Arizona Corporation Commission



Fiscal Year 2002-2003

Creating a better Arizona

for investors, ratepayers,

businesses and consumers

Commissioners

Marc Spitzer, Chairman

Mike Gleason, Commissioner Jeff Hatch Miller, Commissioner

Jim Irvin, Commissioner William A. "Bill" Mundell, Commissioner

Executive Secretary

Brian C. McNeil

Division Directors

Administration Utilities Corporations Michael Kearns Ernest Johnson Joanne MacDonnell

Securities Legal Hearing Christopher Kempley Lyn Farmer Mark Sendrow

Main Office **Adjunct Offices** 1200 West Washington 1300 & 1400 West Washington Phoenix, AZ 85007 Phoenix, AZ 85007

Services: Commissioners' Wing Corporations Executive Secretary Securities

Services: Corporations Hearings Utilities

Administration Legislative Liaison Public Information Hearings Utilities Legal

Services:

Important Phone Numbers

| Commissioners' Wing | 602-542-2237 |
|---|--------------|
| Consumer Services Utilities | 602-542-4251 |
| Consumer Services Corporations | 602-542-3026 |
| Consumer Services Securities | 602-542-4242 |
| Docket Control | 602-542-3477 |
| Southern Arizona Office | 520-628-6554 |
| Listen Line (live audio of hearings/open meetings). | 602-542-0222 |

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Southern Arizona Office

400 West Congress Street

Tucson, AZ 85701

About the Commission

The Arizona Corporation Commission was created by the Arizona Constitution. Only seven states have constitutionally formed Commissions. Arizona is one of only 13 states with elected Commissioners. In the 37 other states, Commissioners are appointed by either the governor or the legislature.

In most states, the Commission is known as the Public Service Commission or the Public Utility Commission. However, in Arizona the Commission oversees the process of incorporating or registering a company to do business in the state, registers and oversees securities offerings and dealers and enforces railroad and pipeline safety.

By virtue of the Arizona Constitution, the Commissioners function in an executive capacity; they adopt rules and regulations thereby functioning in a legislative capacity; and they also act in a judicial capacity sitting as a tribunal and making decisions in contested matters.

The Commission is required by the Arizona Constitution to maintain its chief office in Phoenix and it is required by law to conduct monthly meetings.

Organization

The 2002-03 fiscal year marks the expansion of the Commission from three members to five. Commissioners are elected by the people of Arizona for a four-year term, with two or three members standing for election in the statewide general election. In the case of a vacancy, the Governor appoints a Commissioner to serve until the next general election. In the 2000 General Election, the Arizona Corporation Commission was the subject of a ballot proposition seeking to expand the Commission by two seats. Voters approved Proposition 103, which expands the Commission to a total of five members and changes their terms to four-year terms with the option of serving for two consecutive terms. The new Commissioners, Gleason and Hatch-Miller were elected in the 2002 General Election and will initially serve only a two-year term.

Ultimate responsibility for final decisions on granting or denying rate adjustments, enforcing safety and public service requirements, and approving securities matters rests with the Commissioners.

The administrative head of the Commission is the Executive Secretary who serves at the pleasure of the Commissioners. He is responsible to the Commissioners for the day to day operations of all Divisions.

The Commission staff is organized into seven Divisions. The authority and responsibilities of these divisions is described in detail in this Annual Report. All Divisions are headed by a Division Director who reports to the Executive Secretary.

Mission

To exercise exclusive
state regulatory
authority over public
service corporations
(public utilities) in the
public interest; to grant
corporate status and
maintain public
records; to ensure the
integrity of the
securities marketplace;
and to foster the safe
operation of railroads
and gas pipelines in
Arizona.

Chairman Marc Spitzer

Chairman Marc Spitzer was born in Pittsburgh, Pennsylvania and grew up in Philadelphia. After graduating from Dickinson College in Carlisle, Pennsylvania, Spitzer attended the University of Michigan School of Law. After law school, Spitzer moved to Arizona and began his career as a tax attorney.

As an attorney, Spitzer has represented taxpayers against the Internal Revenue Service. Since 1987, Spitzer has been certified as a Specialist in tax law by the Arizona Bar. In 1992, he ran for and was elected to the Arizona State Senate for District 18. Spitzer served in the Legislature as Chair of the Judiciary and Finance Committees and was elected by his peers to the position of Senate Majority Leader in 1996.

As State Senator, Spitzer sponsored legislation on behalf of Attorneys General Grant Woods and Janet Napolitano protecting Arizona consumers from fraudulent schemes, and public agencies from antitrust violations and bid rigging. He drafted the largest tax reduction in Arizona history, which also reformed and simplified Arizona's property tax system. He also drafted the Clean Air Amendments of 1997, which greatly improved air quality in Maricopa and Pima Counties. He also sponsored a successful amendment to the State Constitution to protect the assets of pensioners.

Commissioner Spitzer has served as member of the Arizona American-Italian Club, the Rotary Club 100 of Phoenix, the Sunnyslope Village Alliance, the North Central Phoenix Homeowners Association, the Arizona Chief Justice's Commission on Juvenile Crime, the Heritage Foundation and other civic organizations. He became Chairman in January 2003 and will serve in that capacity until the Commissioners select a new Chairman.

Spitzer's is married to the former Jacqueline Raub, a Phoenix native, and they have a son, Bennett Alexander, born in 1995.

Commissioner Jim Irvin

Irvin graduated from the University of Southern California with a Bachelor of Science degree in Education, and earned a Masters in Business Administration from Loyola Marymount University.

Prior to joining the Commission, Irvin spent over 20 years in the private sector, serving as a CEO to a company with over 1,000 employees in California, Arizona, Nevada and New Mexico.

Currently, Irvin serves on the National Association of Regulatory Utility Commissioners (NARUC) Committee on Electricity, Committee on International Relations, the Advisory Council for the Center for Public Utilities at New Mexico State University. Irvin was elected by his peers as President of the Western Conference of Public Service Commissioners

(WCPSC). Commissioner Irvin helped create the ACC Water Task Force, pushed to include the utilization of renewable energy in restructuring Arizona's electricity market.

Irvin's community service activities include: board Member of the Scottsdale Education Foundation, a past board member for the Silent Witness Program, and a Paul Harris Award Winner with Rotary International. Additionally, the Commissioner volunteers with the Boys and Girls Club, YMCA and coaches Little League.

Jim is married to Carol Fehring Irvin and has three children: Lauren, Ashley and Daniel.

Commissioner Irvin was re-elected to a fouryear term in the November 2002 election. Commissioner William A. Mundell was born at Elmendorf Air Force Base in Anchorage, Alaska. He came to Arizona from Illinois in 1968 with his parents. He earned a Bachelor of Arts degree in political science from Arizona State University in 1974 and his Juris Doctor degree from St. Mary's University in San Antonio, Texas in 1977.

Mundell has been in private practice as an attorney in Chandler, Arizona since 1977, except from 1980 to 1986 when he served as the Presiding Judge of the Chandler Municipal Court. In 1986, he resigned as judge to run for the Arizona House of Representatives.

Mundell was first elected in 1986 and served in the Arizona House of Representatives from 1987 to 1992. As chairman of the House Environment Committee, he sponsored legislation protecting Arizona's environment, including the state's first recycling law. Additional committee assignments included Counties & Municipalities, Natural Resources & Agriculture and Judiciary. During his tenure at the legislature, he was voted "One of Arizona's Top 10 Legislators." He was a candidate for the United States Congress in 1992.

Mundell has served as a Judge Pro Tem on the Maricopa County Superior Court. His past civic and community service memberships include vice president of public policy, Chandler Chamber of Commerce; vice president of Arizona Heritage Alliance; president of the Chandler Fraternal Order of Police Associates; chairman, the United Way, the East Valley Partnership; board of directors, Chandler Regional Hospital; the Lions Club; and the Salvation Army Advisory Board.

Governor Jane Hull appointed Mundell to the Arizona Corporation Commission in 1999, after the Arizona Supreme Court determined that the former commissioner was ineligible to hold office. In the 2000 general election, he was elected to serve out the remaining four years of his term. He became Chairman of the Commission in January 2001 and served in that capacity until he and his fellow Commissioners voted to select a new Chairman in January 2003. Mundell's term runs through the end of 2004.

Mundell presently serves on the Telecommunications and Consumer Affairs Committees of the National Association of Regulatory Utility Commissioners.

Mundell is married to Barbara R. Mundell, and has two children, Meghan and Samantha.

Commissioner Bill Mundell

Commissioner Jeff Hatch-Miller

Commissioner Jeff Hatch-Miller was elected to the Arizona Corporation Commission in 2002 for a two-year term. Since his inauguration in January 2003, Hatch-Miller has worked to ensure that Arizona's electric, natural gas, telecommunications, and water infrastructure needs are met for the 21st century.

