



ARIZONA CORPORATION COMMISSION

Annual Report Fiscal Year 1999-2000

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



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Commissioners

Carl J. Kunasek, Chairman

Jim Irvin, Commissioner

William A. "Bill" Mundell, Commissioner

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Executive Secretary

Brian C. McNeil

Division Directors

Administration

Michael Kearns

Utilities

Deborah Scott

Corporations

Joanne MacDonnell

Hearing

Jerry Rudibaugh

Securities

Mark Sendrow

Legal

Lyn Farmer

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.

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Organization

The Corporation Commission is composed of three Commissioners elected by the people of Arizona for a six-year term, with one Commissioner standing for election every two years. In the case of a

vacancy, the Governor appoints a Commissioner to serve until the next general election.

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 six 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.

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**Chairman
Carl Kunasek**

Chairman Kunasek was elected Commissioner in 1994 for the term beginning January 1995. Before being elected to the Commission, he was appointed by President Bush to be Commissioner of the Navajo and Hopi Relocation Commission from 1990 to 1994. He was a member of the Arizona State Senate from 1983 to 1989 where he served as President of the Arizona State Senate from 1987 to 1989. He served as a member of the Arizona State House of Representatives from 1972 to 1982. Prior to his career in public service, Chairman Kunasek owned and operated three pharmacies in Mesa from 1966 to 1983. He is a graduate of Creighton University in Omaha, Nebraska.

His major legislative accomplishments include: the Floodplain Development Act and Developmentally Disabled Community Based Treatment Program. He also

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**Commissioner
Jim Irvin**

Commissioner Irvin is a graduate from the University of Southern California with a Bachelor of Science degree in Education, and has earned a Masters degree 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, as well as serving on the Board of Directors for the Water Infrastructure Financing Authority (WIFA). Irvin was elected by his peers as Vice President and President-elect 2002 for the Western Conference of Public Service Commissioners (WCPSC). As Chairman of

authored the AHCCCS Program that provides community-based health care to indigents in lieu of traditional Medicaid.

Chairman Kunasek is a member of the Committee on Water for the National Association of Regulatory Utility Commissioners (NARUC) and serves as a member of the American Water Works Association Public Council on Drinking Water. He has been active in community service with groups such as the East Valley Partnership, Arizona Town Hall, Greater Phoenix Affordable Health Care, City of Mesa Board of Adjustment and Christ the King parochial school board.

Chairman Kunasek is married, with four children and eight grandchildren.

the ACC, Commissioner Irvin began such initiatives as the ACC Water Task Force, pushed to include the utilization of renewable energy in restructuring Arizona's electricity market, as well as, receiving the Governor's Recognition Award for Customer Service Improvement. Irvin also chairs the Arizona Rural Telephone Task Force.

Irvin's community service activities include: serving as a Reserve Deputy Sheriff for the Maricopa County Sheriff's Office, a 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's term expires January 2003.

Commissioner 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 Arts degree in political science in 1974 and he earned his Juris Doctor degree from St. Mary's University in San Antonio, Texas in 1977.

Commissioner 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.

Commissioner 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.

Commissioner 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, Arizona Heritage Alliance; chairman, the United Way; the East Valley Partnership; board of directors, Chandler Regional Hospital; the Lions Club; the Salvation Army Advisory Board and the Chandler Fraternal Order of Police Associates.

Governor Jane Hull appointed Mundell to the Commission on June 21, 1999 after the Arizona Supreme Court determined that the former commissioner was ineligible to hold office.

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

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

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**Commissioner
William Mundell**

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

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

McNeil has also served as Senior Policy Advisor to former Governor Fife

Symington, as Director of Operations and Economic Advisor at the Arizona State Senate and as a Fiscal Analyst at the Joint Legislative Budget Committee.

McNeil earned his Master of Public Administration degree and a Bachelor of Science degree in economics from Arizona State University. McNeil is currently a Captain in the U.S. Army Reserve and is assigned as a Reservist to an active Army unit.

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**Executive
Secretary
Brian C. McNeil**

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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 three 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.

