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**ARIZONA CORPORATION COMMISSION**

November 6, 2007

Mr. Jack Davis, CEO  
Arizona Public Service Company  
Mail Station 9080  
P. O. Box 53999  
Phoenix, AZ 85072-3999

**Re: Federal Lobbying Expenditures by Pinnacle West Capital Corp.**

Dear Mr. Davis:

It has come to my attention that Pinnacle West Capital Corp. ("Pinnacle West") – the parent company of Arizona Public Service Company ("APS") – spent \$1.2 million lobbying the federal government on various issues in the first half of 2007, a figure that includes \$160,000 paid to outside consultants.<sup>1</sup>

It would appear that Pinnacle West's lobbying expenditures far outstrip those of all other Arizona utilities. For instance, during the first six months of 2007, Tucson Electric Power reported no expenditures for lobbying the Federal government by either the Company or its outside consultants; Salt River Project reported spending \$180,000 on in-house lobbyists and less than \$55,000 on outside consultants; and Southwest Gas Corporation, a utility roughly the same size as APS, reported no lobbying activity by the Company's personnel and \$20,000 paid to an outside consultant.<sup>2</sup>

I am concerned about the level of Pinnacle West's spending on lobbying in light of the rate increases that APS has sought in the past three years.<sup>3</sup> Arizona consumers deserve to know that

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<sup>1</sup> Lobbying disclosure statements filed by Pinnacle West with the United States Senate indicate that the Company's lobbying efforts were focused on the United States Senate, House of Representatives, and the White House. The amount of Pinnacle West's lobbying expenditures was the subject of an Associated Press article that appeared on Forbes.com on October 24, 2007.

<sup>2</sup> Pinnacle West's expenditures exceed lobbying outlays by some larger utilities in other states, including Southern California Edison, which serves power to more than 13 million people. SCE reported spending \$686,000 for the first half of the year on their in-house lobbyist – approximately \$350,000 less than Pinnacle West reported.

<sup>3</sup> To be clear, most of the lobbying costs that APS sought to pass on to ratepayers in the Company's last rate case were disallowed by the Commission. Nevertheless, as I have said with regard to other forms of discretionary spending by APS, including advertising and sports sponsorships, the question is whether, regardless of the fact that the shareholders, rather than ratepayers, are footing most of the bill, that money could be better spent by the Company, including on items such as transmission and generation infrastructure, or promoting the use of renewable energy in Arizona. Redirecting frivolous spending into areas that would otherwise require ratepayer funding can, of course, help alleviate the need for future rate increases.

their utilities are doing everything possible to operate efficiently and to cut out frivolous spending, particularly at a time of rising energy costs. These significant lobbying expenditures would also appear to be at odds with recent statements made by Pinnacle West and APS executives that they are endeavoring to cut costs in the wake of the Company's recent rate case. While many of the items that Pinnacle West appears to have lobbied on this year are important public policy matters, it seems prudent to ask whether Pinnacle West could streamline its attempts to weigh in on policy debates, especially when the Company's current spending on lobbying is so clearly out of line with other Arizona utilities.

Therefore, I would like you to furnish the Commission with additional information regarding Pinnacle West's lobbying efforts.

To begin, please provide a detailed explanation of Pinnacle West's lobbying efforts on the legislation contained in the Company's lobbying disclosure statements, including the position the Company took on the legislation, and whether the Company's lobbying activities yielded any results for APS customers.

Please provide the above-requested information for the following bills, which were listed on Pinnacle West's lobbying disclosure statements filed with the Senate on August 10, 2007:

- H.R. 2421, Clean Water Restoration Act of 2007
- S. 317, Electric Utility Cap and Trade Act of 2007
- S. 309, Global Warming Pollution Reduction Act
- S. 280, Climate Stewardship and Innovation Act of 2007
- S. 37, Nuclear Waste Access to Yucca Act
- H.R. 1, Implementing the 9/11 Commission Recommendations Act of 2007
- S. 4, Improving America's Security by Implementing Unfinished Recommendations of the 9/11 Commission Act of 2007
- S. 6, National Energy and Environment Security Act of 2007
- H.R. 1023, To repeal the imposition of withholding on certain payments made to vendors by government entities.
- S. 822, Extend the Energy Efficiency Incentives Act of 2007
- H.R. 2312, To make permanent the individual income tax rates for capital gains and dividends
- H.R. 976, Small Business Tax Relief Act of 2007
- S. 953, Railroad Competition and Service Improvement Act of 2007
- H.R. 1650, Railroad Antitrust Enforcement Act of 2007
- S. 772, Railroad Antitrust Enforcement Act of 2007
- H.R. 2529, To establish efficiency resource standards for retail electricity and natural gas distributors, and for other purposes
- H.R. 2337, Energy Policy Reform and Revitalization Act of 2007
- H.R. 1385, Extend the Energy Efficiency Incentives Act of 2007

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energy in Arizona. Redirecting frivolous spending into areas that would otherwise require ratepayer funding can, of course, help alleviate the need for future rate increases.

- H.R. 969, To amend Title VI of the Public Utility Regulatory Policies Act of 1978 to establish a Federal renewable energy portfolio standard for certain retail electric utilities
- S. 1419, Renewable Fuels, Consumer Protection, and Energy Efficiency act of 2007
- S. 1115, Energy Efficiency Promotion Act of 2007
- S. 577, Oil and Gas Traders Oversight Act of 2007
- H.R. 1257, Shareholder Vote on Executive Compensation Act
- H.R. 1309, Freedom of Information Act Amendments of 2007, Section 12
- H.R. 6, Clean Energy Act of 2007
- H.R. 3358, Renewing our Commitment to Safe and Clean Power Act

In addition to employing a full-time lobbyist in Washington, D.C. for the first half of 2007, lobbying disclosure statements on file with the Senate show that Pinnacle West spent approximately \$160,000 on outside consultants to lobby on a variety of issues, including: <sup>4</sup>

- Water Supply Issues
- Global Climate Change
- Energy and Nuclear Related Issues
- NRC Oversight and Energy and Water Appropriations

I would like you to describe, in detail, Pinnacle West's consultants' efforts on these issues, including any positions taken by your consultants on them and how those lobbying efforts will impact Arizona utility customers. Please also explain why it is necessary for Pinnacle West to employ contract consultants.

Finally, please tell the Commission whether Pinnacle West anticipates spending as much during the second half of 2007 to lobby the Federal government as it did during the first six months, and if so, why.

I look forward to a timely response to my inquiries.

Sincerely,



Kris Mayes  
Commissioner

Cc: Chairman Mike Gleason  
Commissioner William A. Mundell  
Commissioner Jeff Hatch-Miller  
Commissioner Gary Pierce  
Dean Miller

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<sup>4</sup> The consultants hired by Pinnacle West so far in 2007 were the Furman Group, Williams & Jensen, Mehlman Vogel Castagnetti, Inc, Strategic Impact, Thelen Reid Brown Raysman & Steiner, and Patton Boggs, LLP.

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