Before serving on the Commission, Hatch-Miller was in the Arizona House of Representatives for two terms, from 1999 to 2003. He represented District 26, which included parts of Phoenix, Scottsdale, Tempe, and Paradise Valley. While in the Legislature, Hatch-Miller chaired the House Energy, Utilities and Technology Committee, sponsoring key legislation on behalf of the Commission that required Arizona's electric utilities to demonstrate the future viability and reliability of transmission systems, ensuring that Arizona's increasing power needs are met. Hatch-Miller also co-chaired the Electric Industry Competition Study Committee, which convened hearings on the status of Arizona's retail electric markets.

During his first legislative term, Hatch-Miller served on the Transportation Committee, passing legislation that speeded construction of the state's highways, completing them in half the time originally proposed. He chaired the Joint Legislative Internet Study Committee, investigating issues of electronic privacy, taxation and 21st century communication systems. For his efforts, Hatch-Miller was honored as "Freshman Legislator of the Year 2000" by the National Republican Legislators Association.

From 1990 to 1996, Commissioner Hatch-Miller worked for the University of Arizona where he helped rural Arizona towns improve their economic climate, keeping businesses healthy and increasing employment opportunities. For much of his career, he specialized in state-of-the-art corporate communications and organizational development.

Commissioner Hatch-Miller graduated from the California State University at Stanislaus with a Bachelor of Arts degree and later obtained a Doctor of Education degree from the University of Northern Colorado. Early in his career, he taught at the middle school, high school and college levels.

Commissioner Hatch-Miller serves his community as Vice-Chairman of the Board of Directors of the Foundation for Senior Living. He is affiliated with the National Association of Regulatory Utility Commissioners and the North American Securities Administrators Association, as well as with Toastmasters International, Scottsdale Leadership, the Arizona Historical Society, Arizona Town Hall.

A native of Modesto, California, Commissioner Hatch-Miller adopted Arizona as his home state in 1976. Though proud of his accomplishments as a public servant, he is most proud of his role as husband and father. He and his wife, Anita, have been married for 23 years, and have twin sons, Mark and Robert.

Commissioner Gleason was elected to the Commission in 2002 for a two-year term beginning in January 2003. Gleason is a resident of Sun City West in western Maricopa County. Born in Iowa, Gleason graduated from Iowa State College with a Bachelor of Science Degree in Forestry. Later, he obtained a master's degree in Range Management from Texas A&M University. He also holds a doctorate degree from Iowa State College in Plant Physiology.

Much of Gleason's career was spent in the agricultural sciences and consulting. He has resided in Mexico and France and has traveled extensively throughout the world during his professional career with such companies as Monsanto, Pacific Oilseeds, Cargill and the Rockefeller Foundation. His job duties have sent him to Peru, Kenya, Bangladesh, Senegal, Zaire, the Ivory Coast, Nigeria and Pakistan.

Gleason represented his West Valley district in the Arizona House of Representatives from 1996 through 2002. There, he served as Chairman of the Agriculture and Natural Resources Committee as well as vice chairman of the Rural and Native American Affairs Committee. He also served on the Economic Development and International Trade, Transportation, Human Services and Rules committees. Focusing on agricultural and water issues, Gleason sponsored legislation to ensure the efficient regulation of irrigation districts, effective management of groundwater and the long term preservation of Arizona's allocation of Colorado River Water.

In furtherance of Gleason's efforts to ensure that Arizona's communities have dependable, long term water supplies, the Speaker of the House, Jim Weiers, appointed Gleason to serve as an ex officio member of the Arizona Water Banking Authority.

Gleason served as Precinct Committeeman and District Chairman before seeking elected office. He and his wife Shirley have been married for more than 50 years. Together, they have four children and several grandchildren.

Proposition 103, passed by voters in the 2000 election, expanded the Commission from three to five members and changed the term of office from a single six-year term to four-year terms with the option to run for a second term. The two new seats were phased in with an initial two-year term.

Commissioner Mike Gleason

Brian C. McNeil became Executive Secretary of the Arizona Corporation Commission on May 10, 1999. The Executive Secretary is responsible for providing overall management of the Commission.

Prior to joining the Commission, he was the Deputy Director for Budget and Policy Development in the Arizona Department of Health Services.

McNeil has also served as Senior Policy Advisor to former Governor Fife Symington, as Director of Operations and Economic Advisor at the Arizona State Senate and as a Fiscal Analyst at the Joint Legislative Budget Committee. McNeil earned his Master of Public Administration degree and a Bachelor of Science degree in economics from Arizona State University. McNeil is currently a Major in the U.S. Army Reserve.

In February 2002, McNeil was called to active duty in support of Operation Enduring Freedom. In his absence through the end of August 2002, Michael Kearns, the Deputy Executive Secretary and Dean Miller, the Commission's Governmental Affairs Consultant, assumed greater levels of day-to-day responsibility.

Executive Secretary Brian C. McNeil

Administration Division

Michael Kearns Director/Deputy Executive Secretary

Mission: To provide
the executive leadership
and decision-making
authority for the timely
resolution of matters
coming before the
Commission; to plan,
coordinate and direct
the administrative and
fiscal activities
necessary to support the
commissioners and all
the divisions of the
Commission.

The Administration Division is composed of the elected Commissioners and their staffs, the Executive Secretary's office and the administrative functions that provide the fiscal and administrative service necessary to support all divisions of the Corporation Commission. The division director oversees the administrative and fiscal functions and also serves as the Deputy Executive Secretary, performing the duties of the Executive Secretary during the incumbent's temporary absences.

The Executive Secretary's staff performs many administrative functions in conjunction with the Division. These include: preparing the open meeting agendas, keeping records of all proceedings of the Commission and coordinating civic activities and projects of benefit to the Commission.

Open Meetings & Other Proceedings

The Commission meets in several types of forums. In all instances, the Arizona Open Meeting Law, the Commission's ex-parte rule on unauthorized communications, and the Arizona Administrative Procedures Act govern the activities of the Commission.

The Commission conducts formal hearings on contested matters such as rate requests, complaints and securities violations. Evidence is collected at hearings but no vote is taken. All decisions of the Commission are made in open meetings. Open meetings are conducted after the agenda of the meeting has been made available to the public. In some limited instances, such as legal matters and personnel matters, the Commission may meet in executive session. Hearings, open meetings and executive sessions, while administrative in nature, are very formal in process. Comments may be received from the public, interested parties and the staff of the Commission during Open Meetings. In addition, the Commission has staff meetings, run by the Commissioners, which are posted as Open Meetings. These meetings serve as a forum to exchange information and obtain administrative guidance and policy direction from the Commissioners. The Commission also conducts workshops in which issues are discussed. No votes are taken or decisions made at the workshops.

Legislative Activities

The Arizona Legislature enacts new laws every year that impact the Commission and the people it serves. Laws affecting regulated entities, consumers of regulated services and corporate Arizona must be monitored and, in some cases, implemented by the Commission.

Because of the Commission's broad ranging authority, the Administration Division coordinates all of the Commission's legislative activities in conjunction with each division.

Additionally, the Division interacts with the Office of the Governor and the Legislature on Commission funding issues, including the review of our biennial budget requests and any subsequent executive or legislative recommendations.

Civic Activities

Commission employees have often been recognized for their personal efforts and contributions to fulfill civic needs. During FY 2002-03, the Commissioners and employees together:

- •Contributed \$15,198 in individual donations and pledges to the State Employees Charitable Campaign, which supports United Way agencies, national health agencies, international service agencies and local unaffiliated agencies;
- Brightened the holiday season for 82 needy children by buying toys and clothes through

the Salvation Army's annual Christmas Angel gift drive;

- •Donated 31 pints of blood in specially arranged blood drives held at the Commission's facilities;
- Donated several cases of canned food to help brighten the Christmas of needy families in the Valley;
- •Fully supported and actively participated in environmental improvement activities such as the "Clean Air Force" (car pools, Don't Drive One-in-Five Campaign and bus riding) and recycling of paper, newsprint, and aluminum cans.

The Commission continued to fund a "Tuition Assistance" program for its employees. The objectives of the program include: improve job capability, performance and morale; encourage personal growth and development; and provide a source of qualified personnel for advancement as vacancies occur.

Business Office

The Business Office is responsible for providing all accounting, payroll, purchasing and personnel support for the Commission as well as budget preparation. The Commission's budget is developed and submitted by the Administration Division Director in coordination with the Executive Secretary and the directors of the divisions within the Commission. Fiscal information related to the budget and expenditures is included in Appendix A.

The Business Office is also the Commission's main point of contact with other state agencies involving business activities such as purchasing, budgeting and processing revenue.