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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 hearing but no vote is taken. All decisions of the Commission are made in open meetings. Open meetings are conducted after the agenda of the meeting has been made available to the public. In some limited instances, such as legal matters and personnel matters, the Commission may meet in executive session. Hearings, open meetings and executive sessions, while administrative in nature, are very formal in process. Comments may be received from the public, interested parties and the staff of the Commission during Open Meetings. In

addition, the Commission has staff meetings, run by the Commissioners, which are posted as Open Meetings. These meetings serve as a forum to exchange information and obtain administrative guidance and policy direction from the Commissioners. The Commission also conducts workshops in which issues are discussed. No votes are taken or decisions made at the workshops.

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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.

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Civic Activities

Commission employees have often been recognized for their personal efforts and contributions to fulfill civic needs. During FY 1999-2000, the Commissioners and employees together:

- Contributed \$13,775 in individual donations and pledges to the State Employees Charitable Campaign, which supports United Way agencies, national health agencies, international service agencies and local unaffiliated agencies;
- Brightened the holiday season for 30 needy children by buying toys and clothes through the Salvation Army's

annual Christmas Angel gift drive;

- Donated 26 pints of blood in specially arranged blood drives held at the Commission’s facilities;
- Donated 10 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.

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Business Office
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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. During FY 1999-00 the Business Office received and processed \$37,243,145 in revenue to the State Treasurer, of which \$21,986,731 was deposited in the state’s General Fund. The Corporation Commission’s general fund receipts for licenses, fees and permits were

the highest of all state agencies. In addition to revenue deposits, the Business Office issued 490 purchase orders, 3,398 claims; received and entered into inventory 716 items; and serviced 296.5 employees through personnel actions and payroll transactions.

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Fast Facts
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The Commission deposited \$37,243,145 in revenue to the State Treasurer of which \$21,986,700 was deposited in the state’s General Fund. As a comparison, the Commission’s total funds expended for FY 1999-00 was \$18,233,000, of which \$5,938,900 was from the General Fund.
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Fast Facts
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Commission employees donated \$13,775 of their personal funds to the State Employees Charitable Campaign.
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Legal Division

**Lyn Farmer
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.

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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.

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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 1999-2000 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.

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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 1999-2000 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.

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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.

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Special Projects

The Legal Division participates in the revision of all rules for the Corporations Division and the Utilities Division, including the Pipeline and Railroad Safety Groups. It has also represented the Commission in litigation that has occurred following the rulemakings. Rulemakings that resulted in litigation during FY 1999-2000 include competitive telecommunications services and the restructuring of the electric utility industry.

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. Significant progress was accomplished through workshop proceedings and planning for independent third party testing of Qwest's Operation Support Systems, designed to examine Qwest's compliance with the requirements of Sections 271 of the Telecommunications Act of 1996. The Commission's implementation of Sections 251 and 252 of the Act resulted in a consolidated appeal, now pending before the Ninth Circuit Court of Appeals.

Other major regulatory proceedings during FY 1999-2000 involved U S West's merger with Qwest and a rate case that is expected to be resolved in FY 2000-2001.

The Commission is also engaged in a series of proceedings related to the restructuring of the electric industry. This process continued during FY 1999-2000. The Legal Division has been involved in this process at every stage. Adoption of the original rules and each subsequent

amendment have resulted in litigation in state courts. The litigation, and the administrative proceedings necessary to implement restructuring, can be expected to continue into future fiscal years and will continue to require the commitment of significant resources from the Legal Division.

Under state statutes, no utility may construct an electric power plant or transmission line without first obtaining a Certificate of Environmental Compatibility from the Arizona Power Plant and Transmission Line Siting Committee that then must be approved by the Commission. During FY 1999-2000 the Commission received an unprecedented 14 applications for such certificates. The Commission approved eight. Given the number of applications being submitted and the heightened public interest in such construction, in FY 1999-2000 the Legal Division devoted significant resources to representing Staff in these proceedings. It is anticipated that this level of resource commitment will continue into future fiscal years.

