

Effective January 30, 2009

**COMPLIANCE POLICY AND PLAN**  
**with**  
**FERC STANDARDS OF CONDUCT and**  
**FERC MARKET BASED RATE AFFILIATE RESTRICTIONS (CODE OF CONDUCT) for**  
**MONONGAHELA POWER COMPANY,**  
**THE POTOMAC EDISON COMPANY,**  
**and**  
**WEST PENN POWER COMPANY (ALL DBA“ALLEGHENY POWER”)**  
**AND THEIR UTILITY AND NONUTILITY AFFILIATES**  
**(COLLECTIVELY, “ALLEGHENY ENERGY”)**

**GENERAL REQUIREMENTS**

Allegheny Energy’s Code of Business Conduct and Ethics for Directors, Officers and Employees requires compliance with all laws, rules and regulations, including the Standards of Conduct and Affiliate Restrictions adopted by the Federal Energy Regulatory Commission (FERC). The purpose of these restrictions and standards is to prevent regulated utilities from subsidizing the activities of their affiliates, to prevent affiliates from gaining an unfair advantage because of their relationship with the regulated business and to prevent discrimination by the regulated utility either in favor of its unregulated businesses or against others. Allegheny Energy expects all of its employees to operate in a manner that ensures compliance with both the letter and the spirit of these codes, restrictions and standards.

This policy addresses the following sets of regulations:

- The Standards of Conduct as adopted by FERC in Order No. 717 and set forth in FERC’s regulations at 18 CFR Part 358. The Standards of Conduct apply to Allegheny Power and Trans-Allegheny Interstate Line Company (TrAILCo) as Transmission Providers<sup>1</sup> and their relationships with their affiliates. For ease of reference hereafter in this document, any reference to Allegheny Power also includes TrAILCo.
- The Market Based Rate Affiliate Restrictions as adopted by FERC in Order Nos. 697, 697-A and 697-B and set forth in FERC’s regulations at 18 CFR Part 35, Subpart H. The Affiliate Restrictions apply to Allegheny Power as a franchised public utility with captive customers and Allegheny Energy Supply as its market regulated affiliate.

All employees of Allegheny Energy must conduct the business of Allegheny Energy and its affiliates in a manner that conforms to these Standards of Conduct and Affiliate Restrictions.

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<sup>1</sup> Transmission Provider means: (1) any public utility that owns, operates or controls facilities used for the transmission of electric energy in interstate commerce; or (2) any interstate natural gas pipeline that transports gas for others in interstate commerce.

These regulations will collectively be referred to hereafter in this document as “**Affiliate Rules.**”

Allegheny Energy has taken steps to ensure that:

Allegheny Power, as a Transmission Provider, will not give itself or its affiliates any undue preference over non-affiliated Transmission Customers.<sup>2</sup> Allegheny Power will treat all Transmission Customers on a non-discriminatory basis, and will not operate its transmission system to preferentially benefit Marketing Function Supply or Marketing Function Power. All Transmission Function Employees will function independently of Marketing Function Supply Employees and Marketing Function Power Employees (all of which are defined on page 3).

Allegheny Power, as a franchised public utility, prevents its captive customers from being harmed by abusive affiliate interactions that could transfer benefits from Allegheny Power to Allegheny Energy Supply (its market regulated power sales affiliate<sup>3</sup>) or transfer costs from Allegheny Energy Supply to Allegheny Power.

Through implementation of this Compliance Policy and Plan, Allegheny Energy commits to establishing and maintaining the regulatory compliance training and regulatory risk controls specified in this Compliance Policy and Plan to assure compliance with all Affiliate Rules.

## **KEY TERMS**

An understanding of the Affiliate Rules requires a working knowledge of the following key terms:

- 1) “Transmission Function” is the Allegheny Power departments that plan, direct, organize or carry out day-to-day transmission operations.
- 2) “Transmission Function Employees” are employees, contractors, consultants or agents of Allegheny Power who actively and personally engage on a day-to-day basis in transmission functions. These employees are designated as color code Yellow.
- 3) “Marketing Function Activities” include sales of electric energy or capacity, demand response, virtual transactions, or financial or physical transmission rights, but excluding bundled retail sales (i.e., POLR)).
- 4) “Marketing Function Power” is the Allegheny Power departments that engage in Marketing Function Activities and/or direct, organize or execute decisions of the generation or

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<sup>2</sup> Transmission Customer means any eligible customer, shipper or designated agent that can or does execute a transmission service agreement or can or does receive transmission service, including all persons who have pending requests for transmission service or for information regarding transmission.