The Business Office receives funds from all Commission Divisions, but primarily from fees paid to the Corporations and Securities Divisions for corporate filings, securities dealer, salesperson or agent registrations. During FY 2002-03 the Business Office received and processed \$33,222,192 in revenue to the State Treasurer, of which \$23,883,567 (excludes miscellaneous service charges) was deposited in the state's General Fund.

In addition to revenue deposits, the Business Office issued 462 purchase orders, 2,899 claims; received and entered into inventory 418 items; and serviced 300 employees through personnel actions and payroll transactions.

Fast Facts

The Commission
deposited \$33,222,192
in revenue to the State
Treasurer of which more
than \$23,990,000 was
deposited in the state's
General Fund. As a
comparison, the
Commission's total funds
expended for FY 20022003 was
\$21,475,562, of which
\$4,854,368 was from
the General Fund.

Legal Division

Christopher Kempley Chief Counsel

Mission: To provide

professional, high

quality legal

representation to the

Corporation

Commission in the

performance of all of

its powers and duties,

except for matters

pertaining to the

activities of the

Securities Division.

The Legal Division represents the Commission in all matters relating to public utility regulation and in other areas not associated with the Securities Division. Securities-related legal cases are litigated by the Attorney General's Office. Matters handled by the Legal Division fall into five general categories:

- 1) Commission dockets;
- 2) Federal regulatory dockets;
- 3) litigation;
- 4) other administrative matters; and
- 5) special projects.

Commission Dockets

Utility companies throughout the state apply to the Commission for approval before undertaking certain activities such as the provision of service to the public, the modification of service territory or the implementation of rate increases.

The Commission is also authorized to exercise continual review over the operations of public service corporations and to act when necessary to further the public interest. Legal Division representation in these matters is varied and includes representing the Utilities Division and advising the Commissioners on legal issues.

Federal Dockets

The Legal Division represents the Commission before various federal agencies in the following areas: electric, gas, nuclear energy, railroads, pipelines and telecommunications.

Key federal proceedings included:

- •Continued implementation of the federal Telecommunications Act of 1996.
- Expanded competition in the provision of local exchange service, universal

service mechanisms and funding, and

 Expansion of long distance competition to include the Regional Bell Operating Companies.

In addition, during FY 2002-03 the Legal Division continued to represent the Commission in Federal Energy Regulatory Commission (FERC) dockets concerning the gas and electric industries to ensure that the public interest of Arizona is considered in these matters.

Litigation

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The Legal Division represents the Commission before a variety of courts and either has pending or has recently concluded cases before municipal and justice courts, county Superior Courts, the State Court of Appeals and the State Supreme Court, as well as before various federal district and appeals courts, including the United States Supreme Court.

The large majority of cases filed or pending during FY 2002-03 involved Commission decisions related to restructuring of the telecommunications and electric industries. The Legal Division also has been called upon to represent the Commission in Bankruptcy Court in matters involving regulated utilities.

Administrative Matters

The Legal Division counsels the Corporation Commission in the legalities of miscellaneous matters such as the Open Meeting Law, guidelines and procedures, ex-parte communications, filing requirements and a variety of similar matters.

The Corporations Division exercises responsibility in such areas as the filing of Articles of Incorporations, Certificates of Disclosure, and Annual Reports which must be submitted to the Commission by every corporation doing business within the

State of Arizona. The Legal Division advises the Corporation Division on these administrative matters.

Special Projects

The Legal Division participates in the revision of all rules for the Corporations Division and the Utilities Division, including the Pipeline and Railroad Safety Sections. It has also represented the Commission in litigation that has occurred following the rulemakings.

The Commission continues to be engaged in a series of proceedings related to the restructuring of the telecommunications industry. The Legal Division represents the Commission or its Staff in a variety of proceedings related to the emergence of competition in the telecommunications industry.

During FY 2002-03 the Legal Division was active in the Commission's completion of its first comprehensive review of the wholesale rates that Qwest charges its competitors. Emerging from this process were several other issues that will be examined in future proceedings related to the unbundling of the telecommunications network.

The Division is also examining Qwest's application to offer long-distance service under Section 271 of the Telecommunications Act of 1996. Congress passed the 1996 Act as a way to usher in a new era of competition in the local telephone market. Section 271 is an evaluation of whether the incumbent local phone company – in this case, Qwest – has taken all the right steps to open its network and set up processes that would enable a competitive provider to offer service in Arizona. The Commission makes a recommendation to the FCC and U.S. Department of Justice and the FCC will make the final decision.

A preliminary inquiry by the Utilities Division uncovered agreements between Qwest and companies that sought to use portions of the Qwest network that staff believes should have been filed with the Commission. The Legal Division is examining interconnection agreements entered into by Qwest to determine whether Qwest is complying with the nondiscrimination and filing requirements of the 1996 Act.

The Division also assisted the Commission and Staff in the commencement of some important investigations and rulemaking proceedings designed to protect the interests of consumers. Rules aimed at protecting consumers from unauthorized changes to their telecommunications provider or billing for unordered services -- deceptive practices known as slamming and cramming -- were transmitted to the Attorney General for review in December 2002. The Legal staff continues to examine privacy issues related to the handling of customer proprietary network information (CPNI).

The Commission is also engaged in a series of proceedings related to the restructuring of the electric industry. This process continued during FY 2002-03. The Legal Division has been involved in this process at every stage. Adoptions of the original rules, each subsequent amendment have resulted in litigation in state courts. In August 2002, the Commissioners eliminated the requirement that utilities divest their generating resources after careful examination revealed possibilities that the market could be manipulated through such a structure. The Commission approved the launch of competitive solicitations for wholesale electricity in February 2003.

The Legal Division was involved in the review of a complex financing package for Arizona Public Service and its parent, Pinnacle West. A final decision was handed down by the Commissioners in March 2003.

Fast Facts

The Legal Division has been actively involved in important investigations and rulemaking proceedings designed to protect consumers. The Division is involved in drafting rules to prevent slamming and cramming and examining policies regarding the use and dissemination of proprietary information gathered by telecommunications carriers.

Under state statutes no utility may construct an electric power plant or transmission line without first obtaining a Certificate of Environmental Compatibility from the Power Plant and Line Siting Committee that then must be approved by the Commission. Given the number of applications being submitted and the heightened public interest in such construction, in FY 2002-03 the Legal Division devotes significant resources to representing Staff in these proceedings.

In conjunction with its activities in the areas of electric competition and line and power plant siting, the Commission has been actively involved in proceedings at the Federal Energy Regulatory Commission related to the supply and interstate transmission of natural gas. Natural gas is a primary source of fuel for power plants. The Legal Division participates in those dockets in which gas supply and transmission, as well as competing rights among states to receipt of shipped gas, are at issue.

The Commission continues to address important water issues. These include Central Arizona Project water usage and its attendant costs, groundwater supply, water quality and regulatory jurisdiction over water use by private water companies.

Staff continues to work with industry representatives to develop strategies that allow water companies interim recovery of costs of arsenic-extracting systems needed to meet federal requirements. In addition, the Legal Division represented the Commission in both administrative and civil proceedings involving various water issues.

The major cases before the Commission usually include an advisory staff assigned to act as a separate party in order to advise Commissioners and Commissioner's staff without violating the ex parte communications rule. Thus, in each of the above

instances, in addition to the need for legal staff as counsel for Utilities Division staff, additional Legal Division personnel are assigned to advise the Commissioners.

The Commission's rules relating to transactions with unregulated affiliates have been in effect since FY 1992-93. The rules create an ongoing responsibility to consider and process applications and reports under the rules. The filings of applications and reports under the rules, all of which require scrutiny by Legal Division attorneys, can be expected to continue indefinitely.

Fast Facts

The major cases before
the Commission usually
include an advisory staff
assigned to act as a
separate party in order to
advise Commissioners
and their staff without
violating the ex parte
communications rule.

The Utilities Division monitors the operations of 815 public service corporations providing utility service within the State of Arizona. Article XV of the Arizona Constitution defines "public service corporations" as "those furnishing gas, oil, or electricity for light, fuel or power; water for irrigation, fire protection, or other public purposes; or those transmitting messages or furnishing telegraph or telephone service." The Commission's regulatory responsibilities are established in the Arizona Constitution (Article XV) and the Arizona Revised Statutes (§40-201, et seq.), and further defined in the Arizona Administrative Code (Title 14, Chapter 2).

One of the Utilities Division's major responsibilities is rate review and the determination of a reasonable return on fair value for public service corporations.

The Division reviews utility company financial records and recommends to the Commission appropriate revenue and rate requirements. With the exception of small public service corporations, these requests for rate changes must be determined in an evidentiary hearing. Regardless of the size of the public service corporation, all rate changes require approval of the Commission in an open meeting.

