

# Arizona Corporation Commission



## Annual Report for Fiscal Year 2003-2004

Creating a better Arizona for investors, ratepayers,  
businesses and consumers

**Commissioners**

Marc Spitzer, Chairman

Mike Gleason, Commissioner      Jeff Hatch Miller, Commissioner

Kristin Mayes, Commissioner      William A. "Bill" Mundell, Commissioner

Jim Irvin, Commissioner (Resigned)

**Executive Secretary**

Brian C. McNeil

**Interim Executive Secretary**

James "Jimmy" Jayne

**Division Directors**

**Administration**

Michael Kearns

**Utilities**

Ernest Johnson

**Corporations**

Joanne MacDonnell

**Hearing**

Lyn Farmer

**Securities**

Matt Neubert

**Legal**

Christopher Kempley

**Information Technology Division**

Clark Lathrum

**Main Office**

1200 West Washington  
Phoenix, AZ 85007

**Adjunct Offices**

1300 & 1400 West Washington  
Phoenix, AZ 85007

**Southern Arizona Office**

400 West Congress Street  
Tucson, AZ 85701

Services:

Commissioners' Wing

Executive Secretary

Administration

Legislative Liaison

Public Information

Hearings

Utilities

Legal

Services:

Corporations

Securities

Services:

Corporations

Hearings

Utilities

**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  
Toll Free Listen Line (area codes 928 and 520 only) . 1-800-250-4525

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## About the Commission

The Arizona Corporation Commission was established in 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.

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## Organization

The 2002-03 fiscal year marked 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.

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## 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 chaired the Judiciary and Finance Committees and was elected Senate Majority Leader in 1996.

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

## Commissioner Bill Mundell

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 graduated from Arizona State University with a Bachelor of Art's degree in political science in 1974. He earned a 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 as a member of the Arizona House of Representatives from 1987 to 1992. As chairman of the House Environment Committee, he sponsored numerous pieces of 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 on June 21, 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 January 2003. Mundell was re-elected in 2004 and his term runs through the end 2008.

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 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 his election to the Corporation Commission, Hatch-Miller served 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 Corporation 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 professional 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  
Jeff Hatch-Miller**

## Commissioner Mike Gleason

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 Kristin Mayes

Commissioner Kris Mayes was born and raised in Prescott, Arizona. After graduating from Prescott High School and winning the prestigious Flinn scholarship, Mayes attended Arizona State University. While attending ASU, she served as editor in chief of the State Press, one of the nation's largest college newspapers and completed an internship with the Johannesburg Star in Johannesburg, South Africa. In addition, Mayes won the Truman Scholarship, the nation's top scholarship for public service, was a national finalist for the Rhodes scholarship and graduated valedictorian from ASU with a degree in political science. Also in college, Commissioner Mayes' love for politics was fostered when she interned in Washington D.C. for Congressman Bob Stump.

Mayes immediately went to work as a general assignment reporter for the Phoenix Gazette, and later as a political reporter for the Arizona Republic, covering the Arizona State Legislature. Mayes left her post at the Republic to attend graduate school at Columbia University in New York, where she earned a Master of Public Administration. While at Columbia, Kris wrote her thesis on electric deregulation.

Following graduate school, Mayes returned to the Arizona Republic, where she was assigned to cover the 2000 presidential campaigns of Sen. John McCain, former Vice President Dan Quayle, publisher Steve Forbes and then-Governor George W. Bush. During this time Mayes co-authored a book entitled "Spin Priests: Campaign Advisors and the 2000 Race for the White House". After the presidential campaign, Mayes attended ASU College of Law and graduated magna cum laude.

Commissioner Mayes was appointed to the Corporation Commission in October 2003 after Commissioner Jim Irvin resigned his seat on the Commission. She has devoted much of her time since the appointment to pipeline safety, renewable energy and natural gas issues.

Mayes considers reading about politics and jogging her chief hobbies, and spends a considerable amount of time in Prescott, visiting her mother Karen Mayes, who still resides in the Mile High city. Mayes has a sister, Kimberly, who is a child life specialist in California, and a brother, Kirk, who is an accountant in Boston, Massachusetts.



## 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 Commis-

sion 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 2003-04, the Commissioners and employees together:

- Contributed \$15,659 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;





## 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 2003-04 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. The Division also represented the Commission in Federal Communication Commission (FCC) dockets.