<sup>3</sup> Market regulated power sales affiliate means any affiliated power seller including a power marketer, exempt wholesale generator, qualifying facility or other affiliated power seller, whose power sales are regulated in whole or in part on a market-rate basis.

marketing functions. For Allegheny Power, this is its Electric Supply Department and certain management employees<sup>4</sup> of Allegheny Power's wholly owned power stations.

- 5) "Marketing Function Power Employees" are Allegheny Power employees, contractors, consultants or agents who are actively and personally engaged on a day-to-day basis in Marketing Function Activities. This includes employees in its Electric Supply Department and certain management employees<sup>4</sup> of Allegheny Power's wholly owned power stations. These employees are designated as color code Red.
- 6) "Marketing Function Supply" is Allegheny Energy Supply departments that engage in Marketing Function Activities and/or direct, organize or execute decisions of the generation or marketing function. This includes employees in its Market Optimization and Dispatch Department and certain management employees<sup>5</sup> of: a) Allegheny Energy Supply's wholly owned power stations, and b) power stations jointly-owned by Allegheny Energy Supply and Allegheny Power.
- 7) "Marketing Function Supply Employees" are Allegheny Energy Supply employees, contractors, consultants or agents who are actively and personally engaged on a day-to-day basis in Marketing Function Activities and/or direct, organize or execute decisions of the generation or marketing functions. This includes employees in its Market Optimization and Dispatch Department and certain management employees<sup>5</sup> of: a) Allegheny Energy Supply's wholly owned power stations, and b) power stations jointly-owned by Allegheny Energy Supply and Allegheny Power. These employees are designated as color code Blue.
- 8) "Shared Operations Employees" are officers, employees, contractors, consultants or agents that provide shared support functions for Marketing Function Power and Marketing Function Supply. These officers and employees do not participate in directing, organizing or executing business decisions of the generation or Marketing Functions of Allegheny Power or Supply. These employees are designated as color code Purple.
- 9) "Shared Employees" are those support employees, field and maintenance employees, contractors, consultants or agents who provide field and administrative services to both Allegheny Power and Marketing Function Supply or Marketing Function Power, but are not considered Transmission Function Employees, Marketing Function Power Employees or Marketing Function Supply Employees. Support employees include accountants, attorneys, risk management personnel, regulatory personnel, rate design personnel, strategic planning personnel, human resources personnel, information technology personnel and other employees in support functions. These employees are designated as color code Orange.
- 10) "Shared Officers" are those senior officers and directors of both Allegheny Power and

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<sup>4</sup> Certain management employees of Allegheny Power's wholly owned power stations are those power stations employees designated as color code Red.

<sup>5</sup> Certain management employees of: a) Supply's wholly owned power stations, and b) Power stations jointly owned by Allegheny Energy Supply and Allegheny Power are those power station employees designated as color code Blue.

Marketing Function Supply or Marketing Function Power who do not engage in transmission functions or have day-to-day duties and responsibilities for planning, directing, organizing or executing transmission system operations or Marketing Function Activities. These employees are designated as color code Green.

- 11) “Transmission Provider Employees” are those employees, contractors, consultants or agents that are assigned to Allegheny Power, but are not Transmission Function Employees or Marketing Function Power Employees. These employees are designated as color code Tan.