Staff preparation for a major rate hearing begins at the time of the utility's initial filing, and takes approximately four to six months before the hearing takes place. Work efforts between the time of filing and a hearing include a review of documents on file with the Commission; an audit of the books and records of the utility; on-site inspections of plants and facilities; discussions with utility personnel and interested parties; formulation of the staff recommendation; and preparation of written testimony and schedules.

As a result of both the electric and telecommunications industries evolving from monopolies to competitive industries,

the Utilities Division has the added responsibility of providing leadership and support in the development of competitive marketplaces. The Division works with the Commissioners and all affected stakeholders to develop equitable competitive markets that will benefit all consumers of electricity and telecommunications services.

Throughout FY 2002-03, the Division devoted significant resources to the following major efforts:

- •Review of Qwest's application to provide long-distance service under Section 271 of the 1996 Telecommunications Act;
- •Establishment of an open, competitive bidding process for wholesale electricity;
- •Study and preparation of testimony on to the proposed takeover of Citizens Utilities by UniSource Energy of Tucson;
- Preparation of testimony for the Arizona Water Company Rate Case;
- •Study of ratemaking and engineering impacts associated with implementation of the new EPA standard for arsenic;
- •Continued review of the electric competition rules and an examination into potentials for market manipulation;
- •Study of issues related to water supply, conservation and drought issues affecting Arizona's small utilities;
- •Continued review of the electric competition rules and corrective measures to protect against market manipulation;
- •Development of rules prohibiting slamming and cramming in telecommunications;
- •Siting of power plants and transmission lines; and,
- •Ongoing efforts to monitor service quality and reliability among regulated utilities.

Utilities Division

Ernest Johnson Director

Mission: To
recommend thoroughlyresearched, sound
regulatory policy and
rate recommendations
to the Commissioners,
which are based on a
balanced analysis of
the benefits and
impacts on all
stakeholders and are
consistent with the
public interest.

The Utilities Division consists of eight sections through which the staff performs its responsibilities:

- 1) Financial & Regulatory Analysis;
- 2) Telecom & Energy;
- 3) Engineering;
- 4) Safety;
- 5) Consumer Services;
- 6) Compliance & Enforcement;
- 7) Information Technology; and
- 8) Administrative Services.

The Division oversees the following numbers of utilities:

| Telecommunications companies | 447 |
|------------------------------|------|
| Local exchange carriers | 155 |
| Other telecommunications | 292 |
| Water utility companies | 311* |
| Sewer companies | 20* |
| Water and Sewer | 15* |
| Electric companies | 27 |
| Gas utilities | 7 |
| Irrigation Companies | 1 |
| | |

*The Commission oversees more than 400 individual water and sewer systems. Multiple systems can be operated by the same utility company.

Financial & Regulatory Analysis

The Section is primarily responsible for the preparation of testimony and staff reports for utility rate cases. These documents address accounting issues, reasonableness of expenses, costs of capital, overall revenue requirement, and, ultimately, staff's rate recommendations to the Commissioners.

During FY 2002-03, the Section analyzed numerous applications consisting primarily of water company rate cases. The section also continued to participate in rate cases for the other regulated industries and participated in Small Water Assistance Team presentations around the state. The new EPA standard limiting the arsenic level in drinking water will result in significant costs to small water companies. The staff is continuing to study cost-effective alternatives and appropriate ratemaking treatment for arsenic-related compliance costs.

The section also provided analysis and recommendations regarding public utility mergers, debt and equity issuances, transfers of assets, purchased power and gas adjustor revisions, and applications for Certificates of Convenience and Necessity (CC&Ns).

Telecom & Energy Section

The Telecom and Energy Section analyzes economic and policy issues pertaining to the Commission's regulation of investor-owned utilities and rural electric and gas cooperatives. The section also analyzes and implements telecommunications policies adopted by the Commission. The staff uses a variety of computer models, quantitative techniques and qualitative methods in its utility evaluations and research. Recommendations are presented to the Commissioners through staff reports, sworn testimony, memos and recommended orders.

The section is also responsible for analyzing and preparing Staff recommendations for the majority of electric tariff filings, special contracts, natural gas tariff filings, telecommunications tariff filings, proposed tariff revisions and competitive telecommunication interconnection agreements. The section also processes applications for CC&Ns for all categories of Electric Service Providers (ESPs) and competitive telecommunications firms.

The section continues to participate in the ongoing evaluation of the extent to which Qwest Communications has opened its markets to competitors in compliance with

Fast Facts

Regardless of the size of the utility, all rate changes require approval of the Commission.

Decisions on these and other cases are rendered in a public, open meeting with opportunities for community members to offer comments to the Commissioners.

specific requirements of the federal Telecommunications Act of 1996.

The Telecom and Energy Section prepared analyses and recommendations on numerous tariffs and special contracts submitted by telecommunications, electric and natural gas utilities.

Engineering Section

The Engineering Section conducts technical reviews of all Commission-regulated utilities (except gas, which is done by the Pipeline Safety Group) to assure compliance with accepted service, safety, maintenance, performance and regulatory standards. This Section monitors and conducts on-site investigations of regulated water, wastewater (sewer), telecommunications and electric companies and one irrigation company. The staff also investigates accidents and incidents involving utilities that result in service outages, property damage and consumer inquiries.

The Engineering Section assists the Consumer Services Section with the technical aspects of complaints received from utility customers. The engineers accompany Consumer Services Section personnel on investigations of such complaints. Assistance is also provided to other sections in the processing of CC&N applications for all regulated utilities.

The Engineering Section assists the Financial & Regulatory Analysis Section in the processing of rate case applications, financing applications, changes to purchased power and fuel adjusters and other cases. Inspections are performed to determine whether a utility plant is "used and useful." The Engineering Section staff also conducts cost of service studies for the utilities, including gas.

In the water/wastewater area, the engineers monitor the operation of over 400 individual water and sewer systems. These systems range in size from less than 10 connections to over several thousand connections. The engineering staff also assists in the processing of water main extension agreements.

The electrical engineers monitor the operation and maintenance of all generating and transmission resources within Arizona. This includes the nation's largest nuclear plant, the Palo Verde Nuclear Generating Station, located approximately 50 miles west of Phoenix. The Engineers also support Commission representatives who serve on the Arizona Power Plant and Transmission Line Siting Committee. Engineers assist in determining the environmental compatibility of newlyproposed generating stations and transmission lines. The electrical engineers are responsible for preparing the Biennial Transmission Assessment Report and are responsible for enforcement of the Overhead Power Line Safety Law.

In the area of telecommunications, the Telecommunications Engineers review tariff filings, various telecommunications applications and evaluate the various facilities comprising the telecommunications network in Arizona. The Telecommunications Engineers also participate in the telecommunications dockets and are responsible for addressing service quality issues.

In addition, the Engineering Section maintains a computer-aided design (CAD) program for producing detailed utility service area maps for use by the Commission and the general public.

Safety Section

The Safety Section consists of two groups
—Pipeline Safety and Railroad Safety. The
Pipeline Safety Group enforces the Arizona
Underground Facilities Law and oversees
the construction, operation and maintenance

Fast Facts

Staff from the Engineering Section conduct inspections, investigations and technical reviews of electric, water, wastewater, telecommunications, and irrigation companies that fall under the Commission's jurisdiction. This includes inspections at the nation's largest nuclear plant, the Palo Verde Nuclear Generating Station.

Fast Facts

The Pipeline Safety
Group conducted 777
comprehensive
inspections, 224
specialized inspections,
707 follow-up
inspections and 214
construction inspections
to ensure compliance
with state and federal
safety standards.

of all intrastate and interstate natural gas, other gases, liquefied natural gas, and hazardous liquid pipeline facilities operating within the State of Arizona. The Railroad Safety Group oversees the operation and maintenance of all railroad operations, track maintenance and railroad/street grade crossings.

Pipeline Safety Group

The Pipeline Safety Group operates its main office in Phoenix and staffs offices in Tucson, Prescott and Flagstaff.

The Pipeline Safety Group enforces pipeline safety standards and operating practices applicable to the transportation of gas and hazardous liquids by pipeline and the operation of liquefied natural gas facilities. Inspections are conducted on all interstate gas transmission and interstate hazardous liquid pipeline facilities. Inspections and operations audits are conducted on all intrastate natural gas transmission/ distribution pipelines, intrastate hazardous liquid pipelines, intrastate liquefied natural gas facilities and master meter natural gas system operations, such as apartments, mobile home parks, schools and other gas distribution systems at the point beyond the utility company meter. The Pipeline Safety Group also enforces the Arizona Underground Facilities Law, otherwise known as the "Blue Stake" Law.