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 the 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. In FY 1999-2000 the Legal Division

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Fast Facts

The Legal Division represents the Commission before a variety of courts such as: 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.

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represented the Commission in both administrative and civil proceedings involving these issues. With companies requesting permission to build additional electric generating plants in Arizona, the Legal division will become increasingly involved in determining the plant-specific and cumulative impact of such plants and in protecting the public's interest in the state's water.

in addition to the need for legal staff as counsel for Utilities Division staff, the major cases before the Commission usually include an advisory staff assigned to act as a separate party in order to advise Commissioners and Commissioners' staff without violating the ex parte communications rule.

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.

Finally, FY 1999-2000 saw an increase in merger activity for Arizona utilities. Both Southwest Gas Company and U S WEST were involved in merger activities during FY 1999-2000. These activities are expected to continue impacting the Legal Division's case load into the 2000-2001 fiscal year.

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Fast Facts

In addition to its services in various courts of law, the Legal Division represents the Commission before various federal agencies, including: the Federal Communications Commission, the Federal Energy Regulatory Commission, the Nuclear Regulatory Commission, the Department of Transportation - Office of Pipeline Safety, and the Federal Railroad Administration.
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The Utilities Division monitors the operations of 1,246 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. (A.R.S. §40-250 requires that all public service corporations obtain Commission approval before establishing or changing any rate, fare, toll, rental charge, classification, contract, practice, rule or regulation.) 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.

The Utilities Division consists of eight sections through which the staff performs its responsibilities: 1) Accounting and Rates, 2) Economics and Research, 3) Engineering, 4) Safety, 5) Consumer Services, 6) Information Technology, 7) Administrative Services and 8) Compliance & Enforcement. The Division oversees the following numbers of utilities:

Telecommunications companies	804
Local exchange carriers	126
Other telecommunications	678
Water utility companies	344*
Sewer companies	21*
Water and Sewer	20*
Electric companies	44
Gas utilities	12
Irrigation Companies	1

*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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Utilities Division

**Deborah R. Scott
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.*

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Accounting & Rates Section

The Accounting and Rates 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, rate design, and, ultimately, staff’s

rates recommendations to the Commissioners. During FY 1999-2000, the section analyzed numerous applications, most of which were water company rate cases. Some of the larger water company rate cases completed by the section included applications filed by Bermuda Water Company and Far West Water Company.

The section also continued to participate in telephone, gas, and electric rate cases. The Accounting and Rates Section also worked with consultants to analyze and/or prepare testimonies in rate case dockets for U S WEST Communications, Inc., Table Top Telephone Co., Inc., Southwestern Telephone Co., Midvale Telephone Exchange, Southwest Gas Company and Graham County Utilities.

The section also provided analysis and recommendations regarding public utility mergers, debt and equity issuances, transfers of assets, purchased power and gas adjuster revisions, and applications for Certificates of Convenience and Necessity (CC&Ns). Examples of non-rate case duties performed during FY 1999-2000 included the merger application concerning US WEST Communications, Inc. with Qwest Corporation, and the merger application concerning MCI WorldCom with Sprint. In addition, the Accounting and Rates Staff participated in the analysis of Central Arizona Project water use by the water companies serving the Sun Cities. Section members were also involved with the electric restructuring process by participating in workshops, preparing testimony, attending meetings and negotiations, and coordinating with external consultants.

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**Economics & Research
Section**
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The Economics and Research 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).

During FY 1999-2000, the Economics and Research Section continued to conduct research in areas critical to the introduction of competition in the utility industries, as well as implemented components of the Commission's policies related to those industries. The section participated in the revision of the Retail Electric Competition rules and reviewed service acquisition agreements between utility distribution companies and ESPs.

The Economics and Research Section continued to review and provide recommendations on applications to provide facilities-based competitive local exchange service and to provide local exchange service as a reseller. In addition, the section reviewed and provided recommendations on voluntarily negotiated interconnection and resale agreements between competitive and incumbent local exchange companies. The section also received and processed applications for facilities-based inter-exchange carriers, long distance resellers and transfers of CC&Ns.