### Litigation

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 2003-04 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 adoption and 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. Several issues related to the unbundling of the telecommunications network emerged from this process and were examined in the Unbundled Network Elements Phase I and Phase II dockets during FY 2003-04.

In July 2003, Qwest filed a request to modify its Price Cap Plan and significant staff resources were devoted to reviewing this application, filing testimony and motions related to this docket. These efforts will continue in FY 2004-05.

The Division completed its examination of Qwest's application to offer long-distance service under Section 271 of the Telecommunications Act of 1996 by providing a detailed recommendation to the FCC and U.S. Department of Justice. 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.

Qwest began offering long-distance service to its Arizona customers in October 2003. The Division will be monitoring Qwest's compliance with a detailed Performance Assurance Plan in the coming years.

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 participated in a detailed examination into this issue and, in April 2004, the Commissioners ordered a record \$20 million in fines, penalties and credits to competitors.

The Division also assisted the Commission and Staff in 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 but were later rejected. Efforts continued in FY 2003-04 to refine the rules but still provide enforceable protections for wireless and wireline customers. 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. 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 competitive bid process was subject to review during FY 2003-04.

During FY 2003-04, the Legal Division filed testimony and participated in litigation related to the APS rate case as well as rate cases for Pine Water Company, Arizona Water Company and Arizona-American Water Company. Additionally, the Division is participating in an ongoing review of the Environmental Portfolio Standard originally established by order of the Commission in 2001. In February 2004, the Commissioners ordered the staff and interested parties to review the rules and study several possible changes to the rules, including requiring regulated utilities to obtain a larger portion of their energy from renewable resources. These efforts will continue in FY 2004-05.

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, 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 transportation, as well as competing rights among states to receipt of shipped gas, are at issue.

The Commission continues to address important water issues. Staff continues to work with industry representatives to develop strategies that allow water companies interim recovery of costs of arsenic-extracting sys-

tems needed to meet federal requirements. In addition, the Legal Division represented the Commission in both administrative and civil proceedings involving various water issues. The Division participated in a complex rate case for Pine Water Company, a company that continues to be plagued by water shortages during peak summer periods.

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.

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**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.*  
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The Utilities Division monitors the operations of approximately 450 traditional utilities and about 650 new market entrants 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 2003-04, the Division devoted significant resources to the following major efforts:

- Preparation of testimony in the Arizona Public Service Company (APS) Rate Case;
- Review of Qwest’s compliance with the Performance Assurance Plan, part of the state’s review into whether the company is providing local and long-distance service in compliance with the 1996 Telecommunications Act;
- Conclusion of the Commission’s investigation into whether Qwest willfully and intentionally violated state and federal regulations aimed at creating a level playing field for competitive providers;
- Examination of whether it is in the public interest to allow Tucson Electric Power’s parent company, UniSource, to be acquired by a private equity partnership;
- Participation in hearings for the Arizona Water Company Rate Case, Arizona-American Water Company Rate Case, Pine Water Company Rate Case;
- Conducting workshops and drafting proposed changes to the Commission’s Environmental Portfolio Standard;
- Participation and consultation with water companies regarding plans to comply with the new EPA standard for arsenic;
- Study of issues related to water supply, conservation and drought issues affecting Arizona’s small utilities;

## Utilities Division

**Ernest Johnson**  
Director

**Mission:** *To recommend thoroughly-researched, 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.*

- 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,
- Investigation of a major gas pipeline leak on Kinder Morgan's liquid fuel lines and participation with various city, county and legislative committees related to this event;
- Investigation into Southwest Gas' emergency response after a natural gas problem in Queen Creek;
- Ongoing efforts to monitor service quality and reliability among regulated utilities.

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 .....	473
Local exchange carriers .....	77
Other telecommunications .....	396
Water utility companies .....	304*
Sewer companies .....	19*
Water and Sewer .....	15*
Electric companies .....	25
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 2003-04, the Section analyzed numerous applications, including the APS rate case and a number 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

#### 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.*

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 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 newly-proposed 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.

### 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.*

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**Fast Facts**

*The Pipeline Safety Group conducted 779 comprehensive inspections, 273 specialized inspections, 840 follow-up inspections and 209 construction inspections to ensure compliance with state and federal safety standards.*  
.....

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 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 1,129 master meter natural gas operations.