As a result of these responsibilities, the Pipeline Safety Group monitors the activities of five interstate natural gas transmission pipelines, one interstate hazardous liquid pipeline, 18 major intrastate gas pipeline operations, two intrastate liquefied natural gas facilities, nine intrastate gas transmission pipelines, three intrastate hazardous liquid pipelines and 1,174 master meter natural gas operations.

During FY 2002-03, the Pipeline Safety Group inspected 19 major intrastate natural gas distribution pipeline operators, 7 intrastate gas transmission pipeline operators, 3 intrastate hazardous liquid pipeline operators, 2 intrastate liquefied natural gas operators, 3 interstate gas transmission operators, 1 interstate hazardous liquid pipeline operators and conducted 133 construction inspections, 166 specialized inspections and 80 incident investigations. The Pipeline Safety Group conducted 777 comprehensive inspections, 224 specialized inspections, 707 follow-up inspections and 214 construction inspections of master meter natural gas distribution systems.

Also during FY 2002-03, the Pipeline Safety Group investigated 422 reported violations of the Underground Facilities Law, issued 234 notices of violations and collected \$189,750 in fines. Staff also received 339 notices of incidents from pipeline operators and pipeline operators shut off gas service to 107 master meter gas systems requiring repair.

During FY 2002-03, the Pipeline Safety Group provided 15 training workshops for operators of master meter gas systems and assisted master meter operator personnel by making available to them pipe locating and leak detection equipment. Staff conducted 35 Blue Stake training classes and also participated in 14 Damage Prevention Seminars around the state.

The Pipeline Safety Group in conjunction with the U.S. Department of Transportation's Transportation Safety Institute, presented a pipeline safety training seminar for pipeline operators and conducted one pipeline safety Corrosion Control I training class for State and Federal Pipeline Safety inspectors.

Railroad Safety Group

The Railroad Safety Group enforces the Federal Safety Standards for track, signal, motive power and equipment, railroad operating practices, and the shipment of hazardous material by rail. The Railroad

Safety Group is also responsible for inspection and review of industrial track, and rail-highway crossings construction projects. In addition to its main office in Phoenix, two Rail Safety Consultants are located in the Tucson office and one in Kingman. This staffing arrangement provides the Commission and the citizens of Arizona with quick response to any rail incident, as well as direct contact for more routine matters.

During FY 2002-03, the Group inspected 1,964 miles of track, 3,840 freight cars, 91 locomotives, 395 crossings and 52 industrial track facilities. It also made 2,756 inspections of manufacturers that ship and receive hazardous materials by rail. The group investigated approximately 129 railroad accidents and 45 complaints received from other governmental agencies, railroad employees or the public.

The Commission administers the State's share of monies dedicated to improving railhighway crossing safety devices. Since the inception of this federal/state program in July 1977, about \$40,711,385 in federal funds and \$3,435,866.80 in state funds have been spent or encumbered to improve safety warning devices on public rail-highway crossings throughout the state. Commission staff, in conjunction with the Federal Highway Administration and the Arizona Department of Transportation, conducts an annual review of certain public rail-highway crossings throughout the state and prepares a list of crossings to be considered for improvement using federal and state funds. From the list, the Commission publishes an array of about 15 of those crossings. The array is then submitted to the cities, towns, and/or counties to make applications for funding.

The Group is also very active in the National Operation Lifesaver Program, a public awareness program that promotes rail-highway crossing and trespasser safety. The Commission's award-winning video, "Operation Lifesaver," is widely used in the Arizona High School Driver Education and

Driver Survival Programs as well as other driver safety programs around the country.

Consumer Services Section

The Consumer Services Section investigates and arbitrates complaints from the public regarding operation, billings, terminations and quality of service and facilities of public service corporations.

The Section engaged in the following activities during FY 2002-03:

Public Comment Meetings: In an effort to provide consumers an opportunity to voice their concerns and opinions on proposed rate increases and the quality of service of the public utilities serving them, the Consumer Services Section conducts public comment meetings. When a public utility files an application for a rate increase, the Consumer Services Section assists in the review of the application for sufficiency. It also receives and responds to customer service problems and comments. If necessary, the Consumer Services Section organizes a public comment meeting prior to the rate hearing. These meetings have proven to be beneficial to the public utilities in establishing better communications between them and their customers. During FY 2002-03, the Consumer Services Section organized 23 public comment meetings.

Arbitration: When the public utility and the consumer are not able to agree on the resolution of the consumer's complaint, a representative from the Utilities Division will conduct an independent arbitration to resolve the complaint. During FY 2002-03, the Consumer Services Section conducted two arbitrations.

Meter Testing: The Consumer Services Section, tests water meters when the accuracy of the meter reading is questioned. During FY 2002-03, the Consumer Services Section tested 73 meters.

Fast Facts

During FY 2002-03, the Railroad Safety Group inspected 1,964 miles of track, 3,840 freight cars, 91 locomotives, 395 crossings and 52 industrial track facilities.

Fast Facts

During the 2002-03
fiscal year, the Consumer
Services Section attended
five county fairs. As a
part of an ongoing
outreach effort, Consumer
Services provides
education to the public
regarding regulated
utilities and the role of
the Commission.

Field Investigations: On-site field investigations are sometimes needed in order to resolve a dispute. These investigations may entail an inspection of the physical plant of the public utility, a review of its books and records, and verbal interaction with the customer and the public utility. Consumer Services conducted 14 field investigations in FY 2002-03.

Small Water Company Workshops:

These one-day workshops are held throughout the state. The objective is to provide information to water company owners and operators on a variety of topics, to share the Commission's expertise and to answer any questions or concerns they might have regarding the regulated portion of their companies. During FY 2002-03, the Section conducted one such workshop, including special workshops and training on the new rate application forms.

Complaints & Inquiries: The following table lists the total complaints and inquiries handled by the Consumer Services Section in FY 2002-03 by utility type and complaint or inquiry type:

| Communication Companies2573 |
|--|
| Sewer Companies |
| Water Companies765 |
| Electric Companies1050 |
| Gas Companies |
| TOTAL4799 |
| |
| Rate Case Items49 |
| Service Issues |
| Billing Issues |
| New Service Issues448 |
| Other Issues |
| Repair Issues321 |
| Deposit Issues350 |
| TOTAL4799 |
| These totals represent verbal, written and e-mail complaints or inquiries. |

Compliance & Enforcement Section

The purpose of the section is to ensure that utilities comply with the provisions of the Arizona Revised Statutes, Commission rules and Commission orders.

The Compliance Section is responsible for: tracking compliance relative to annual report filings, filings made pursuant to Commission rules and orders and administering the annual regulatory assessment.

During FY 2002-03, the Compliance Section reported the following compliance actions:

- 808 annual reports were mailed to utilities and monitored for filing.
- 402 compliance actions were entered into the compliance database for monitoring.
- 737 compliance filings were made by utilities in response to the requirements of Commission Decision or Rules.
- 166 utilities were required to remit an annual assessment, which was monitored for compliance.
- 53 Non-compliance notices were sent to utilities that failed to comply with filing requirements.

Information Technology Section

The Information Technology (IT) Section provides technical guidance and experience to further the Division's mission and goals. It consists of specialized, highly trained professionals whose goals include providing technical resources and assisting division employees to maximize productivity with the use of technology. In FY 2002-03, the Commission embarked on a strategy to better deploy computing and information technology resources throughout the Commission and established a new IT Division to unify IT staff from all divisions.

The IT Section's mission statement is: To provide accurate, efficient and timely technology design, development, implementation and maintenance support services to the Utilities Division of the Arizona Corporation Commission, in support of its business goals.

During FY 2002-03, the Division continued its ongoing IT improvement strategy. Web development and maintenance saw increased emphasis as the Commission strives to provide the public with convenient, timely and accurate information.

Plans were executed to transition the Division's users to the next generation of operating system and office productivity software. Also planned were hardware upgrades including client workstations and server resources. Ongoing support continued for word processing and spreadsheet uses along with the development of new databases designed to make staff functions more efficient. Furthermore, the Section staff continued to oversee the training needs for division users of IT resources.

Administrative Services Section

The Administrative Services Section provides general and complex administrative and clerical support to Director's office and the following Sections: Financial & Regulatory Analysis; Telecom & Energy; Engineering, and Consumer Services. The Section provided support for the successful installation of new software, development of computer training and conversion of system databases.

Administrative support staff provide the following services: format and process open meeting items, staff reports, testimony and correspondence; maintain various databases; process, scan and link tariff files for posting on the web; process interconnection agreements; scan monthly decisions for Division use; provide research; distribute mail and

internally generated documents; and provide general customer service.

In addition, the Section maintains a multimedia library used by Commission employees. The library contains legal, technical and reference publications; federal and state documents; telecommunications videotapes; computer programs and self-improvement courses. The library specializes in utility-related information.