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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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In addition, the section participated in the ongoing evaluation of the extent to which U S WEST Communications, Inc. has opened its markets to competitors in compliance with specific requirements of the federal Telecommunications Act of 1996.

The section participated in hearings and meetings of interested parties concerning the development of Arizona's Environmental Portfolio Standard rules. Regarding natural gas matters, Economics and Research staff examined purchased gas adjuster and gas procurement issues.

The Section reviewed energy conservation program proposals and monitored ongoing conservation programs carried out by electric and gas utilities over the year. The programs reviewed by the Section included energy education, low income weatherization, efficient lighting, efficient motors, efficient chillers, shade trees and energy-efficient new homes.

The section was responsible for leading the Commission's Water Task Force meetings and was lead author of the Task Force report, which was completed in October 1999. The Task Force's goal was to develop recommendations concerning the many problems the water industry faces in Arizona.

The Economics and Research Section prepared analyses and recommendations on over 200 tariffs, special contracts and interconnection agreements submitted by telecommunications, electric, and natural gas utilities.

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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 con-

ducts 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 Accounting and Rates 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 assisted in the processing of 348 Water Main Extension Agreements in this fiscal year.

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-

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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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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.

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Fast Facts

The new Compliance Section was responsible for initiating 433 separate actions before even reaching a full year of operations.
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Compliance & Enforcement Section

In the latter part of 1999, the Compliance Section was established within the Utilities Division. 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 1999-2000, the Compliance Section reported the following compliance actions:

- 433 compliance actions were entered into the compliance database for monitoring.
- 314 compliance filings were made by utilities in response to the requirements of Commission Decision or Rules.

- 83 Non-compliance notices were sent to utilities that failed to comply with filing requirements.
- Five formal complaints were filed with the Commission against utilities that failed to meet compliance requirements.
- Two Complaint and Order to Show Cause actions were sent to the Commission for utilities failure to meet compliance requirements.
- 943 annual reports were mailed to utilities and monitored for filing.
- A Complaint and Order to Show Cause was filed with the Commission for failing to file the prior year's annual reports.
- 154 utilities were assessed an annual assessment, which was monitored for compliance.

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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 three interstate natural gas transmission pipelines, one interstate hazardous liquid pipeline, 17 major intrastate gas pipeline operations, two intrastate liquefied natural gas facilities, five intrastate gas transmission pipelines, three intrastate hazardous liquid pipelines and 1,139 master meter natural gas operations.

During FY 1999-2000, the Pipeline Safety Group inspected 17 major intrastate natural gas distribution pipeline operators, five intrastate gas transmission pipeline operators, three intrastate hazardous liquid pipeline operators, two intrastate liquefied natural gas operators, three interstate gas transmission operators, one interstate hazardous liquid pipeline operators and conducted 61 construction inspections, 52 specialized inspection and 25 incident investigations. The Pipeline Safety Group conducted 732 comprehensive inspections, 163 specialized inspections, 663 follow-up inspections and 207 construction inspections of master meter natural gas distribution systems.

Also during FY 1999-2000, the Pipeline Safety Group investigated 315 reported violations of the Underground Facilities

Law, issued 159 notices of violations and collected \$82,700 in fines. Staff also received 405 notices of incidents from pipeline operators and pipeline operators shut off gas service to 73 master meter gas systems requiring repair.

During FY 1999-2000, the Pipeline Safety Group provided 13 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 30 Blue Stake training classes and also presented two 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 two pipeline safety Corrosion Control I training classes for State and Federal Pipeline Safety inspectors.

Railroad Safety Group

The Railroad Safety Group enforces the Federal Safety Standards for track, 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 1999-2000, the Group inspected 2,091 miles of track, 5,693 freight cars, 289 locomotives, 378 crossings and 18 industrial track facilities. It also made 148 operating practices inspections and 1,219 inspections of manufacturers that

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Fast Facts
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During FY 1999-2000, the Pipeline Safety Group investigated 315 reported violations of the Underground Facilities Law. They issued 159 notices of violations and collected \$82,700 in fines.
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Fast Facts
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The Consumer Services Section responds to complaints and inquiries but also helps conduct public comment meetings and participates in events designed to educate the utility consumer. This section will play a large role in educating the public as electric competition is phased in.

ship and receive hazardous materials by rail. The group investigated approximately 152 railroad accidents and 50 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 \$35,811,557 in federal funds and \$3,170,023 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 throughout the country.

