

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.

“Bill” means the billing invoice for Noncompetitive Services.

“Competitive Activities” means Competitive Electric Affiliates, Interim Competitive Activities, or Permitted Competitive Activities, as those terms are defined in this Code of Conduct.

“Competitive Electric Affiliate” means any business enterprise related to APS that is also an Electric Service Provider.

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

“Confidential Customer Information” means any non-public customer-specific information obtained by APS as a result of providing Noncompetitive Services or Permitted Competitive 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 information obtained through the provision of Noncompetitive Services that would provide a competitive advantage to a Competitive Electric Affiliate.

“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 including all future amendments and modifications.

“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: (a) 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; (b) a fuel shortage requiring departure from normal operating procedures to minimize the use of a particular fuel; (c) a condition that requires implementation of emergency procedures as defined in the AISA operating protocols or protocols of any successor; or (d) any applicable

law, regulation, court order, or regulatory agency directive requiring APS to act in a manner contrary to the Code of Conduct.

“Interim Competitive Activities” means any Competitive Services, exclusive of those set forth in A.A.C. R14-2-16 15(B), that APS may lawfully provide until December 31, 2002.

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

“Permitted Competitive Activities” means those Competitive 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.

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

“Same Terms” means that APS shall provide Noncompetitive Services to its Competitive Activities and Third Parties on the same terms and conditions.

“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 other market participants that may lawfully provide Competitive Services to retail customers that do not fall within the definition of APS or Competitive Activities, as those terms are defined in this Code of Conduct.

II. Applicability of Code of Conduct

The Code of Conduct applies to the conduct of APS and its Competitive Activities, unless an Extraordinary Circumstance excuses compliance.

All employees and authorized agents of APS 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.

III. Treatment of Similarly Situated Persons

- A. APS shall apply its tariffs in the same **manner** to similarly situated entities. If a tariff provision allows for discretion in its application, APS shall apply that provision in a non-discriminatory manner between its Competitive Activities and all Third Parties and their respective customers.

- B. APS shall process all similar requests for Noncompetitive Services and for Permitted Competitive Activities, if applicable, in the same manner and within the same time period.
- C. APS shall provide access to Distribution Service-specific information (including information about available distribution capability, transmission access, and curtailments) to its Competitive Electric Affiliates and Third Parties concurrently and under the same terms and conditions.

IV. Use of Confidential Customer Information

- A. APS shall not provide Confidential Customer Information to any Competitive Electric Affiliate or Third Party 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 Third Party seeking Confidential Customer Information that such information may be released only after APS receives the customer's written authorization.

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

- A. If APS decides to include any amounts due for its Competitive Activities within the Bill, APS shall develop a section in its P&P to ensure equal access to billing services for Third Parties which shall provide that APS will include in its Bill the amounts due for Competitive Services to any Third Party on the Same Terms, upon request.
- B. This provision shall not prevent APS' Competitive Activities 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 Activities 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 Activities or for any Third Party's Competitive 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&P 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 Activities 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 customer or potential customer a preference for any Competitive Service provided by APS' Competitive Activities over those of any Third Party.
- D. APS personnel shall not specify to any customer or potential customer a preference for any Competitive Service provided by a Third Party over any Competitive Service provided by any other Third Party.
- E. APS personnel providing Noncompetitive Services shall either inform customers who inquire about Competitive Services that a list of Electric Service Providers is available at no charge from the Arizona Corporation Commission on its website or by telephone, and upon request shall provide the customers with the appropriate Arizona Corporation Commission website address and telephone number, or may provide such customers with a copy of the current Arizona Corporation Commission list of such providers.
- F. APS shall not require that a consumer purchase any Competitive Service from APS' Competitive Activities as a condition to providing Noncompetitive Services.
- G. Prior to the divestiture of APS generation pursuant to Arizona Corporation Commission Decision No. 61973 (October 6, 1999), APS generation service shall not be sold on a discounted basis to Standard Offer Service customers without the express permission of the Arizona Corporation Commission.

VIII. Accounting for Costs

- A. APS shall not subsidize its Competitive Activities through any rates or charges for Noncompetitive Services. However, this provision does not require APS to charge more than its authorized tariff rate for any Noncompetitive Service.