**COLOR CODE**

While virtually all employees of Allegheny Energy are employed by Allegheny Energy Service Corporation (hereinafter “employees”), for purposes of implementing compliance with the Affiliate Rules, each employee has been assigned to one of seven categories. For internal implementation purposes, each category has been assigned a color and organizational charts used in conjunction with this policy have been color coded accordingly. The color code is as follows:

Transmission Function Employees	Yellow
Marketing Function Power Employees	Red
Marketing Function Supply Employees	Blue
Shared Operations Employees	Purple
Shared Employees	Orange
Shared Officers	Green
Transmission Provider Employees	Tan

**CHIEF COMPLIANCE OFFICER**

The Standards of Conduct require Allegheny Power to designate a Chief Compliance Officer (CCO). Allegheny Power has designated the following individual:

Kathryn L. Patton  
Deputy General Counsel  
Allegheny Energy, Inc.  
800 Cabin Hill Drive  
Greensburg, PA 15601  
(724) 838-6603  
[kpatton@alleghenyenergy.com](mailto:kpatton@alleghenyenergy.com)

Allegheny Power’s CCO for FERC Standards of Conduct will be responsible for implementing and supervising Allegheny Power’s compliance with the Standards of Conduct. Specifically, the CCO will be responsible for ensuring that Allegheny Power has developed procedures that comply with FERC’s regulations and the implementation of its Compliance Policy and Plan, including required training. The CCO is also responsible for on-going compliance with all Affiliate Rules, as well as answering employee questions, providing compliance advice, investigating violations and ensuring periodic compliance audits are conducted.

## **SPECIFIC REQUIREMENTS**

### **A. Independent Functioning**

#### **1. Transmission and Marketing Functions**

Transmission Function Employees must function independently of Marketing Function Power Employees and Marketing Function Supply Employees. To ensure separation of these functions, employees in the Transmission department of Allegheny Power will perform day-to-day transmission system operations. Marketing Activities will be performed by Marketing Function Power Employees or Marketing Function Supply Employees. Marketing Function Power Employees and Marketing Function Supply Employees are prohibited from conducting day-to-day transmission system operations functions and are denied access to Allegheny Power's Operations Center or similar facilities used for day-to-day transmission operations.

#### **Measures:**

- a. Transmission Function Employees, Marketing Function Power Employees and Marketing Function Supply Employees will be housed in discrete sections of the corporate office complex or in separate buildings.
- b. The Allegheny Power Operations Center and similar facilities will be located within locked facilities. Marketing Function Power Employees and Marketing Function Supply Employees will be denied physical access to these facilities through standard company-wide security access card distribution, retrieval and use procedures (Reference Business Practice A80-02 – Controlled Security Access). By employing the same separation measures, Transmission Function Employees will be denied access to any power sales trading floor operated by Allegheny Power or Allegheny Energy Supply.

Power Stations also follow Business Practice A80-02 – Controlled Security Access to ensure that Allegheny Power's wholly owned power stations do not grant security card access to Marketing Function Supply Employees. Similarly, Allegheny Energy Supply's wholly owned power stations do not grant security card access to Marketing Function Power Employees.

- c. Marketing Function Supply Employees and Marketing Function Power Employees will not conduct transmission system operations functions. These responsibilities will be assigned only to Transmission Function Employees.
- d. Transmission Function Employees will not conduct Marketing Activities. These responsibilities will be assigned only to Marketing Function Power

Employees and Marketing Function Supply Employees.

**2. Emergency Procedures**

In emergency circumstances affecting system reliability, Allegheny Power will follow the principles outlined by the PJM Interconnection, L.L.C. (PJM) and the North American Electric Reliability Council (NERC) or any successor organization. As used in this Compliance Policy and Plan, an emergency exists when any abnormal system condition occurs that requires automatic or immediate manual action to prevent or limit loss of transmission facilities or generation supply that could adversely affect the reliability of the electric system. Accordingly, the Operations Planning and Transmission System Operations departments of Allegheny Power may take whatever steps are necessary to keep the electric system in operation.

**B. Transparency**

**1. General Posting Requirements**

Allegheny Power will post all information required by 18 CFR Part 358 of FERC's regulations on its public Internet website in a sufficiently prominent place.

In the event of an emergency that severely disrupts Allegheny Power's normal business operations, the posting requirements in 18 CFR Part 358 may be suspended. However, if the disruption lasts longer than one month, Allegheny Power will notify FERC and may seek a further exemption of these posting requirements.

Allegheny Power must update the information required by 18 CFR Part 358 on its public Internet website within seven business days of any change.