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

The Section engaged in the following activities during FY 1999-2000:

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 1999-2000, the Consumer Services Section organized 12 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 1999-2000, the Consumer Services Section conducted 44 arbitrations.

Meter Testing: The Commission, through the Consumer Services Section, tests water meters when the accuracy of the meter reading is questioned. During FY 1999-2000, the Consumer Services Section tested 84 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 24 field investigations in FY 1999-2000.

Small Water Company Workshops:

These one-day workshops are held quarterly 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.

Complaints: The following table lists the total complaints handled by the Consumer Services Section in FY 1999-2000 by utility type and complaint type:

Communication Companies	6,611
Sewer Companies	57
Water Companies	2,151
Electric Companies	1,162
Gas Companies	253
TOTAL	10,234
Rate Case Items	1,836
Service Issues	672
Billing Issues	2,034
New Service Issues	1,692
Other Issues	2,668
Repair Issues	1,189
Deposit Issues	143
TOTAL	10,234

These totals represent verbal, written and e-mail complaints.

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**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 assist Division employees to maximize productivity with the use of technology. Additionally, the Section maintains the existing network

infrastructure and office productivity hardware and software along with planning future IT enhancements.

During FY 1999-2000, the Division continued its many IT improvements within the Division. Web development and maintenance continued to be a major emphasis to provide the public with convenient, timely and accurate information. Other accomplishments included assisting Staff in developing numerous databases, word processing templates and spreadsheet functions. Division staff training goals were furthered by the development of training outlines and plans for all new employees. Section personnel then schedule and oversee the needed training.

For the first half of the fiscal year, the Division’s network continued to support the Commissioner’s Wing, Executive Secretary’s Office, Administration, Legal and Hearing Division in addition to Utilities. Plans were implemented for these other divisions to migrate to their own network resources for the purpose of improved response time, fault tolerance and security.

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**Administrative Services
Section**

The Administrative Services Section provides general administrative and clerical support to the following Sections: Economics and Research, Accounting & Rates, Director’s Office, Engineering and Consumer Services. The Administrative Services Section provided support for the successful continuation of installation of new software, development of computer training and conversion of system databases. Administrative support staff provide the following services: format and process open meeting items, staff reports and correspondence; design and maintain databases; design and maintain computerized filing systems; provide research;

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Fast Facts
Staff from the Consumer Services Section helped to explain, resolve or respond to 10,234 complaints during FY 1999-2000.
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distribute mail and internally generated documents; and copy and bind Division testimony and filings. The Administrative Services Section is responsible for the Docket Control Center, the library and general customer service.

Other items processed by the Administrative Services Section during FY 1999-2000 include:

Annual Reports	943
Central File items	691
Staff Reports	292
Tariffs Administratively Approved	237
Testimony	53

Library: The Administrative Services Section also maintains a multimedia library used by Commission employees. The library contains research materials which include legal, technical and reference publications, as well as federal and state documents, with special emphasis on utility-related issues. The library also has videotapes on telecommunications, computer programs and self-improvement courses.

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, Securities, and Corporations 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 1999-2000, the Docket Control Center processed the following new applications:

Responses to Inquiries/ Research/Assistance	13,149
Filings Docketed & Distributed ...	10,389
Opinion and Orders/Administrative Closures Processed and Mailed	1,054
New Applications Input.....	963
Open Meeting Items Processed	591
Certifications	55
Transcripts Logged & Microfilmed Utilities	304
Securities	28
Corporations	1
Miscellaneous	3

Open Meetings: The Commission conducts regularly scheduled and special Open Meetings for the purpose of decision making. Please see the table on the opposite page for FY 1999-2000 Open Meeting items.