Other items processed by the Administrative Services Section during FY 2002-03 include:

| Annual Reports | 727 |
|-----------------------------------|-------|
| Central File items | 1,008 |
| Staff Reports | 371 |
| Tariffs Administratively Approved | 453 |
| Testimony | 68 |

Fast Facts

The IT Section, with assistance and direction from the public information office and Utilities Division staff, overhauled the Utilities Division website to make it more consumerfriendly. The site now includes definitions of common terms, answers to frequently asked questions and information about how the Division can be of service to consumers. View the site at www.cc.state.az.us/ utility

Corporations Division

Joanne C. MacDonnell Director

Mission: To grant corporate or limited liability company status to companies organizing under the laws of Arizona; to issue licenses to foreign corporations and LLCs that propose doing business in this state; and to maintain their files for the benefit of public record and service of process.

The Corporations Division approves for filing all articles of incorporation for Arizona businesses; all articles of organization for limited liability companies (LLCs); grants authority to foreign corporations and LLCs to transact business in this state; propounds interrogatories, when necessary, to determine a company's lawful purpose; and administratively dissolves the corporate charters of those corporations which choose to not comply with Arizona law.

The division collects from every corporation an annual report, which reflects its current status and business (nonprofit corporation reports also include a statement of financial condition); maintains this information in a format conducive to public access; responds to public questions concerning Arizona business and corporation law; and responds to the needs of the business sector by disseminating whatever information is mission critical to them in the most expedient and cost effective manner possible.

Any significant changes to Articles of Incorporation or Articles of Organization for LLCs in the form of amendments, mergers, consolidations, dissolutions or withdrawals are also filed with the Division. All filings are public record and available for inspection. Copies of documents may be secured for a nominal fee.

The Corporations Division has limited investigatory powers and no regulatory authority. However, an Arizona corporation may be administratively dissolved if certain statutory requirements are not met. Likewise, the authority of a foreign (non-Arizona) corporation to transact business in Arizona may be revoked.

The Corporations Division is comprised of five sections, with each Section designed to perform specific functions. The division also has a Tucson Office for service to the residents of Southern Arizona.

Overview of Activity

As of June 30, 2003, there were a total of 342,441 corporations and LLCs transacting business in the State of Arizona.

| Total Active Corporations | |
|---------------------------|---------|
| & LLCs | 342,441 |
| Annual Reports Mailed | 145,987 |
| Annual Reports Filed* | 123,962 |
| Total Phone Calls Handled | 330,994 |

*LLCs are not required to file an Annual Report and some are returned as undeliverable or rejected.

Corporate Filings Section

The documents processed by the Corporate Filings Section during FY 2002-03 were as follows:

| Domestic Articles of | |
|-------------------------------------|----------|
| Incorporation | . 13,571 |
| Foreign Applications for Authority. | 2,628 |
| Amendments | .10,483 |
| Domestic and foreign mergers | 809 |
| Domestic LLCs | .23,954 |
| Foreign applications for LLCs | 1,510 |
| Dissolutions/Withdrawals | 2,645 |

In addition to filing documents, the section fielded more than 123,231 phone inquiries.

Annual Reports Section

The documents processed by the Annual Reports Section during FY 2002-03 were as follows:

| Annual Reports filed | 123,962 |
|--------------------------|---------|
| Original Annual Reports | 145,987 |
| Duplicate Annual Reports | |
| mailed | 30,464 |
| Total Reinstatements | 5,047 |

Pending notices of administrative dissolution or revocation30,329

Notices of administrative dissolution or revocation mailed24,329

In addition to filing documents, the section fielded more than 53,357 phone inquiries.

Records Section

The documents processed by the Records Section during FY 2002-03 were as follows:

| Issued copies of records | .15,697 |
|--------------------------------------|---------|
| Records issued by certification desk | .24,590 |
| Changed corporate or agent | |
| addresses | .23,718 |

In addition to filing documents, the section fielded more than 108,471 phone inquiries.

The Commission acts as an agent for Arizona corporations and LLCs whenever either entity does not maintain a statutory agent or when the agent cannot be located. In these instances, services of process directed to the Commission are accepted and processed by the Records Section.

IT Section

The State of Arizona Public Access System (STARPAS) project was mandated in FY 1992-1993 by A.R.S. 10-129.01 and 10-1085.01. STARPAS provides on-line public access to corporate and LLC information on file with the Commission.

The initial STARPAS project was completed in FY 1994-1995. The STARPAS system is a direct access system connected to the real-time database maintained by the Corporations Division. All information is up-to-the-minute and can be searched by business entity name or by officer, director or statutory agent. The STARPAS system is

available free of charge through the Commission website. The IT section is responsible for the management and enhancement of the division's ten-server system. Programming is done in-house. The IT section provides ad hoc reports to the public in response to specific requests.

In FY 2002-03, the Commission embarked on a strategy to better deploy computing and information technology resources throughout the Commission and will be establishing a new IT Division in the next fiscal year to unify IT staff from all divisions, including the Corporations Division.

IPS Section

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This section opens and sorts all division mail and is the initial point of the process for all Annual Report related documents. With regard to annual reports, this section identifies the year and type of filing, processes the filing fee, bar codes and stamps the document, and transmits information into a computerized tracking system. The IPS scans the documents into the Division's imaging system for subsequent review by examiners in the Annual Reports section. The IPS section is also responsible for transmitting corporate and LLC information into the STARPAS system and preparing documents to be microfilmed.

The following documents were processed by the Initial Processing Section during FY 2002-03:

| Opened mail | 222,300 |
|---------------------------------|---------|
| IPS In Box records created | 211,503 |
| Documents Scanned | 211,503 |
| Batching, prepping of documents | |
| for all filings | 367,802 |

The IPS system initially processes Annual Reports, corporate and statutory agent address changes and statutory agent changes.

Fast Facts

The Corporations
Division closed FY
2002-03 with 342,441
active corporations or
LLCs registered to do
business in Arizona
compared with only
291,845 in the prior
fiscal year.

Securities Division

Mark Sendrow Director

Mission: To ensure the integrity of the securities marketplace though investigative actions as well as the registration and/or oversight of securities, securities dealers and brokers, investment advisers and their representatives; to enhance legitimate capital formation; and to minimize the expense of regulatory compliance on legitimate business, consistent with vigorous investor protection.

The Securities Division reviews prospective offerings of securities to ascertain that full and fair disclosure is made to potential securities investors and that the terms of offerings are not inherently fraudulent.

Securities dealers, salespersons, investment advisers and investment adviser representatives are required to register with the Division prior to conducting business in Arizona.

The Division reviews these applications and monitors the conduct of investment advisers and investment adviser representatives, dealers and salespersons; investigates possible violations; where the evidence warrants, brings administrative, civil or criminal enforcement actions; and conducts programs to educate investors to protect themselves.

The Division consists of four sections:

- 1) Registration and Compliance,
- 2) Office of the General Counsel,
- 3) Enforcement, and
- 4) Management Information Systems.

Registration & Compliance Section

Registration and Compliance reviews applications for registration or exemption of securities under the Arizona Securities Act. This Section is also responsible for the administration of the registration and licensing provisions of the Securities Act and the Investment Management Act pertaining to dealers, salesmen, investment advisers and investment adviser representatives. Staff conducts on-site examinations of dealers and investment advisers to ensure compliance with these Acts.

The Corporation Commission is authorized to deny, suspend, or revoke a registration or license, to assess fines and to order restitution to victims.

During FY 2002-03 the Section processed 2,119 dealer and 122,331 agent registrations.

In addition, 264 investment adviser, 799 investment adviser notice filers and 1,048 investment adviser representatives were licensed.

The Section conducted 54 field examinations of dealers and investment advisers.

The Section processed 17,974 applications for securities registration, 1,031 filings for various exemptions from registration and 2,026 name change requests during FY 2002-03.

Enforcement Section

The Division maintains an active enforcement program in order to ensure integrity in the marketplace and to preserve the investment capital formation process, rather than permitting capital to be lost to swindles or deceptive practices.

The Arizona Corporation Commission is granted the authority to issue an Order to Cease and Desist, apply to the Superior Court of Maricopa County for an injunction, transmit evidence to the Attorney General who may petition the Superior Court of Maricopa County for the appointment of a conservator or receiver, and transmit evidence to the Attorney General, County and United States Attorneys, who may file criminal cases.

During FY 2002-03, the Division initiated 20 investigations and had a total of 145 cases under investigation at year-end.

It filed 20 administrative proceedings and transmitted evidence to the Attorney General, which resulted in 20 indictments.

