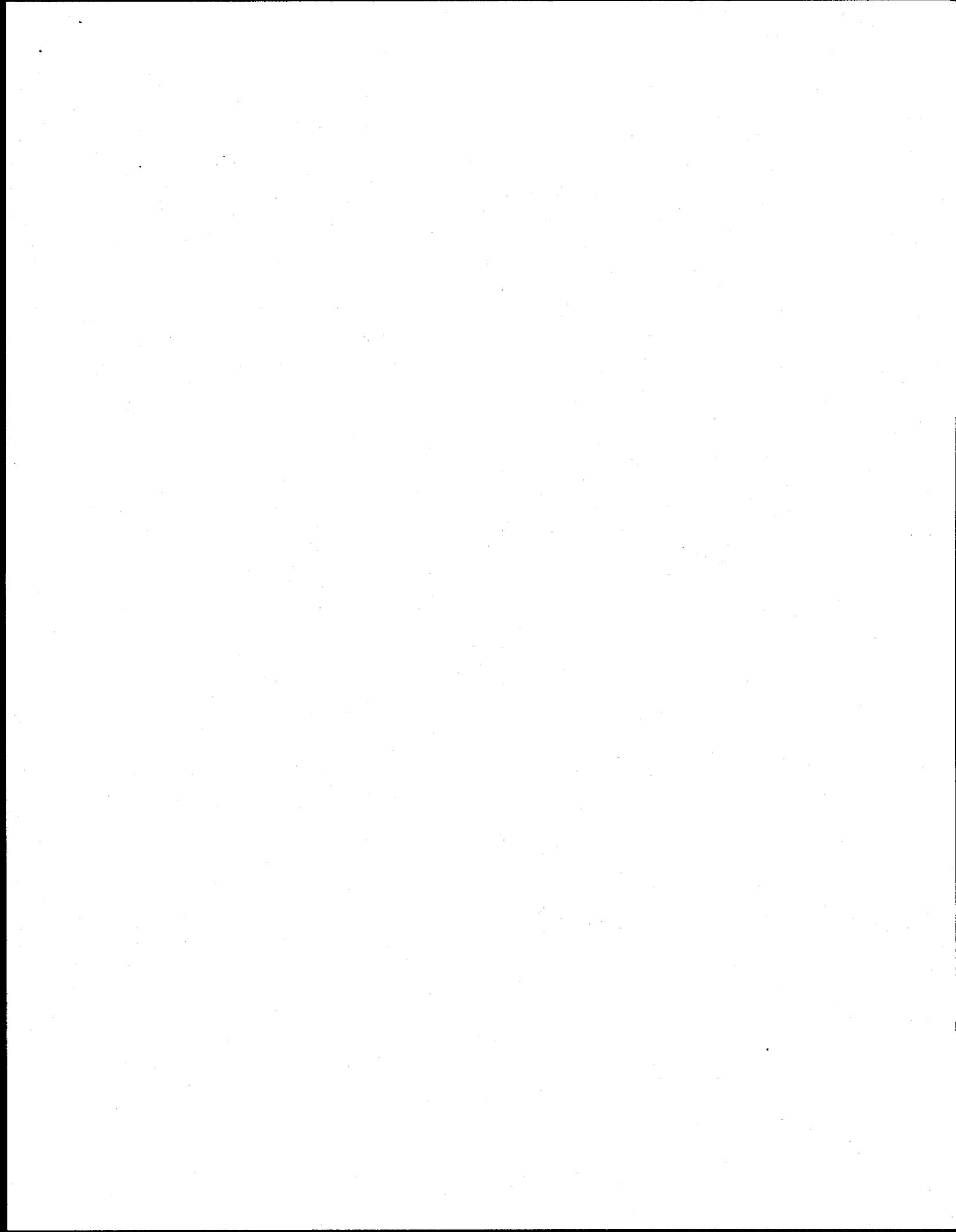
“**Support Officers**” means those officers’ responsible for corporate support, oversight, and governance services, including but not limited to General Counsel, Treasurer, or Chief Financial Officer.

Purpose:

The purpose of this policy is to set forth the circumstances that allow officers and directors of APS to also serve as officers and directors of a Competitive Electric Affiliate as long as such sharing does not result in circumventing any of the Code of Conduct provisions.

