

Arizona Corporation Commission



Annual Report for
Fiscal Year
2002-2003

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

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Commissioners

Marc Spitzer, Chairman

Mike Gleason, Commissioner Jeff Hatch Miller, Commissioner

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

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Executive Secretary

Brian C. McNeil

Division Directors

Administration

Michael Kearns

Utilities

Ernest Johnson

Corporations

Joanne MacDonnell

Hearing

Lyn Farmer

Securities

Mark Sendrow

Legal

Christopher Kempley

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

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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 four-year term in the November 2002 election.

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 2002-2003 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

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

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.

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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 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 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.*

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

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

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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 par-

ticipated 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).

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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

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.

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.

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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.
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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 intrast-

ate 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

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 Companies	2573
Sewer Companies	22
Water Companies	765
Electric Companies	1050
Gas Companies	389
TOTAL	4799
Rate Case Items	49
Service Issues	491
Billing Issues	2228
New Service Issues	448
Other Issues	912
Repair Issues	321
Deposit Issues	350
TOTAL	4799

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.

**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 mailed	145,987
Duplicate Annual Reports mailed	30,464
Total Reinstatements	5,047

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.

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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.
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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 Conferences	76
Orders to Show Cause and Complaints	34
Certificates of Convenience and Necessity	21
Rate Cases	26
Securities Division	45
Miscellaneous (oral arguments, motions to compel, etc.)	20
CC&N Extensions	4
Transfers/Sales	21
Railroad/Pipeline Safety Group	11
Public Comments	16
Rules (new and amended)	7
Arbitration	1
Generic Investigations	0
Deletions	7
Tariff	5
Line Extensions/Agreements	0
Financing	6
Adjudications	2
Line Siting	0
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.

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/ Research/Assistance	14,000
Filings docketed & distributed	11,500
Opinion and Orders/Administrative Closures processed and mailed	1,150
New applications input	1,140
Open Meeting items processed	560
Certifications	250
Transcripts logged & microfilmed Utilities	280
Securities	50

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

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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.

Expenditures by Budget Program	Actual	Actual	Estimated
	2001-02	2002-03	2003-04
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	493,200	473,836	564,806
Pipeline Safety Group	1,322,200	1,530,973	1,336,658
Utilities Division	5,481,600	5,668,860	5,562,661
Legal Division	1,485,900	1,501,673	1,564,999
Information Technology			1,802,535
TOTAL	21,592,000	21,475,562	21,820,495

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

Table 2

Expenditures by Budget Program

Expenditures by Fund Source	Actual	Actual	Estimated
	2001-02	2002-03	2003-04
General Fund	5,269,400	4,854,368	4,916,408
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.

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 Cumnard	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-present
Tony West	Republican	1999
William "Bill" Mundell	Republican	1999-present
Marc Spitzer	Republican	2001-present



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