Pipeline safety became a major issue in the hearts and minds of Arizonans with the July 30, 2003 with the rupture of an 8” Kinder Morgan pipeline that runs between Phoenix and Tucson. Under authority granted to it by an agreement with the U.S. Department of Transportation, the Pipeline Safety staff handles the initial investigation and provides its findings to the federal office. The federal office handles enforcement of any penalties or fines resulting from this event.

As a result of the cause of the rupture and concerns about the structural integrity of the rest of Kinder Morgan’s system, the Pipeline Safety Group participated in additional, detailed inspections of Kinder Morgan pipelines.

During FY 2003-04, the Pipeline Safety Group inspected 15 major intrastate natural gas distribution pipeline operators, 9 intrastate gas transmission pipeline operators, 2 intrastate hazardous liquid pipeline operators, 3 intrastate liquefied natural gas operators, 3 interstate gas transmission operators, 1 interstate hazardous liquid pipeline operators and conducted 47 construction inspections, 86 specialized inspections and 108 incident investigations. The Pipeline Safety Group conducted 779 comprehensive inspections, 273 specialized inspections, 840 follow-up inspections and 209 construction inspections of master meter natural gas distribution systems.

Also during FY 2003-04, the Pipeline Safety Group investigated 258 reported violations



of the Underground Facilities Law, issued 106 notices of violations and collected \$101,500 in fines.

Staff also received 1,009 notices of incidents from pipeline operators and pipeline operators shut off gas service to 99 master meter gas systems requiring repair.

During FY 2003-04, the Pipeline Safety Group provided 17 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 31 Blue Stake training classes and also presented three specialized training classes for major pipeline operators.

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. The Group also assisted with the instruction of one "Pipeline Safety Regulation Application & Compliance" Case Study in Oklahoma City, Oklahoma.

### **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 2003-04, the Group inspected 1,100 miles of track, 3,769 freight cars, 193

locomotives, 319 crossings and 61 industrial track facilities. It also made 3,012 inspections of manufacturers that ship and receive hazardous materials by rail. The group investigated approximately 97 railroad accidents and 67 complaints received from other governmental agencies, railroad employees or the public.

The Commission administers the State's share of monies dedicated to improving rail-highway crossing safety devices. Since the inception of this federal/state program in July 1977, about \$42,211,385 in federal funds and \$3,581,503 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.

.....  
**Fast Facts**  
.....  
*During FY 2003-04,  
the Railroad Safety  
Group inspected  
1,100 miles of track,  
3,769 freight cars,  
193 locomotives,  
319 crossings and  
61 industrial track  
facilities.*  
.....

The Section engaged in the following activities during FY 2003-04:

**Fast Facts**

*During the 2003-04 fiscal year, the Consumer Services Section held public comment sessions, workshops and attended three 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.*

**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 2003-04, the Consumer Services Section organized 21 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 2003-04, the Consumer Services Section conducted seven arbitrations.

**Meter Testing:** The Consumer Services Section, tests water meters when the accuracy of the meter reading is questioned. During FY 2003-04, the Consumer Services Section tested 69 meters.

**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 8 field investigations in FY 2003-04.

**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 2003-04, the Section conducted three workshops, including special workshops on the new EPA arsenic standard.

**Complaints & Inquiries:** The following table lists the total complaints and inquiries handled by the Consumer Services Section in FY 2003-04 by utility type and complaint or inquiry type:

Communication Companies .....	2,041
Sewer Companies .....	21
Water Companies .....	1,047
Electric Companies .....	1,388
Gas Companies .....	545
TOTAL .....	5,042
Rate Case Items .....	129
Service Issues .....	510
Billing Issues .....	2,363
New Service Issues .....	391
Other Issues .....	1,176
Repair Issues .....	209
Deposit Issues .....	264
TOTAL .....	5,042

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.



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, 2004, there were a total of 374,478 corporations and LLCs transacting business in the State of Arizona.

Total Active Corporations & LLCs ..... 374,478
Annual Reports Mailed ..... 143,338
Annual Reports Filed\* .....91,533
Total Phone Calls Handled ..... 397,434

\*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 2003-2004 were as follows:

Domestic Articles of Incorporation ..... 12,722
Foreign Applications for Authority .... 2,391
Amendments ..... 2,399 w/LLCs 8,313
Domestic and foreign mergers ..... 588
Domestic LLCs .....30,090
Foreign applications for LLCs ..... 1,869
Dissolutions/Withdrawals ..... 1,797

In addition to filing documents, the section fielded more than 122,086 phone inquiries.