**2. Contemporaneous Disclosure**

If Allegheny Power discloses non-public Transmission Information, other than non-public transmission customer information or critical energy infrastructure information (CEII) to Marketing Function Supply Employees or Marketing Function Power Employees, it must immediately post the information that was disclosed on its public Internet website.

- If Allegheny Power discloses non-public transmission customer information or CEII, Allegheny Power must immediately post notice on its website that the information was disclosed, but shall not post the information itself.

Similarly, if non-public Market Information is shared between Allegheny Power (including Marketing Function Power Employees) and Marketing Function Supply Employees, it must immediately be disclosed to the public by posting it on its public Internet website.

**3. Identification of Marketing Function Affiliates and Employee Information**

Allegheny Power will post the following information:

- a. The job titles and job descriptions of its Transmission Function Employees.
- b. The names and addresses of all its affiliates that employ or retain employees who perform Marketing Activities (i.e., “Marketing Function Employees”).
- c. A complete list of employee-staffed facilities shared by its Transmission Function Employees and Marketing Function Employees; and
- d. Information on any potential merger partner to be treated as an affiliate that may employ or retain marketing function employees will be posted within seven business days after the potential merger is announced.

**4. Employee Transfers**

Any transfer of employees between Marketing Function Power or Marketing Function Supply and the Transmission Function will be made according to standard internal employment practices. Employees transferred in such a manner will maintain the confidentiality of non-public Transmission Information and/or non-public Market Information acquired during their tenure in a previous assignment. Consistent with FERC’s regulations, any such transfer will be posted on Allegheny Power’s public Internet website.

**Measures:**

- a. The Human Resources department will notify the AP Transmission Planning & Compliance, Information Technology (IT) and System Security departments of any transfers to and from the Transmission Function and Marketing Function Supply or Marketing Function Power on or before the effective date of any transfer.
- b. The Transmission Planning & Compliance department representative will post on Allegheny Power’s public Internet website the employee transfer, including the name of the transferring employee, the employee’s titles in both the organization the employee is transferring from and the organization the employee is transferring to and the effective date of the transfer. Each such transfer will be posted within seven business days of its effective date and

remain posted for a ninety-day period.

- c. The IT, EMS Support and System Security departments will change the employee's building and computer access to reflect the transfer.
- d. The employee will be required to sign a certification indicating that he/she no longer has access to non-public Transmission or Market Information.

## **5. Exceptions and Recordation of Certain Information Exchanges**

### Transmission:

Allegheny Power is permitted to exchange with Marketing Function Supply and Marketing Function Power certain non-public Transmission Information as defined below (i.e., Permitted Exceptions). In such cases, however, Allegheny Power will record the exchange as soon as practicable after the fact. The record may consist of hand-written or typed notes, electronic records, recorded telephone lines, etc. Records will be retained for a period of five years.

### Permitted Exceptions:

- a) Information pertaining to compliance with Reliability Standards that have been approved by FERC, and
- b) Information necessary to maintain or restore operations of the transmission system or generating units, or that may affect the dispatch of generating units.

### **Measures:**

Allegheny Power's Transmission System Operations and Operations Planning departments will maintain a log of those communications with Marketing Function Employees that are not automatically documented and stored.

### Marketing:

In emergency circumstances affecting system reliability, it may be necessary for Allegheny Power and Marketing Function Supply to exchange non-public Market Information. In such cases, Allegheny Power or Marketing Function Supply must report to FERC and disclose to the public on its public Internet website each emergency that resulted in a deviation from the Affiliate Restrictions.

### **Measures:**

- a. Allegheny Power or Marketing Function Supply will report to FERC in an "EY" docket each emergency that resulted in any deviation from the Affiliate Restrictions within 24 hours of such deviation.
- b. Allegheny Power or Marketing Function Supply will post on its public Internet web site each emergency that resulted in deviation from the Affiliate Restrictions within 24 hours of the deviation.

## **C. Information Access and Disclosures**

## 1. Access

### Transmission Information

Marketing Function Supply Employees and Marketing Function Power Employees may only have access to “Transmission Information” that is made available to customers on the PJM OASIS or otherwise available to the general public without restriction.