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Fast Facts
The Docket Control Center responded to 13,149 inquiries for research or assistance and docketed and distributed 10,389 filings.

Open Meetings: During FY 1999-2000, the following Utilities items were submitted to the Commission for deliberation:

	Elec	Gas	Wtr/Irr	Sewer	Telecom	RR	Other	Total
Rates	1	3	33	4	3	0	0	44
Financing	6	1	20	3	2	0	0	32
Fuel Adjustors	0	13	1	0	0	0	0	14
Tariffs	8	4	16	4	322	0	0	354
Certificates*	16	0	61	13	212	0	0	302
Grade Crossing	0	0	0	0	0	12	0	12
Orders to Show Cause	0	1	4	0	0	0	0	5
Complaints	3	1	20	3	15	0	0	42
Other**	8	7	8	3	94	0	0	120
TOTAL	42	30	163	30	648	12	0	925

* New, Extensions, Deletions, Transfers

** Includes Arbitration, Service for Resale, Interconnection and General Agreements.

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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 state-wide accomplishment of Corporation Commission responsibilities.

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Fast Facts

The Corporations Division, Hearing Division and Utilities Division have personnel based in the Tucson office.

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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; 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.

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Overview of Activity

As of June 30, 2000, there were a total of 253,724 corporations and LLCs transacting business in the State of Arizona.

Total Active Corporations & LLCs	253,724
Annual Reports Mailed	180,167
Annual Reports Filed*	112,020
Total Phone Calls Handled	381,603

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

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Corporate Filings Section

The Corporate Filings Section approves and processes all filings directly related to Articles of Incorporation and Organization. The Section determines availability of Corporate/LLC names, processes applications filed by foreign corporations and LLCs seeking authority to transact business in Arizona.

This Section works in conjunction with the departments of Real Estate, Insurance, Banking, the Registrar of Contractors and Secretary of State. Laws pertaining to corporate and LLC names are similar to those governing trade names and partnerships, which are administered by the Secretary of State.

The number of documents processed by just the Corporate Filings Section during FY 1999-2000 were as follows:

Domestic Articles of Incorporation	13,170
Foreign Applications for Authority	3,268
Amendments	9,369
Domestic and Foreign Mergers	1,354
Domestic LLCs	12,862
Foreign Applications for LLCs	1,107

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Annual Reports Section

The Annual Reports Section is responsible for processing all annual reports filed by corporations transacting business in Arizona. The reports are checked to ensure all statutory requirements have been met. During FY 1999-2000, this section processed over 112,020 Annual Reports.

The Annual Reports Section is further responsible for carrying out the provisions of A.R.S. §10-1420, 10-1530, 10-11420 and 10-11530 relating to the administrative dissolution of a domestic corporation or revocation of a foreign corporation's authority to transact business in Arizona for failure to meet filing requirements. This action is taken after due process including the issuance of a notice of delinquency sixty days prior to the administrative dissolution or revocation.

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Records Section

The Records Section is responsible for maintaining all corporation and LLC documents filed with the Commission and certifies copies of any and all corporate and LLC documents on file for introduction into court and private business transactions. All corporate files are public record. Microfilmed files may be viewed by the public at the Customer Service Counter. Hard copies of documents can be purchased at a minimal cost per page.

This Section also provides a telephone information service for public inquiries regarding corporate status and general information. The recorded number of corporate status calls during FY 1999-2000 exceeded 154,000 calls. An incoming line is available to provide toll-free service to Arizona residents living outside the metropolitan Phoenix and Tucson areas.

The Commission acts as 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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MIS Section

The State of Arizona Public Access System (STARPAS) project was mandated in FY 1992-1993 by A.R.S. §10-129.01 and 10-1085.01. STARPAS provides on-line public access to corporate and LLC information on file with the Commission. The STARPAS project was completed in FY 1994-1995 and by the end of FY 1999-2000 served over 500 private-sector customers (e.g. one law firm equals one customer) and over 100 government agencies. The MIS section is responsible for the management and enhancement of this system as well as all computer-related issues for the Corporations Division.