Policy:

1. An officer or director of APS may serve as an officer or director of a Competitive Electric Affiliate for purposes of corporate support, oversight, and governance under the conditions of this policy.
2. Subject to the conditions below, the Chief Executive Officer of APS may also serve in that capacity with any Competitive Electric Affiliate. Additionally, APS may share Support Officers, but shall not share Line Officers, with a Competitive Electric Affiliate.
3. Subject to the conditions below, a director of APS may also serve as a director of any Competitive Electric Affiliate, provided that the director is not also an officer that is not permitted to be shared under this policy.
4. The sharing of an officer or director shall not result in cross-subsidization, nor shall the sharing of the officer or director result in unfair preferential treatment or unfair competitive advantage for a Competitive Electric Affiliate. The shared support provided by the officer or director shall be priced, reported, and conducted in accordance with APS's Code of Conduct and the Policies and Procedures implementing the Code of Conduct, including APS's Affiliate Accounting Policies.
5. The common officer or director shall not allow or facilitate the transfer of information from APS to a Competitive Electric Affiliate if the transfer of such information is prohibited by the Code of Conduct and its implementing Policies and Procedures.
6. A common officer or director shall not participate during the development or conduct any Competitive Procurement process or in any negotiations in which a Competitive Electric Affiliate employing the common officer or director participates as a bidder.
7. Any common officer who provides Shared Services shall certify either in writing or electronically that he or she will not be a conduit for improperly sharing information as required by Code of Conduct, Policy No. 4 and No. 9.





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**ARIZONA PUBLIC SERVICE COMPANY
CODE OF CONDUCT
AFFIRMATION STATEMENT
SHARED SERVICES**

Pursuant to Arizona Public Service Company's ("APS") Code of Conduct [Part Two – Basic Principles Section IV(E-I), Policy No. 4], I, (Print Employee's name), as an APS Employee providing Shared Services, attest to the following:

- I have completed and understand all required training relating to the Code of Conduct including the No Conduit Rule.
- I understand and agree that I will not be a conduit for improperly sharing proprietary or confidential information.
- I understand the ramifications for violating the Code of Conduct and its implementing Policies and Procedures.

Employee Signature

Date

HR ID

This Affirmation Statement will be kept on file with the Federal Regulation and Compliance Department for a period of three (3) years from date of signature.



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**ARIZONA PUBLIC SERVICE COMPANY
CODE OF CONDUCT
AFFIRMATION STATEMENT
SHARED SERVICES**

Pursuant to Arizona Public Service Company's ("APS") Code of Conduct [Part Two – Basic Principles Section IV(E-I), Policy No. 4], I, (Print Employee's name), as an APS Employee providing Shared Services, attest to the following:

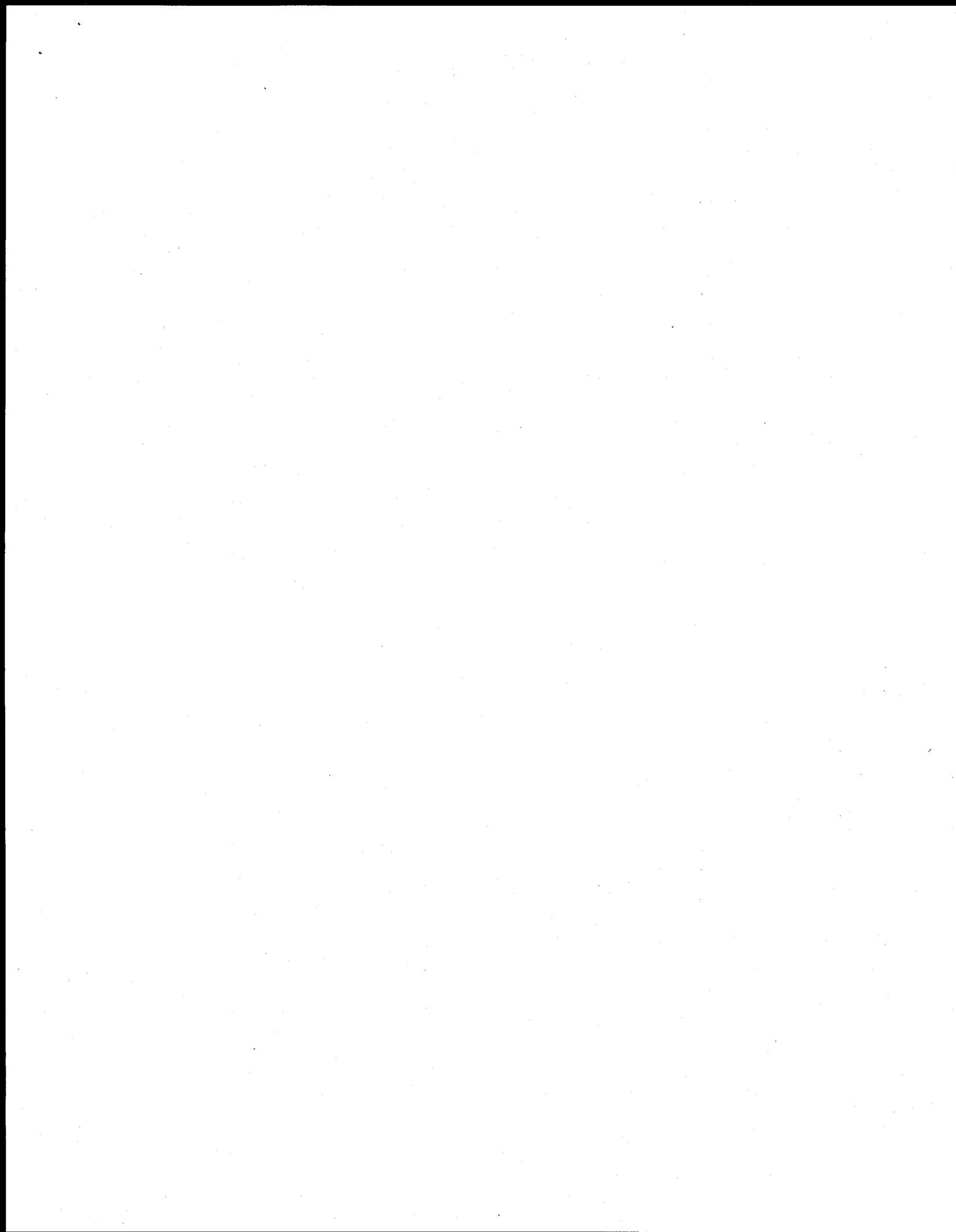
- ~~• I have read and understand the Code of Conduct and its implementing Policies and Procedures.~~
- I have completed and understand all required training relating to the Code of Conduct including the No Conduit Rule.
- I understand and agree that I will not be a conduit for improperly sharing proprietary or confidential information.
- I understand the ramifications for violating the Code of Conduct and its implementing Policies and Procedures.