Annual Reports Section

The documents processed by the Annual Reports Section during FY 2003-2004 were as follows:

Annual Reports filed ..... 91,533
Original Annual Reports mailed .... 143,338
Duplicate Annual Reports mailed ....21,105
Total Reinstatements ..... 4,993

Pending notices of administrative dissolution or revocation .....	28,942
Notices of administrative dissolution or revocation mailed .....	12,807

In addition to filing documents, the section fielded more than 48,402 phone inquiries.

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**Records Section**  
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The documents processed by the Records Section during FY 2003-2004 were as follows:

Issued copies of records .....	16,070
Records issued by certification desk .....	20,738
Changed corporate or agent addresses .....	17,000

In addition to filing documents, the section fielded more than 107,170 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.

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**IT Section**  
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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 became a part of the Commission-wide IT Division and a complete summary of its activity will be found elsewhere in this report.

During this fiscal year, the Corporations Division enhanced STARPAS by adding the ability for for-profit corporations to file Annual Reports electronically. Dubbed E-File, the feature has been a resounding success. More enhancements are planned in the future.

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**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 2003-2004:

Opened mail .....	226,184
IPS In Box records created .....	237,438
Documents Scanned .....	227,686
Batching, prepping of documents for all filings .....	395,648

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

.....  
**Fast Facts**  
 .....

*The Corporations Division closed FY 2003-04 with 374,478 active corporations or LLCs registered to do business in Arizona compared with only 342,441 in the prior fiscal year.*



During FY 2003-04, the Division initiated 34 investigations and had a total of 83 cases under investigation at year-end.

It filed 14 administrative proceedings and transmitted evidence to the Attorney General, which resulted in 14 indictments.

In 2001 and early 2002, Congress and the SEC were examining the issue of analyst conflicts of interest. In April of 2002, the New York Attorney General's office announced an enforcement action against Merrill Lynch based on internal e-mails it uncovered that showed analysts were pressured to issue bullish stock recommendations to please investment banking clients. Soon afterwards, regulators from the states, industry self-regulatory organizations and the SEC formed a joint task force to investigate Wall Street's leading investment banks.

Securities Division staff took the lead in the investigation into UBS Paine Webber, which concluded with a settlement in May 2003. Several major settlements involving the biggest names on Wall Street were resolved through monetary settlements and structural reforms during FY 2003-04. Before the settlements, some of Wall Street's biggest brokerage houses faced charges that they encouraged in-house research analysts to publish inflated ratings on certain stocks to secure investment banking business. In addition, some of these brokerage firms hired other firms to issue research and ratings on stock underwritten by the paying brokerage firm without disclosing these payments to the public. This activity resulted in ratings that were neither objective nor independent, even though the ratings were represented as such.

These settlements resulted in large sums of money being paid into Arizona's General Fund. Settlements or payments arising from securities law violations are directed by law to the Arizona General Fund and do not remain with the Arizona Corporation Commission. The Commission's funding is

appropriated through the normal state budget process.

### 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 in-house legal training program, and the duty officer program (response to public inquiries); and supervising and mentoring legal externs. For the first half of fiscal year 2003-04, the general counsel office was also responsible for the public education program.

In FY 2003-04, the general counsel office made no legislative proposals with respect to the Arizona Securities Act or Investment Management Act. The office finalized one rulemaking, which provides an exemption from registration for offers, but not sales, made in connection with a pending application for securities registration.

Division duty officers responded to approximately 2,076 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 approximately 100 investor education presentations and distributions of educational materials and videos to the public.

The Investor Education Coordinator and Division personnel also staffed information booths that distributed educational materials to over 4,385 people. Presentations were made to clubs, high schools, colleges, and chambers of commerce.

### Fast Facts

*During FY 2003-04, the Commissioners approved several major settlements with Wall Street brokerage firms over allegations that conflicts of interest arose between their stock analysts and their pursuit of lucrative investment banking business. As a result of these settlements, large sums of money were deposited into the state's General Fund.*





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 2003-04, the seven Administrative Law Judges in the Division conducted 273 public hearings/arbitrations, encompassing a total of 326 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 2003-04, the Hearing Division prepared a total of 222 recommended orders, 106 for cases involving a hearing and 116 for non-hearing matters, mainly rate applications for small water companies, CC&N applications and extensions of CC&Ns.

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 2003-04, the Hearing Division issued 464 such orders.

