

**Arizona Electric Power Cooperative, Inc., and  
Sierra Southwest Electric Power Cooperative Services, Inc.**

**CODE OF CONDUCT**

Arizona Electric Power Cooperative, Inc. (AEPCO) is a non-profit electric generation and transmission cooperative which makes only wholesale sales of electric energy to its Class A member-owners, among others. It does not provide retail service to end-use customers nor does it provide Distribution Service. Its Class A Members are non-profit rural electric distribution cooperatives which make sales of electricity at retail to their members and other patrons. Pursuant to A.A.C. R14-2-1615.C, distribution cooperatives may provide both Noncompetitive Services and Competitive Services within their distribution service territories.

Sierra Southwest Electric Power Cooperative Services, Inc. ("Sierra") is also a non-profit cooperative and holds a CC&N as an Electric Service Provider to provide certain Competitive Services (among them, retail electric sales) in Arizona. Its members include the electric distribution cooperatives (as Class A Members), AEPCO and other utilities (as Class B members) as well as its retail customers (as Class C Members).

Pursuant to the bylaws of AEPCO and Sierra, each distribution cooperative that is a Class A Member of AEPCO and/or of Sierra is represented on the Board of Directors of AEPCO and/or Sierra as are other classes of membership. However, each cooperative is a corporate entity entirely separate from each other cooperative. No cooperative holds any equity shares of any other cooperative nor does any cooperative exercise control over any other cooperative. Therefore, they are not "affiliates" of each other.

A.A.C. R14-2-1616 ("the Rule") requires: "Each Affected Utility that is an electric cooperative, that plans to offer Noncompetitive Services, and that is a member of any electric cooperative that plans to offer Competitive Services shall also submit a Code of Conduct to prevent anti-competitive activities." AEPCO does not provide Standard Offer Service, it only makes wholesale sales. While AEPCO is a member of Sierra which provides Competitive Services, AEPCO is not a "Utility Distribution Company" to which R14-2-1616.B relates. Although AEPCO does not believe the Rule specifically applies to it, AEPCO supplies this Code of Conduct to comply with the Rules and to describe and govern certain conduct concerning AEPCO and Sierra. (AEPCO also provides transmission and other ancillary services deemed non-competitive by FERC and does so in conformance with FERC's requirements for a code of conduct and separation of functions. Provision of those services is not intended to be included within this Code of Conduct.)

## 1. DEFINITIONS

All capitalized terms used and not defined herein shall have the respective meanings set forth in A.A.C. R14-2-1601.

"AEPCO" shall mean the Arizona AEPCO Electric Power Cooperative, Inc..

"Class A Members" shall mean AEPCO's Class A Members which serve retail customers in Arizona and includes: Duncan Valley Electric Cooperative, Inc. (DVEC), Graham County Electric Cooperative, Inc. (GCEC), Mohave Electric Cooperative, Inc. (MEC), Sulphur Springs Valley Electric Cooperative Inc. (SSVEC) and TRICO Electric Cooperative, Inc. (TRICO).

"Sierra" shall mean Sierra Southwest Electric Power Cooperative Services, Inc.

"Rule" shall mean A.A.C. R14-2-1616. Code of Conduct

"RUS" shall mean the Rural Utilities Service, an agency of the United States Department of Agriculture.

"Personnel" shall mean a cooperative's employee, authorized agent or representative, leased employee or other worker provided to the cooperative under contract by another cooperative or third party.

## **2. APPLICABILITY OF CODE OF CONDUCT**

- 2.1 This Code of Conduct shall apply to the conduct specified between AEPCO and Sierra. All Personnel shall conduct their activities in compliance with its requirements.
- 2.2 Failure to conduct activities in compliance with this Code of Conduct will subject the employee or agent to disciplinary or other actions in accordance with policies established by AEPCO or Sierra.
- 2.3 Copies of the Code of Conduct and associated policies and procedures shall be provided to Personnel and authorized agents and training on its provisions shall be provided.

## **3. CUSTOMER TELEPHONE CALLS**

Telephone numbers used by AEPCO shall be different than those used for Sierra's competitive activities.

## **4. PROHIBITION ON SUGGESTION OF UTILITY ADVANTAGE**

AEPCO Personnel shall not state that a consumer who purchases competitive services from Sierra will receive any preferential treatment in the provision of Noncompetitive Services from an AEPCO Class A Member.

## 5. ACCOUNTING FOR COSTS

- 5.1. AEPCO and Sierra shall keep separate books and records. All records of each company shall be kept in accordance with the RUS Uniform System of Accounts and/or Generally Accepted Accounting Principles.
- 5.2. AEPCO shall develop and follow a cost allocation methodology to account for and bill transactions between AEPCO and Sierra based on the following:
  - a. To the extent practicable, costs will be classified on a direct cost basis for each service or product provided.
  - b. Indirect costs will be charged on a fully allocated basis as a cost for employee and management services or for any other services.
  - c. All direct and indirect costs for services and products will be traceable on the accounting records by account prescribed by the RUS Uniform System of Accounts.
  - d. Cost allocations shall include, without limitation:
    1. employee salaries and benefits;
    2. purchased materials and services;
    3. costs associated with office buildings and office furniture including computer equipment software programs and systems;
    4. management services;
    5. administrative and general overheads; and
    6. taxes imposed by Federal, State or other political subdivisions.

## 6. SEPARATION REQUIREMENTS

- 6.1. AEPCO shall be a separate corporate entity from Sierra.
- 6.2. AEPCO shall maintain its offices in a location geographically separate from Sierra's Competitive Services sales offices, telephones and Personnel.
- 6.3. AEPCO may contract for services and Personnel from Sierra through a written staffing agreement.
- 6.4. Any telecommunications, computer and information systems shared between AEPCO and Sierra shall be operated with appropriate security devices and procedures to protect against any disclosure of information in a manner inconsistent with this Code of Conduct.

- 6.5. AEPCO shall ensure that Sierra Personnel who provide staffing services to AEPCO shall do so in conformance with this Code of Conduct.
- 6.6 In accordance with the bylaws of AEPCO and Sierra, an officer or director of AEPCO may also serve as an officer or director of Sierra. Joint officers or directors shall not provide Standard Offer customer information obtained from a Class A Member to Sierra for its provision of competitive services without the customer's consent.

## **7. TRANSFERS OF GOODS AND SERVICES**

All transfers of nontariffed goods and services from AEPCO to Sierra shall be priced to recover, at least, AEPCO's cost and shall be accounted for in accordance with Section 5 above.

## **8. TRANSFERS OF ASSETS**

Any transfer of assets from AEPCO to Sierra shall be conducted in accordance with RUS requirements and generally accepted accounting principles.

## **9. VIOLATIONS**

If filed with the Commission, complaints concerning alleged violations of the Code of Conduct shall be processed under the procedures established in A.A.C. R14-2-212.