While there is no comprehensive definition of “Transmission Information,” it generally includes non-public information related to the planning, directing, organizing or carrying out of day-to-day transmission operations, including the granting and denying of transmission service requests. Examples include physical flows of power; Transmission Line Loading Relief Procedures (TLRs), curtailments or transmission outages; information about balancing load with energy or capacity; Available Transmission Capability (ATC); price of transmission service; information regarding the granting or denying of transmission service requests including interconnection requests; transmission customer information; day-to-day operations planning information; information about transmission maintenance before it is posted on OASIS; information about long range transmission projects, information about procurement of parts and equipment for transmission maintenance; information needed to maintain or restore operation of the transmission system and status of transmission equipment.

Note that certain exceptions to the Information Access rules are permitted under specific circumstances as described in section C, 2.

### Market Information

Marketing Function Supply Employees are strictly prohibited from having access to Market Information regarding Marketing Function Power that is not otherwise available to the general public.

While there is no comprehensive definition of “Market Information,” it generally includes non-public information related to the electric energy and power business including, but not limited to, information regarding sales, costs of production, generator outages, generator heat rates, unconsummated transactions or historical generator volumes. Examples include generating unit availability, fuel prices and availability, maintenance or outage schedules (generation, transmission or distribution), information regarding rate cases (generation, transmission or distribution), load forecasts, customer information, emission allowance position; closing of a plant by an industrial customer, sales and/or purchase volumes and prices, both prospective and historical.

Market Information does not include things like general turbine safety information, internal procedures for general maintenance practices (other than scheduling),

business opportunities outside the United States and relocation of the public utility's headquarters.

## **Measures**

### **a. Electronic Security**

- i. Access to electronically stored data regarding generation owned by Marketing Function Supply or Marketing Function Power, including data collected by the Emergency Management System (EMS) and data collected directly from substation equipment, will be controlled by internal company-wide IT Security business practices. Access to data will be limited to prevent access to transmission or system operations information not available on the PJM OASIS to Transmission Customers.

Data is secured via the implementation of navigation, display and database permissions. Navigation permissions limit the list of displays that Marketing Function Supply or Marketing Function Power may attempt to view. Display permissions limit the Marketing Function Supply and Marketing Function Power users to displays that contain only Marketing Function Supply and Marketing Function Power generation, respectively. Database permissions restrict Transmission Information from appearing on Marketing Function Supply and Marketing Function Power displays.

- ii. Data is classified via “Business Practice A57-60 – Information Management & Handling.”
- iii. Electronic access to the data is controlled and monitored in accordance with “Business Practice A56-03 – Computer, Application and Server Access” by the Information Owner or approved delegate.
- iv. Security incidents are handled as documented in “Business Practice A57-70 - Information Security Incident Response.”
- v. Network access, workstations and laptops, databases and servers, virus protection, user identifications (IDs) and passwords, intranet use, electronic mail, wireless communications, access to external networks, extranets, intrusion detection, patch management, vulnerability management, application monitoring, and in-house developed/purchased applications are handled in accordance with “Business Practice A57-20 – Company Network Management”.

- vi. In general, the corporate business practices will be employed to limit access to sensitive data: proper identification of employees entitled to have access to data files, including non-public transmission system information and non-public market information; appropriate distribution of access to users; specific process for changing passwords; assignment and maintenance of Employee FERC color codes; implementation of a procedure for handling security incidents; and timely disabling of access.

b. **Physical Security**

Transmission Function Work Areas:

- i. Employees who perform Marketing Function Activities are strictly prohibited from having access to Transmission Function secured areas.
- ii. Allegheny Power will track requests through the Facility Access Identification Card Request (Form 24-021) for secured area access to ensure that only Transmission Function Employees and those individuals directly associated with transmission system operations will be granted access upon approval from the restricted area card reader owner and System Security (Reference Business Practice A80-02 – Controlled Security Access).
- iii. System Security will maintain a list of personnel having access to and the level of access within the secured areas. Restricted area card reader owners will review changes to this list on a quarterly basis (as required by the NERC Cyber Security Standard).
- iv. System Security will provide access reports to the restricted area card owner no less than once per month (Reference Business Practice A80-02 – Controlled Security Access).
- v. Allegheny Power will post information outside of the secured doors stating that Marketing Function Supply Employees and Marketing Function Power Employees are prohibited and that the Standards of Conduct apply.
- vi. Visitors (including vendors and visiting employees) are required to sign in and out on the Visitor/Employee Register (Form 35-013) and must state the area and employee they are visiting (Reference Business Practice – A80-07 Security Standards). The Visitor/Employee Register will be retained for five years.
- vii. Employees will meet visitors outside the secured area and assure that

the visitor is escorted as a visitor (Reference Business Practice A80-07 – Security Standards).