Employee Signature

Date

HR ID

This Affirmation Statement will be kept on file with the Federal Regulation and Compliance Department for a period of three (3) years from date of signature.





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**ARIZONA PUBLIC SERVICE COMPANY
CODE OF CONDUCT
AFFIRMATION STATEMENT
TRADING FLOOR SERVICES**

Pursuant to Arizona Public Service Company's ("APS") Code of Conduct [Part Two – Basic Principles Section IV(I), Policy No.11], I, (Print Employee's name), as an APS Trader, attest to the following:

- I have read and understand the Code of Conduct and its implementing Policies and Procedures.
- I have completed and understand all required training relating to the Code of Conduct including the No Conduit Rule.
- I understand and agree that I will not be a conduit for improperly sharing proprietary or confidential information.
- I understand the ramifications for violating the Code of Conduct and its implementing Policies and Procedures.

Employee Signature

Date

HR ID

This Affirmation Statement will be kept on file with the Federal Regulation and Compliance Department for a period of three (3) years from date of signature.



THE POWER TO MAKE IT HAPPEN™

**ARIZONA PUBLIC SERVICE COMPANY
CODE OF CONDUCT
AFFIRMATION STATEMENT
TRADING FLOOR SERVICES**

Pursuant to Arizona Public Service Company's ("APS") Code of Conduct [Part Two – Basic Principles Section IV(I), Policy No.11], I, (Print Employee's name), as an APS Trader, attest to the following:

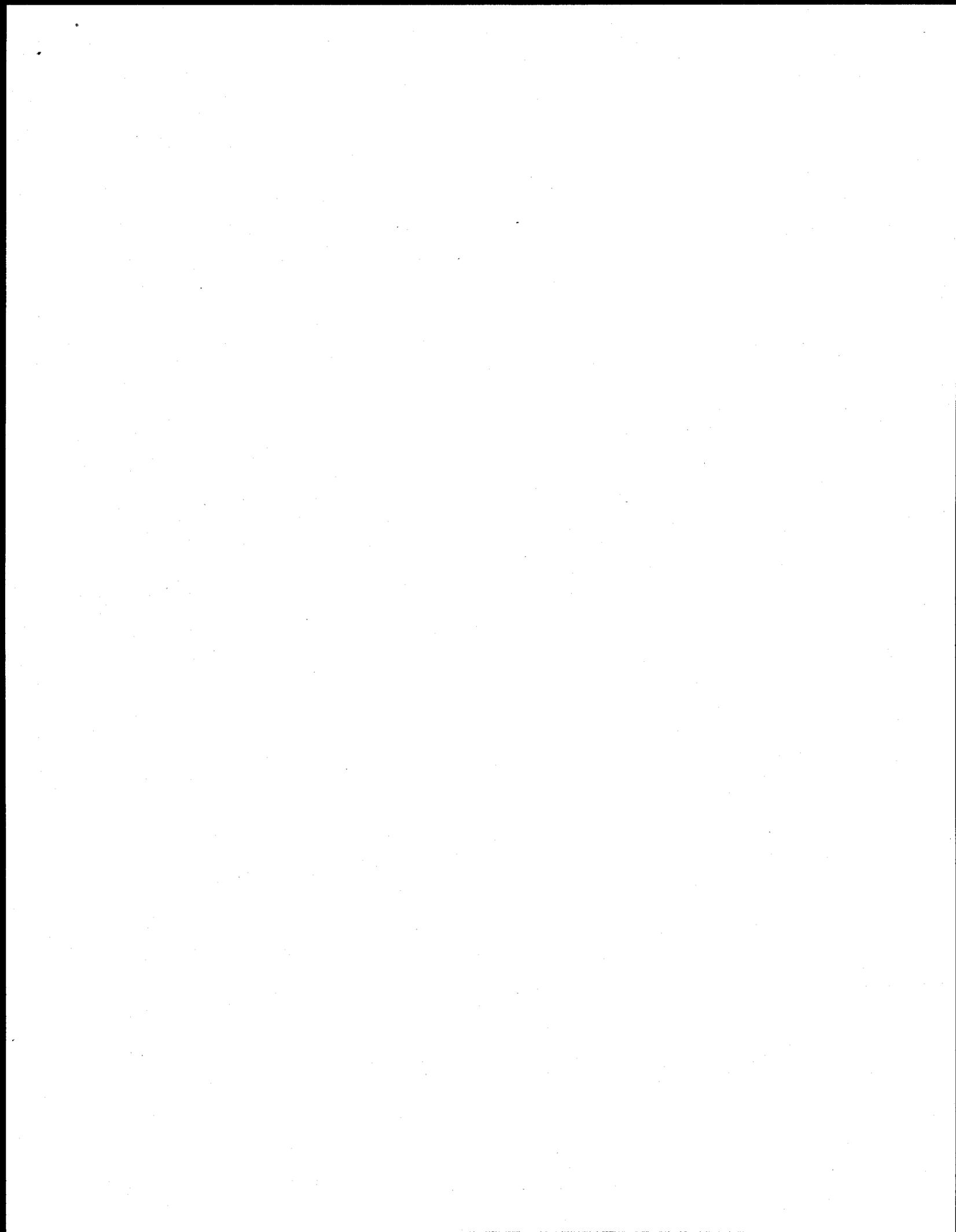
- I have read and understand the Code of Conduct and its implementing Policies and Procedures.
- I have completed and understand all required training relating to the Code of Conduct including the No Conduit Rule.
- I understand and agree that I will not be a conduit for improperly sharing proprietary or confidential information.
- I understand the ramifications for violating the Code of Conduct and its implementing Policies and Procedures.

Employee Signature

Date

HR ID

This Affirmation Statement will be kept on file with the Federal Regulation and Compliance Department for a period of three (3) years from date of signature.





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**ARIZONA PUBLIC SERVICE COMPANY
CODE OF CONDUCT
AFFIRMATION STATEMENT
TRADING FLOOR SERVICES**

Pursuant to Arizona Public Service Company's ("APS") Code of Conduct [Part Two – Basic Principles Section IV(I), Policy No. 11], I, (Print Employee's name), performing Trading Desk Services on behalf of Pinnacle West Capital Corporation Marketing and Trading, attest to the following:

- I have read and understand the Code of Conduct and its's implementing Policies and Procedures.
- I have completed and understand all required training relating to the Code of Conduct including the No Conduit Rule.
- I understand and agree that I will not be a conduit for improperly sharing proprietary or confidential information.
- I understand the ramifications for violating the Code of Conduct and its implementing Policies and Procedures.

Employee Signature

Date

HR ID

This Affirmation Statement will be kept on file with the Federal Regulation and Compliance Department for a period of three (3) years from date of signature.

**ARIZONA PUBLIC SERVICE COMPANY
CODE OF CONDUCT
AFFIRMATION STATEMENT
TRADING FLOOR SERVICES**

Pursuant to Arizona Public Service Company's ("APS") Code of Conduct [Part Two – Basic Principles Section IV(I), Policy No. 11], I, (Print Employee's name), performing Trading Desk Services on behalf of Pinnacle West Marketing and Trading, attest to the following:

- I have read and understand the Code of Conduct and its implementing Policies and Procedures.
- I have completed and understand all required training relating to the Code of Conduct including the No Conduit Rule.
- I understand and agree that I will not be a conduit for improperly sharing proprietary or confidential information.
- I understand the ramifications for violating the Code of Conduct and its implementing Policies and Procedures.

Employee Signature

Date

HR ID

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