The STARPAS system is a direct access system connected to the real-time data-base maintained by the Corporations Division. All information is up-to-the-minute and can be searched by corporation name or by officer, director or statutory agent. Daily information is available to STARPAS subscribers. The Division is in the process of making the STARPAS system available free of charge via the Commission website. The Division anticipates completion of this project by September 2000.

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IPS Section

In FY 1999-2000 the Division completed implementation of the Initial Processing Section (IPS). This section is the initial point of process for all Annual Report related documents. 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

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Fast Facts

At the end of FY 1999-2000 the Corporations Division had 223,080 active corporations and LLCs registered to do business in Arizona.

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section is also responsible for scanning the documents into the Division's imaging system for subsequent review by examiners in the Annual Reports section. In FY 1999-2000 the IPS section processed 145,713 documents. The IPS section is also responsible for transmitting corporate and LLC information into the STARPAS system and preparing documents to be microfilmed.

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Fast Facts

The Corporations Division is in the process of converting its massive STARPAS database to an Internet based system. This will allow anyone with Internet access to gather or verify corporate data for any of the nearly 250,000 corporations or LLCs doing business in or from Arizona.
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Although the IPS system only processes Annual Report related documents at this time, future plans include expanding the system to include all documents received by the Division for filing and posting the imaged documents to the worldwide web.

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Legislation

On behalf of the Division, Representative Barry Wong introduced HB 2172, which corrected inconsistent terminology and conformed several statutes related to LLCs to mirror statutes governing corporations. Examples of such changes include creating the ability for LLCs to file Articles of Correction to correct non-substantive errors in previous filings, allowing the ability to provide for a delayed effective date and granting the Commission the authority to propound interrogatories to LLCs. The bill also removed a 25-year life limitation imposed upon Cooperative Marketing Associations and reduced the minimum number of incorporators from two persons to one for Electric Cooperative Not-For-Profit Corporations. The bill was passed by the Legislature and signed into law (Laws 2000, Chapter 212).

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Awards

Jeffrey McNany, the Corporations Division MIS Manager, was named Employee of the Year by the Arizona Administrators Association. The Division and Mr. McNany's staff were proud to nominate him as the recipient of this award, and are equally proud that he received it as recognition for his many achievements and contributions.

The Securities Division reviews prospective offerings of securities to ascertain that full and fair disclosure is made to potential securities investors and that the terms of offerings are not inherently fraudulent. Securities dealers and salespersons and investment advisers and investment adviser representatives are required to register with the Division prior to conducting business in Arizona. The Division reviews these applications and monitors the conduct of investment advisers and investment adviser representatives, dealers and salespersons; investigates possible violations; where the evidence warrants, brings administrative, civil or criminal enforcement actions; and conducts programs to educate investors to protect themselves. The Division consists of four sections: 1) Registration and Compliance, 2) Office of the General Counsel, 3) Enforcement and 4) Management Information Systems.

Registration & Compliance Section

Registration and Compliance reviews applications for registration of securities under the Arizona Securities Act. The section also reviews applications for exemption from the registration provisions of the Act. The Section participates in the early stages of the capital formation process through its pre-filing conferences with issuers. The Division makes its staff available to issuers through pre-filing conferences in which a potential issuer meets with members of the staff to discuss applications to register securities. This program has significantly reduced the time a filing spends in the review process is significantly reduced by this program. Section staff participated in three pre-filing conferences last year.

This Section is also responsible for the administration of the registration and licensing provisions of the Securities Act and the Investment Management Act.

Staff conducts on-site examinations of dealers and investment advisers to ensure compliance with these Acts. The Corporation Commission is authorized to deny, suspend, or revoke a registration or license, to assess fines and to order restitution. During FY 1999-2000 the section processed 2042 dealer and 117,159 agent registrations. In addition, 99 investment adviser and 638 investment adviser representatives were licensed. A total of 77 field examinations of dealers and investment advisers were conducted.

The Section processed 15,968 applications for securities registration, 1,484 filings for various exemptions from registration and 1,476 name change requests during FY 1999-2000.