- viii. Employees will assure that their visitors sign-in and sign-out on the Visitor/Employee Register.

Marketing Function Supply Work Area:

- i. Access to the Marketing Function Supply trading floor (includes dispatch) is limited to the individuals who work in the area or provide support to those who work in the area.
- ii. System Security will maintain a list of personnel having access to the trading floor. Restricted area card owners will review the list monthly to ensure appropriate access.
- iii. For those individuals needing occasional access, there is a telephone located outside the door of the trading floor to request entrance into the area. A Visitor's Register is located inside the door of the trading floor, and visitors are required to sign in and out.
- iv. The Visitor's Register is reviewed monthly by the restricted area card owners. If it has been determined that unauthorized individuals (i.e., those not permitted per the Affiliate Restrictions) have entered the trading floor, the VP, Market Optimization & Dispatch and Corporate Risk Management are notified and corrective action is taken.
- v. System Security will provide access reports to the restricted area card owners no less than once per month (Reference Business Practice A80-02 – Controlled Security Access).

Marketing Function Power Work Area:

- i. Access to Marketing Function Power's work area (Electric Supply department) is limited to Shared Employees of the corporation generally located at the Greensburg Corporate Center. Marketing Function Supply Employees do not have access to this area.
- ii. System Security maintains a list of personnel having access to the area. Restricted area card owners review the list on a quarterly basis to ensure appropriate access.
- iii. Marketing Function Power tracks requests through the Facility Access Identification Card Request (Form 24-021) for secured area

access to ensure that personnel granted access are not Marketing Function Supply Employees. Access will be granted upon approval of the restricted area card reader owner and System Security (Reference Business Practice A80-02 – Controlled Security Access).

## **2. Prohibited Disclosures**

Transmission Function Employees may not disclose to Marketing Function Supply or Marketing Function Power Employees any non-public Transmission Information about the Allegheny Power transmission system or the transmission system of others through non-public communications conducted off the PJM OASIS, through access to information not posted on the PJM OASIS that is not at the same time available to the general public without restriction, or through information on the OASIS that is not at the same time publicly available to all PJM OASIS users.

Employees of Allegheny Power may not disclose to Marketing Function Supply any Market Information regarding Marketing Function Power or third party market participants that is not available to the general public without restriction.

### **Measures:**

- a. Telephone communications conducted by Transmission System Operations Managers and Operators that take place in the Allegheny Power Operations Center and/or Emergency Operations Center will be recorded. Recordings will be retained for five years.
- b. Telephone communications that take place on the Marketing Function Supply trading floor (i.e., traders, schedulers and dispatchers) are recorded. Recordings are retained for five years.
- c. Telephone communications that take place in the Electric Supply Department (i.e., traders/schedulers) are recorded. Recordings are retained for five years.

## **3. No Conduit**

Shared Officers, Shared Employees, and Transmission Provider Employees that have access to non-public Transmission Information are strictly prohibited from sharing this information with Marketing Function Supply or Marketing Function Power employees.

Similarly, Shared Officers, Shared Employees and Shared Operations Employees that have access to non-public Market Information regarding Marketing Function Power are strictly prohibited from sharing this information with Marketing Function Supply.

Non-public Market Information about Marketing Function Supply is somewhat less sensitive, but Allegheny Energy's policy is that it should not be shared on a regular

basis with Marketing Function Power. Therefore, Shared Officers, Shared Employees and Shared Operations Employees should provide market information about Market Function Supply to Market Function Power on an exception basis only.