The Securities Division makes a substantial commitment to its cases once litigation is commenced. Its investigators and certified public accountants become essential to the litigation in terms of marshaling witnesses and providing expert testimony. Because of their familiarity with the facts in the case they have investigated, the Division attorneys have been appointed Special Assistant Attorneys General to assist during litigation.

Office of General Counsel

The office of general counsel provides legal advice to the Securities Division and assistance to the business and financial communities and securities practitioners. Its responsibilities include administrative rulemaking; drafting and monitoring legislation relevant to the Securities Division; administering the no-action (interpretive) letter program, the public education program, the in-house legal training program, and the duty officer program (response to public inquiries); and supervising and mentoring legal externs.

In FY 2002-2003, the general counsel office proposed changes to the Arizona Securities Act and the Investment Management Act that were ultimately embodied in Senate Bill 1159 and House Bills 2158 and 2159, signed into law effective September 18, 2003. The statutory amendments include requiring the Securities Division director to obtain criminal history record information regarding applicants for employment, clarifying the Securities Division's authority to order a financial institution not to disclose the existence or content of an investigative subpoena, and revising the civil action statute of limitations to reflect federal law.

The general counsel office initiated rulemaking to advise the public regarding registration requirements for debt instruments offered by charitable organizations and to clarify and adopt as a rule a Division policy statement regarding the distribution of identifying statements and preliminary prospectuses.

Division duty officers responded to approximately 2,320 inquiries from the public regarding the substance of the Securities and Investment Management Acts.

The Investor Education Coordinator, with the assistance of Division staff, made in excess of 100 investor education presentations and distributions of educational materials and videos to the public.

The Investor Education Coordinator and Division staff also manned information booths that distributed educational materials to over 3,600 people. Groups to which presentations were made include clubs, high schools, colleges, and chambers of commerce.

Administrative Matters

The Securities Division's investor education program includes a year-round speakers bureau making presentations to civic and consumer groups. In addition to group presentations, the Securities Division distributes investor educational materials in English and Spanish through its web site, radio and television programs, press releases and newspaper articles, and printed materials available at libraries and in the public areas of various consumer groups. Through these efforts, the Securities Division strives to equip Arizonans to make informed investment decisions and to prevent themselves from falling prey to investment scams. The Securities Division believes an informed, education investor is the first line of defense against investment fraud.

During fiscal year 2002-2003, for the fifth consecutive year, the Securities Division participated in "Financial Literacy 2010" – a campaign targeting high school personal finance teachers across America. The Financial Literacy program is designed to improve the

Fast Facts

During FY 2002-03,
the Division initiated 3
civil court proceedings
involving 80 defendants.
The Division was
involved in the conviction,
pleas or sentencing of 8
individuals for criminal
violations.

financial skills of secondary school students by equipping personal finance teachers with better teaching tools.

The Commission also participates in and the Securities Division provides speakers for the annual Arizona Council on Economic Education Stock Market Game. This program enables students from grade school to high school to become acquainted with important concepts such as due diligence and the relationship between risk and reward. The students learn how capital markets function by simulating purchases and sales of securities and are able to track their "portfolios" following their investments in the Wall Street Journal.

The Securities Division continually works to develop partnerships with which to further educational efforts, including the Elder Fraud Prevention Task Force, the Arizona Council on Economic Education, the Elder Issues Task Force and Financial Exploitation Team, the Academy of Finance, and the Financial Services Education Advisory Committee.

Fast Facts

The Securities Division responded to over 2,320 inquiries from the public and Division staff made more than 100 investor education presentations during this fiscal year.

The Commission's Securities Division is recognized as one of the leading states with investor education programs to arm people with the information they need to avoid scams and

schemes.

The Hearing Division exercises the Commission's authority to hold public hearings and arbitrations on matters involving the regulation of public service corporations, the sale of securities and the registration of non-municipal corporations. Under the direction of the presiding Administrative Law Judge, proceedings are conducted on a formal basis through the taking of sworn testimony, the cross-examination of witnesses, the admission of documentary and other physical evidence, and the submission of oral arguments or post-hearing briefs.

Evidentiary and procedural rulings are made by the presiding Administrative Law Judge from the bench. Rate and Certificate of Convenience and Necessity ("CC&N") applications are processed under the procedural schedule established by the Administrative Law Judges, in order to ensure that proposed Opinion and Orders are issued in a timely manner within the framework of the Commission's "timeclock" rules.

During FY 2002-03, the six Administrative Law Judges in the Division conducted 219 public hearings/arbitrations, encompassing a total of 300 days.

Based upon the record evidence presented at public hearings, or filings made in non-hearing matters, the presiding Administrative Law Judge prepares a recommended order, which sets forth the pertinent facts, discusses applicable law, and proposes a resolution of the case for the Commissioners' consideration. The Commission regularly holds Open Meetings to deliberate and vote upon the recommended orders.

During FY 2002-03, the Hearing Division prepared a total of 214 recommended orders, 72 for cases involving a hearing and 142 for non-hearing matters, mainly rate applications for small water companies, coin operated pay telephones, and inter/intraLATA resellers.

While cases are pending before the Commission, the presiding Administrative Law Judge may issue procedural orders to govern the preparation and conduct of the proceedings, including: discovery, intervention, the hearing date, filing dates, public notice, and motions. During FY 2002-03, the Hearing Division issued 498 such orders.

During FY 2002-03, the Division conducted hearings in the Commission's consolidated generic electric restructuring docket. Two pivotal orders were issued related to that docket, ultimately resulting in Commission Decisions. In August 2002, the Commissioners ruled in the "Track A" proceeding that APS and TEP did not have to sell their generation assets. In February 2003, the Commissioners ruled on the "Track B" case, establishing a method for electricity to be procured through a competitive bid process.

The Hearing Division also held hearings and prepared orders related to the proposed expansion of TEP's Springerville Generating Station. Three dockets were consolidated related to the proposed takeover of Citizens Utilities by UniSource, parent company of TEP. The Division conducted in hearings and public comment sessions related to the consolidated docket. The Commission is expected to rule on this case in the next fiscal year.

During FY 2002-03, the Hearing Division conducted hearings and issued orders related to Qwest's compliance with wholesale pricing requirements for unbundled network elements and resale discounts. The recommended opinion and order in Phase IIa was issued in FY 2002-03. In addition to the wholesale cost matter, the Hearing Division held additional hearings related to Qwest's Section 271 application. The Commission also drafted rules to prevent Slamming and Cramming and transmitted those rules to the Attorney General for review.

As to FY 2003-04, the Hearing Division anticipates a heavy hearing workload related to

Hearing Division

Lyn Farmer Chief Hearing Officer

Mission: To conduct hearings/arbitrations, analyze the evidence and draft recommended decisions for the Commissioners' consideration and approval.

rate cases filed by Arizona Water Company, Arizona-American Water Company, Pine Water Company and a rate case filed by Arizona Public Service at the end of this fiscal year.

The following public hearings were held during FY 2002-03:

Type of Hearing Number

| Pre-Hearing Conferences76 |
|----------------------------------|
| Orders to Show Cause |
| and Complaints34 |
| Certificates of Convenience |
| and Necessity21 |
| Rate Cases |
| Securities Division45 |
| Miscellaneous (oral arguments, |
| motions to compel, etc.)20 |
| CC&N Extensions4 |
| Transfers/Sales |
| Railroad/Pipeline Safety Group11 |
| Public Comments |
| Rules (new and amended)7 |
| Arbitration |
| Generic Investigations |
| Deletions |
| Tariff5 |
| Line Extensions/Agreements 0 |
| Financing 6 |
| Adjudications |
| Line Siting |
| TOTAL 302 |

Fast Facts

The Docket Control
Center responded to
14,000 inquiries for
research or assistance,
and docketed and
distributed more than
11,500 filings.

Docket Control Center

In FY 1980-81, the Commission requested and obtained legislative approval to establish a docket control center to ensure the integrity and security of official Commission records.

The Docket Control Center maintains the

official records for the Utilities, and Securities, Divisions of the Corporation Commission. In this regard, Docket Control's functions are similar to a Clerk of the Court's office. The Docket Control Center also assists the public and staff in retrieving the files and transcripts of cases for use in research.