During FY 2003-04, significant dockets were opened concerning proposed changes to Qwest's Price Cap Plan, the proposed takeover of UniSource energy by a private equity partnership, Saguro Utility Group.

At the end of last fiscal year, Arizona Public Service Company filed a rate case requesting a rate increase, the acquisition of and rate base treatment of its affiliate's, power plant, and a fuel and purchased power adjustor. The hearing originally scheduled to begin April 7, 2004, was continued to allow the parties to discuss settlement options. As this fiscal year drew to a close, settlement discussions were underway between APS, the Commission staff and more than 20 intervenors.

During FY 2003-04, the Division concluded its review of the Arizona-American rate case, affecting more than 110,000 customers on 10 water systems in the state. The Division also held hearings for an unrelated company, Arizona Water Company, on a rate case affecting eight systems in Arizona and approximately 29,000 customers.

During FY 2003-04, the Hearing Division concluded its review of whether it was in the public interest to recommend that Qwest be allowed to offer local and long-distance service to its Arizona Customers pursuant to Section 271 of the 1996 Telecommunications Act.

During FY2003-04, the Hearing Division, together with the IT Division, began developing an electronic docket database to view docketed images and manage data related to the Commission's Utilities and Securities dockets.

## 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.*

As to FY 2004-05, the Hearing Division anticipates a heavy hearing workload related to the APS rate case, water company rate cases, the potential acquisition of UniSource and the Qwest Price Cap Plan review as well as other significant telecommunications and water company rate and financing cases related to compliance with the new federal maximum arsenic levels.

The following public hearings were held during FY 2003-04:

<b>Type of Hearing</b>	<b>Number</b>
Pre-Hearing Conferences .....	63
Orders to Show Cause and Complaints .....	27
Certificates of Convenience and Necessity .....	33
Rate Cases .....	19
Securities Division .....	10
Miscellaneous (oral arguments, motions to compel, etc.) .....	14
CC&N Extensions .....	28
Transfers/Sales .....	9
Railroad/Pipeline Safety Group .....	31
Public Comments .....	32
Rules (new and amended) .....	0
Arbitration .....	7
Generic Investigations .....	5
Deletions .....	0
Tariff .....	1
Line Extensions/Agreements .....	0
Financing .....	1
Adjudications .....	11
Line Siting .....	0
<b>TOTAL</b> .....	<b>291</b>

**Fast Facts**

*This fiscal year marked the start of a new initiative to establish a new electronic docketing database that will allow people to view and search for case information through the ACC website.*

**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 2003-04, the Docket Control Center processed the following document:

Responses to Inquiries/ Research/Assistance .....	13,500
Filings docketed & distributed .....	11,200
Opinion and Orders/Administrative Closures processed and mailed .....	1,260
New applications input .....	1,120
Open Meeting items processed .....	730
Certifications .....	80
Transcripts logged & microfilmed Utilities .....	460
Securities .....	0

On July 1, 2003 the Information Technology Division, hereafter referred to as the IT Division, began to serve the entire Arizona Corporation Commission. Prior to its formation, the Securities Division, Corporations Division, Utilities Division and Administration Division had their own IT departments with the specialists from the Administration Division assisting Hearing and Legal as necessary. It became clear to the Commission leadership that there were opportunities to improve the use of staff and resources so the IT Division was formed.

Early challenges included consolidating the various IT teams, identifying specialties and specific talents and establishing an organizational structure that maximized the talents of its staff. Fiscal year 2003-04 also marked the launch of a centralized Help Desk to respond to and track requests for assistance or problem solving by Commission staff.

The staff is organized into three specialty areas:

- Systems -- Representing the personnel who focus on network hardware and integration.
- Support -- Help Desk staff who troubleshoot, train and respond to requests for help from agency-wide staff.
- Development -- Specialists in software and computer programming who develop, maintain and enhance the various systems used by the staff and the general public.

Data security and system reliability were high priorities for the new division. The IT personnel established an agency-wide firewall system to thwart attempts to hack into the Commission's computer system and potentially damage vital state records. The Division also established a plan to consolidate, unify and track software licenses to ensure that agency had access to and legal rights to use the software necessary to perform its duties.

The Division completed and launched the e-File system for the Corporations Division in February 2004. This system allows for-profit Arizona corporations to file their Annual Reports through the Corporations Division website. At the close of FY 2003-04, 3,995 annual reports were filed electronically. Additional enhancements are planned to help make the Corporations Division website more useful and functional for Arizona businesses.