In summary, all Allegheny Energy employees who are not Transmission Function, Marketing Function Supply or Marketing Function Power Employees are prohibited from acting as a conduit to provide information to those who are prohibited from receiving it. This is referred to as the “No-Conduit Rule.”

**Measures:**

- a. All Shared Officers, Shared Employees and Transmission Provider Employees will comply with the No-Conduit Rule prohibiting them from providing or otherwise making available any non-public Transmission Information to Marketing Function Supply Employees and Marketing Function Power Employees.
- b. All Shared Officers, Shared Employees and Shared Operations Employees will comply with the No-Conduit Rule prohibiting them from providing or otherwise making available any non-public Market Information regarding Marketing Function Power or third party market participants to Marketing Function Supply.
- c. All Allegheny Energy employees who are not Transmission Function, Marketing Function Supply or Marketing Function Power will be trained to understand what information is considered confidential and will be made aware of Marketing Function Supply Employees and Marketing Function Power Employees.
- d. In addition, a good faith effort will be made to label confidential Transmission Information that is subject to the No Conduit Rule.

**D. Power Sales Restrictions**

Wholesale power sales between Allegheny Power, as a public utility with captive customers, and Allegheny Energy Supply (as a market regulated power sales affiliate) are expressly prohibited without first receiving permission from FERC under Section 205 of the Federal Power Act.

**E. Sales of Non Power Goods and Services**

Purchases and sales of non-power goods or services, such as parts, equipment, property and fuel that occur between Allegheny Power, as a public utility with captive customers, and Allegheny Energy Supply (as a market regulated power sales affiliate) must be based on

asymmetrical pricing rules as explained below.

- Allegheny Power will provide non-power goods or services to Allegheny Energy Supply at the higher of cost or market price.
- Allegheny Energy Supply will provide non-power goods or services to Allegheny Power at no higher than market price.

In addition, Allegheny Power must purchase or receive non-power goods or services from a centralized service company (represented by Shared Employees) at cost.

## **F. Waivers Granted by FERC**

On April 6, 2007, FERC issued an order conditionally granting a waiver of certain Code of Conduct (now known as Affiliate Restrictions) provisions as described below:

- Waiver of information sharing prohibition (explained below) for the limited purpose of sharing information about Willow Island with the Marketing Function Supply Employees located at Pleasants, only to the extent necessary to manage physical operations at Willow Island.
  - Information sharing prohibition prevents any employee of Allegheny Power from sharing Market Information with any employee of Allegheny Energy Supply unless such information is simultaneously made available to the public.
  - The waiver permits Marketing Function Supply Employees (Blue) of the Pleasants/WI management team to have information about Willow Island, but they may NOT have information about any other regulated plant.
- Waiver of asymmetrical pricing rules (explained in E above) as they relate to spare parts and refurbished capital parts:
  - Allegheny Energy maintains shared pools of bulk spare parts and refurbished capital parts between Allegheny Power and Allegheny Energy Supply.
  - This waiver permits Allegheny Power and Allegheny Energy Supply to continue to share bulk spare parts at weighted average cost, and capital parts at book value.
  - FERC finds that use of shared parts inventory gives ratepayers the benefits of economies of scale and will not harm captive customers.

## **G. Transmission Tariff Implementation**

### **1. Non-Discriminatory Access**

PJM provides transmission service on Allegheny Power's transmission system under the PJM Open Access Transmission Tariff (OATT). However, to the extent Allegheny Power administers any provision of the PJM OATT, its employees will do so in strict compliance with the PJM OATT. If the PJM OATT provides for the use of discretion, Allegheny Power's employees will administer such provisions in a fair and impartial manner that treats all Transmission Customers in a non-discriminatory manner.

Allegheny Power will not give preference to Marketing Function Supply or Marketing Function Power over any other wholesale customer in matters related to transmission service.

**Measures:**

To the extent Allegheny Power administers any part of the PJM OATT that allows for discretion, Allegheny Power must post on its public Internet website notice of each waiver within one business day. Allegheny Power will also maintain a log detailing the circumstances and manner in which it exercised its discretion under the PJM OATT, and must make it available to FERC upon request. Records will be kept for a period of five years.