During FY 2002-03, the Docket Control Center processed the following documents:

Responses to Inquiries/

| responses to inquires/ |
|--------------------------------------|
| Research/Assistance14,000 |
| Filings docketed & distributed11,500 |
| Opinion and Orders/Administrative |
| Closures processed and mailed1,150 |
| New applications input1,140 |
| Open Meeting items processed 560 |
| Certifications250 |
| Transcripts logged & microfilmed |
| Utilities |
| Securities50 |
| |

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Appendix

Table 1

Commission Revenue by Source

Fiscal Resources: Through the budget process, the Arizona Corporation Commission identifies fiscal resource requirements to meet its constitutional and statutory responsibilities. The Commission receives funding through several sources: the State General Fund, the Utility Regulation Revolving Funds, the Arts Trust Fund, the Investment Management Act Fund, the Public Access Fund and Federal grants. All sources except federal grants are subject to appropriation. The Administration, Corporations and Hearing Divisions, as well as the Railroad Safety Section, are funded mainly by the General Fund. In addition to the General Fund, the Administration Division receives limited funding from the Utilities Regulation Revolving Fund; the Corporations Division is the recipient of funding from the Arts Trust Fund and Public Access Fund. In addition to General Fund monies, the Securities Division receives a portion of the fees it collects through the Securities Regulatory and Enforcement Fund and the Investment Management Act Fund. The Utilities Division, excluding Railroad Safety, and the Legal Division are funded through the Utility Regulation Revolving Fund, which derives its money from assessments on public service corporations. The federal grants are obtained as a reimbursement to the Pipeline Safety Section for accomplishment of certain federal responsibilities.

Historically, the Commission has generated significantly more revenue from securities and broker registrations, corporation filing fees, fines and miscellaneous service charges than its General Fund requirements. Any revenue that exceeds the Commission's budget needs flows into the State General Fund and is used to defray the costs of state government.

| Commission Revenue by Source | Actual | Actual | Estimated |
|---|------------|------------|------------|
| | 2001-02 | 2002-03 | 2003-04 |
| Corporation Filing Fees* | 8,680,756 | 8,852,132 | 9,463,191 |
| Security and Broker Fees* | 14,116,544 | 13,466,521 | 13,788,938 |
| Miscellaneous Service Charges** | 185,894 | 112,679 | 98,324 |
| Fines & Forfeitures* | 1,389,000 | 1,564,914 | 15,325,318 |
| Utility Assessments | 8,418,500 | 1,665,329 | 14,047,545 |
| Pipeline Safety Revolving Fund - Fines*** | 40,000 | 80,000 | |
| Sec Regulatory & Enforcement Fund | 2,942,300 | 2,854,513 | 2,948,179 |
| Sec Investment Management Act Fund | 1,489,749 | 1,504,221 | 1,545,289 |
| Public Access Fund | 2,077,800 | 2,503,057 | 2,697,675 |
| Federal Grant**** | 596,600 | 618,826 | 678,984 |
| TOTAL | 39,937,143 | 33,222,192 | 60,593,443 |

^{*}Deposited in the State General Fund

^{**} Deposited in the State General Fund & Utility Regulation Revolving Fund

^{***}Beginning in 2004, fines received for the Pipeline Safety Revolving Fund are deposited in the General Fund.

^{****}Federal Grant revenue reflects amounts reimbursed to the Utility Regulation Revolving Fund and to the Pipeline Safety section's Federal Fund. Reimbursement from the Federal Government is based on calendar year, rather than the state's fiscal year, which results in fiscal year timing differences between expenditures and reimbursement revenue receipts.

Table 2 **Expenditures by Budget Program** Actual Actual **Estimated Expenditures** by 2001-02 2002-03 2003-04 **Budget Program** Administration & Hearing Divisions 3,207,300 3,675,798 3,642,136 Corporations Division 4,008,400 4,049,093 3,353,289 Securities Division 5,593,400 4,575,329 3,993,411 Railroad Safety Group 564,806 493,200 473,836 Pipeline Safety Group 1,530,973 1,336,658 1,322,200 Utilities Division 5,481,600 5,668,860 5,562,661 Legal Division 1,485,900 1,501,673 1,564,999 1,802,535 Information Technology TOTAL 21,592,000 21,475,562 21,820,495

^{*} Note: Information Technology became a separate Division beginning FY2003-04.

| Expenditures by Fund Source | Actual | Actual | Estimated | Table 3 |
|-------------------------------------|------------|------------|------------|-----------------|
| | 2001-02 | 2002-03 | 2003-04 | Expenditures by |
| General Fund | 5,269,400 | 4,854,368 | 4,916,408 | Fund Source |
| Arts Trust Fund | 36,600 | 43,461 | 37,086 | |
| Sec. Regulatory & Enforcement Fund | 3,847,100 | 3,092,965 | 3,008,100 | |
| Sec. Investment Management Act Fund | 733,000 | 750,334 | 768,968 | |
| Utility Regulation Revolving Fund | 9,730,300 | 10,748,124 | 10,992,603 | |
| Public Access Fund | 1,734,000 | 1,747,423 | 1,781,927 | |
| Pipeline Safety Revolving Fund | 73,000 | | | |
| Federal Funds** | 168,600 | 238,887 | 315,403 | |
| TOTAL | 21,592,000 | 21,475,562 | 21,280,495 | |
| | | | | |

^{**}Totals reflected are actual expenditures from the Pipeline Safety Section's Federal Fund only.

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|---------------------------|-----------------------------|------------|-----------|
| Table 4 | A.W. Cole | Democrat | 1912-1917 |
| Corporation | W. P. Geary | Democrat | 1912-1915 |
| Corporation Commissioners | F. A. Jones | Democrat | 1912-1919 |
| Since Statehood | Amos A. Betts | Democrat | 1917-1933 |
| Since State 1000 | David E Johnson | Damagust | 1938-1945 |
| | David F. Johnson | Democrat | 1919-1924 |
| | Loren Vaughn | Democrat | 1921-1932 |
| | W. D. Claypool | Democrat | 1925-1930 |
| | Charles R. Howe | Democrat | 1931-1936 |
| | Wilson T. Wright | Democrat | 1933-1953 |
| | John Cummard | Democrat | 1933-1934 |
| | W. M. Cox | Democrat | 1935-1940 |
| | William Peterson | Democrat | 1941-1946 |
| | William Eden | Democrat | 1944-1947 |
| | William T. Brooks | Democrat | 1947-1958 |
| | Yale McFate | Democrat | 1947-1948 |
| | Mit Simms | Democrat | 1949-1958 |
| | Timothy D. Parkman | Republican | 1954 |
| | John H. Barry | Democrat | 1955-1956 |
| | E. T. "Eddie" Williams, Jr. | Democrat | 1957-1968 |
| | George F. Senner, Jr. | Democrat | 1959-1962 |
| | A. P. "Jack" Buzard | Democrat | 1959-1962 |
| | John P. Clark | Republican | 1963-1964 |
| | Milton J. Husky | Democrat | 1965-1970 |
| | Dick Herbert | Democrat | 1965-1971 |
| | Charles Garland | Republican | 1969-1974 |
| | Russell Williams | Republican | 1970-1974 |
| | Al Faron | Republican | 1970-1976 |
| | Ernest Garfield | Republican | 1973-1978 |
| | Bud Tims | Republican | 1975-1983 |
| | Jim Weeks | Democrat | 1977-1982 |
| | Stanley Akers | Republican | 1979-1980 |
| | John Ahearn | Democrat | 1980-1981 |
| | Diane McCarthy | Republican | 1981-1984 |
| | Richard Kimball | Democrat | 1983-1985 |
| | Junius Hoffman | Democrat | 1984 |
| | Marianne Jennings | Republican | 1984 |
| | Sharon Megdal | Democrat | 1985-1986 |
| | Renz Jennings | Democrat | 1985-1999 |
| | Marcia Weeks | Democrat | 1985-1996 |
| | Dale Morgan | Republican | 1987-1995 |
| | Corl I Kupasalz | Popublican | 1005 2001 |

Republican

Republican

Republican

Republican

Republican

1995-2001

1997-present 1999

1999-present

2001-present

Carl J. Kunasek

William "Bill" Mundell

Jim Irvin

Tony West

Marc Spitzer

Southern Arizona Office

As noted in several areas of this Annual Report, the Corporation Commission maintains a southern Arizona office in Tucson at 400 West Congress Street. This office provides many of the same services as the offices in Phoenix. Sections of the Corporations and Utilities Divisions as well a Hearing Officer from the Hearing Division are located in Tucson.

Tucson Personnel assigned to the Utilities Division provided Consumer Services staffing, prepared staff input to rate cases, conducted railroad safety training and inspections as well as fulfilled pipeline safety requirements. The Hearing Officer in Tucson conducts hearings on matters of interest to residents located in Southern Arizona. In addition to holding hearings in Tucson, the Hearing Officer often travels to and conducts hearings in the Southern Arizona communities affected by the proceeding.

Not only does availability of the Tucson Office provide a convenience to southern Arizona residents, it facilitates better statewide accomplishment of Corporation Commission responsibilities.

Southern Arizona Office



Arizona Corporation Commission

1200 West Washington Phoenix, AZ 85007 602-542-3076 www.cc.state.az.us

Southern Arizona Office

400 West Congress Street Tucson, AZ 85701 520-628-6554