The Commission's Docket Control service was another area targeted for software and interface development. The IT Division started planning and implementing the steps necessary to process docketed items electronically so that an intelligent, web-accessible interface could be built allowing the public to search for information on cases in front of the Commission. Scanning with optical character recognition software, bar-coding and database development were key steps toward achieving this plan.

Looking ahead, the IT Division expects to launch the e-Docket system in FY 2004-05. The Division will continue to explore and implement computer and software equipment necessary to keep the Commission operating efficiently so it can serve the citizens and businesses of Arizona.

Information  
Technology (IT)  
Division

Clark Lathrum  
Director

*Mission: To provide accurate, efficient and timely technology design, development, implementation, communications and maintenance support services to the agency and its respective divisions in support of their missions and objectives.*

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 2002-03	Actual 2003-04	Estimated 2004-05
Corporation Filing Fees*	8,852,132	9,463,191	9,750,000
Security and Broker Fees*	13,466,521	13,788,938	13,800,000
Miscellaneous Service Charges**	112,679	98,324	100,000
Fines & Forfeitures*	1,564,914	15,325,318	1,000,000
Utility Assessments***	1,665,329	11,012,916	18,691,340
Pipeline Safety Revolving Fund - Fines****	80,000		
Sec Regulatory & Enforcement Fund	2,854,513	2,948,179	3,000,000
Sec Investment Management Act Fund	1,504,221	1,545,289	1,500,000
Public Access Fund	2,503,057	2,697,675	2,750,000
Federal Grant*****	618,826	678,984	700,000
<b>TOTAL</b>	<b>33,222,192</b>	<b>57,558,814</b>	<b>51,291,340</b>

\*Deposited in the State General Fund

\*\* Deposited in the State General Fund & Utility Regulation Revolving Fund

\*\*\* There was a two week delay in collecting assessments, causing 2003-04 data to reflect collections for both FY 2002-03 and FY 2003-04.

\*\*\*\*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.

<b>Expenditures by Budget Program</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimated</b>
	2002-03	2003-04	2004-05
Administration & Hearing Divisions	3,675,798	3,642,136	3,757,955
Corporations Division	4,049,093	3,353,289	3,431,222
Securities Division	4,575,329	3,993,411	4,435,270
Railroad Safety Group	473,836	564,806	497,660
Pipeline Safety Group	1,530,973	1,336,658	1,371,935
Utilities Division	5,668,860	5,562,661	6,058,999
Legal Division	1,501,673	1,564,999	1,608,000
Information Technology		1,802,535	2,104,859
<b>TOTAL</b>	<b>21,475,562</b>	<b>21,820,495</b>	<b>23,265,900</b>

\* Note: Information Technology became a separate Division beginning FY2003-04.

**Table 2**

**Expenditures by Budget Program**

<b>Expenditures by Fund Source</b>	<b>Actual</b>	<b>Actual</b>	<b>Estimated</b>
	2002-03	2003-04	2004-05
General Fund	4,854,368	4,916,408	4,899,200
Arts Trust Fund	43,461	37,086	40,700
Sec. Regulatory & Enforcement Fund	3,092,965	3,008,100	3,488,300
Sec. Investment Management Act Fund	750,334	768,968	794,500
Utility Regulation Revolving Fund	10,748,124	10,992,603	11,666,400
Public Access Fund	1,747,423	1,781,927	2,064,200
Pipeline Safety Revolving Fund			62,600
Federal Funds**	238,887	315,403	250,000
<b>TOTAL</b>	<b>21,475,562</b>	<b>21,820,495</b>	<b>23,265,900</b>

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

**Table 3**

**Expenditures by Fund Source**

**Table 4**

**Corporation  
Commissioners  
Since Statehood**

A.W. Cole	Democrat	1912-1917
W. P. Geary	Democrat	1912-1915
F. A. Jones	Democrat	1912-1919
Amos A. Betts	Democrat	1917-1933
		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
Carl J. Kunasek	Republican	1995-2001
Jim Irvin	Republican	1997-2003
Tony West	Republican	1999
William "Bill" Mundell	Republican	1999-present
Marc Spitzer	Republican	2001-present
Mike Gleason	Republican	2003-present
Jeff Hatch-Miller	Republican	2003-present
Kristin Mayes	Republican	2003-present



### **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 as 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**

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Phoenix, AZ 85007

602-542-3076

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**Southern Arizona Office**

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Tucson, AZ 85701

520-628-6554