**2. Comparable Service**

Allegheny Power will not give preference to Marketing Function Supply or Marketing Function Power over any other wholesale customer in matters related to transmission service.

**3. Discounts**

PJM provides transmission service on Allegheny Power's transmission system under the PJM OATT. As Allegheny Power does not sell transmission service, it will not offer any discounts for transmission service.

**H. Books and Accounts**

Allegheny Power will maintain its books of account and records separately from those of Marketing Function Supply, and according to FERC regulations, and these will be available for FERC's inspection.

**Measures:**

- a. To the extent that accounting information is prepared by a Shared Employee as an administrative service and includes non-public Transmission Information, those persons performing this service will keep all information

confidential and will not distribute the information to Marketing Function Supply Employees or Marketing Function- Power Employees.

- b. Physical access to such accounting records will be limited through the use of standard internal security measures.
- c. Electronic records will also be secured using a personal, confidential identification and password system.
- d. Employees will be trained to recognize and know that non-public Transmission Information cannot be given to Marketing Function Supply Employees and Marketing Function Power Employees.
- e. Employees will be trained to recognize and know that Marketing Information regarding Marketing Function Power cannot be given to Marketing Function Supply Employees. Similarly, Marketing Information regarding Marketing Function Supply will not be given to Marketing Function Power Employees on a regular basis.

## **I. Compliance Policy**

Allegheny Energy will maintain a policy to implement and comply with the Affiliate Rules. This Compliance Policy and Plan is Allegheny Energy's policy.

### **Measures:**

- a. Allegheny Energy will post this Compliance Policy and Plan on Allegheny Energy's intranet website.
- b. Allegheny Energy will distribute this Compliance Policy and Plan to all of its employees using standard intra-company communication methods.
  - i. The Allegheny Energy intranet site will be used for communication of information regarding compliance with the Affiliate Rules. At a minimum, the intranet site will include the following:
    - a) Allegheny Energy's current Compliance Policy and Plan
    - b) Current Affiliate Rules training presentation
    - c) Certification of completion of Affiliate Rules training presentation
    - d) Information on how to report suspected violations of the Affiliate Rules

- c. Allegheny Energy will require certain of its employees to complete training annually. These employees will include Transmission Function Employees, Marketing Function Supply Employees, Marketing Function Power Employees and members of management. In addition, other employees who are likely to have access to either Transmission Information or Marketing Information will also be required to complete the training annually. At the end of the training, an electronic affidavit will be created signifying completion of the training requirements.

Any additional training that is needed due to new or revised FERC rules will also be provided.

The training program commits to reinforce to employees the importance of full and unequivocal compliance with FERC rules.

- i. CCO will provide to Human Resources a list of departments who fall into the categories described in part “c” above. CCO is responsible for keeping the list up to date.
- ii. Human Resources will run a weekly report to determine any new hires or contractors who fall into those departments and provide it to CCO.
- iii. CCO will provide training materials and certification of completion to the new hire and his/her immediate supervisor.
- iv. Immediate supervisor will be responsible for ensuring that employee completes training and certification within 30 days, and returns certification to the CCO.
- v. CCO will be responsible for verifying that employees have completed training. Management will be made aware of any employees who have not completed the training so that appropriate arrangements can be made for the employees to complete the mandatory training.
- vi. CCO will forward the completed certifications to Human Resources to keep in employee’s training file.
- vii. All training records will be retained for at least five years.

## **I. Violations of the Affiliate Rules**

In the event that an employee suspects a violation of any of the Affiliate Rules, the employee

must promptly report the incident to the Chief Compliance Officer, to the employee's supervisor or the Call2Line at 1-877-922-2552. The Call2Line is Allegheny Energy's anonymous compliance and ethics line.

**Measures:**

- a. All violations will be reported to the Chief Compliance Officer.
- b. If an employee reports a suspected violation to his or her supervisor or the Call2Line, the supervisor or Call2line must promptly report the incident to the Chief Compliance Officer.
- c. Any information that is disclosed in a manner contrary to the Standards of Conduct will be posted immediately on Allegheny Power's public Internet website.
- d. Violations of the Affiliate Rules will be subject to Allegheny Energy's employee disciplinary practices.