- B. All transactions between APS and its Competitive Electric Affiliate shall be accounted for in accordance with APS' P&P, which shall be developed to describe the cost allocation of all transactions pertaining to APS and its Competitive Electric Affiliates in a manner that ensures that there is no subsidization of the Competitive Electric Affiliate by the Noncompetitive Services of APS. Any material violation of the P&P or other activity which would constitute engagement in unlawful anticompetitive behavior shall constitute a violation of this Code of Conduct.
- C. The initial P&P shall be submitted to the Commission for review and approval. If no action is taken by the Commission or its designee within 60 days of the filing, the P&P shall be deemed approved. Beginning one year from the date of approval of the P&P, APS shall notify the Commission by filing annual updates to the P&P, including any and all Commission approved modifications as specified in subsection D, to allocation methods and changes in direct and indirect allocators used in the P&P. If no action is taken by the Commission or its designee within 30 days of its filing, the update shall be deemed approved.
- D. APS may not make and implement any material change to the P&P 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.

IX. Reporting Requirements

APS shall submit the following information to the Commission on an annual basis:

- 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 detailing the costs associated with all nontariffed transactions between APS and its Competitive Electric Affiliates, with the associated costs reported separately for each business activity and for each transaction.
- C. A report detailing how many non-Standard Offer Service customers were provided metering services or meter reading services pursuant to R14-2-1615.B and how many Electric Service Providers received consolidated billing services from APS pursuant to R14-2-1615.B.

X. Separation Requirements

- A. APS and its Competitive Activities shall be separate corporate affiliates to the extent required by A.A.C. R14-2-1615 and Decision No. 61973 (October 6, 1999).
- B. APS shall not provide Interim Competitive Activities.
- C. APS and its Competitive Electric Affiliates shall keep separate books and records. APS shall keep accounting records that set forth appropriate cost allocations between APS' Noncompetitive Services, 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. As a precondition to transacting any business with APS, books and records of APS' Competitive Electric Affiliates must be made available for inspection by the Arizona Corporation Commission to the extent reasonably necessary to determine compliance with this Code of Conduct.
- D. APS and its Competitive Electric Affiliates shall not jointly employ the same employees; provided, however, that APS and its Competitive Electric Affiliates may have 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 utilize Confidential Information obtained through the provision of Noncompetitive Service to provide a competitive advantage to a Competitive Electric Affiliate. Contracts for services accounted for in conformance with Section XI shall not constitute prohibited joint employment if measures are taken to prevent the transfer of Confidential Information between APS and a Competitive Electric Affiliate.
- E. This Code of Conduct shall not prohibit APS and its Competitive Electric Affiliates from purchasing shared services from Pinnacle West Capital Corporation in accordance with the P&P; provided, however, that APS, Pinnacle West, and any Competitive Electric Affiliate shall take appropriate measures to prevent the transfer of Confidential Information between APS and its Competitive Electric Affiliates via Pinnacle West.

XI. Transfers of Goods and Services

- A. APS' tariffed goods and services shall be provided to Third Parties and its Competitive Electric Affiliates at the rates and under the terms and conditions set forth in the tariff.

- B. If APS sells nontariffed goods and services that were developed by APS for sale in the market to its Competitive Electric Affiliates, the transfer price shall be the fair market value. Such goods and services shall be provided to APS' Competitive Electric Affiliates and Third Parties on a non-discriminatory basis.
- C. All other transfers of nontariffed goods and services from APS to APS' Competitive Electric Affiliates shall be at the higher of fully-allocated cost or fair market value.
- D. If APS' Competitive Electric Affiliates transfer any goods and services to APS that were developed for sale by the Competitive Electric Affiliate in the market, the transfer price shall be the fair market value.
- E. All other transfers of goods and services from APS' Competitive Electric Affiliates to APS shall be at the lower of fully-allocated cost or fair market value.

XII. Joint Marketing

APS and its Competitive Electric Affiliates shall not jointly market their respective services.

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 all APS employees, as well as to authorized agents that are likely to be engaged in activities subject to the Code of Conduct.
- C. Compliance with the Code of Conduct is mandatory. An APS employee's or agent's failure or refusal to abide by or to act according to such standards may subject the employee or agent to disciplinary action, up to and including discharge from employment or termination of the agent's relationship with APS.
- D. Questions regarding this Code of Conduct should be directed to Pinnacle West Capital Corporation's Business Practices Department. Compliance with this Code of Conduct shall be administered as part of Pinnacle West Capital Corporation's Business Practices Program.

XIV. Procedure to Modify the Code of Conduct

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.

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.