The Section also devoted substantial efforts to enforcement actions against registered and unregistered persons. These actions are included below in the statistics for the Enforcement Section.

The Division participated in a national committee, which developed and implemented a system for coordinating the registration of corporate securities among all but 3 states, which register securities. Arizona has served as the lead reviewer state in the program (Coordinated Equity Review) which effects substantial cost savings for small companies going public.

Enforcement Section

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

The Arizona Corporation Commission is granted the authority to issue an Order to Cease and Desist, apply to the Superior Court of Maricopa County for an injunction, transmit evidence to the Attorney

Securities Division

Mark Sendrow Director

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

General who may petition the Superior Court of Maricopa County for the appointment of a conservator or receiver, and transmit evidence to the Attorney General who may directly institute, or cause to be instituted, criminal proceedings.

During FY 1999-2000, the Division initiated 56 investigations and had a total of 134 cases under investigation at year-end. It instituted 35 administrative proceedings and transmitted evidence to the Attorney General, which resulted in three criminal cases involving three defendants. A total of 252 subpoenas were issued and 76 examinations under oath were taken during the year.

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 are appointed Special Assistant Attorneys General to assist during litigation.

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Fast Facts

During FY 1999-2000, the Division initiated 56 investigations and had a total of 134 cases under investigation at year-end.
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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 training program, and the duty officer program (response to public inquiries); and advising the director regarding general administrative matters.

In FY 1999-2000, the general counsel office proposed changes to the Arizona

Securities Act and the Investment Management Act that were ultimately embodied in Senate Bill 1099, signed into law effective July 18, 2000. Changes include the addition of viatical settlement investment contracts to the definition of securities, the addition of an exemption from registration for viatical settlement investment contracts, the authority for the superior court to award expenses and attorneys fees to the commission resulting from an action to enforce a subpoena, guidelines for no-action letter requests, clarification of filing requirements, modification of the eleemosynary exemption from registration, and codification of confidentiality regulations.

The general counsel office initiated the following rulemakings: to update an exemption from registration for compensatory plans based on changes to a similar federal rule; to amend an exemption from registration for sales to accredited investors to provide greater uniformity with other similar state exemptions; to provide clear guidelines regarding registration requirements for preferred stock offerings, debt offerings, and equity offerings; and to update investment adviser representative examination requirements based on changes to standard examinations. Division duty officers responded to over 4200 inquiries from the public and Division staff made in excess of 60 investor education presentations and distributions of educational videos to the public.

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Administrative Matters

The Securities Division's investor education program includes a year-round speakers bureau for civic and consumer groups. It involves distribution of investor education brochures, bulletins, and videos and on-going dissemination of information to local, regional, and national

media to reach the Securities Division's primary audience, the individual investor. 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.

During fiscal year 1999-2000, the Securities Division participated in the "Facts of Savings and Investing Campaign of the Americas"—an investor education program involving investor protection agencies from Chile to Canada; the fraud telephone bank appearing on channel 12 as part of a consumer awareness campaign sponsored by the office of the attorney general; and a number of television, radio, and newspaper interviews regarding financial issues.

The Securities Division participated in "Financial Literacy 2001"—a campaign targeting high school personal finance teachers across America. The Financial Literacy program is designed to improve the financial skills of secondary school students by equipping personal finance teachers with better teaching tools.

The Securities Division developed a number of partnerships with which it continues to further educational efforts, including the Elder Fraud Prevention Task Force, the Arizona Council on Economic Education, and the Financial Services Education Advisory Committee.

The Commission is also a sponsor and the Securities Division provides speakers for the 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 believes an informed, educated investor is the first line of defense against investment fraud.

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**Management Information
Systems Section**

The Division's Management Information Systems section operates, maintains and implements upgrades and modifications to the division's local area network. It is responsible for design of required databases and reports. This section provides training to staff on new software applications.

This section also provides support to enforcement in pursuing the collections of commission ordered restitution and fines for violations of the Arizona Securities Act and the Investment Management Act.

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Fast Facts

The Securities Division supports the Arizona Council on Economic Education's Stock Market Game which teaches elementary and secondary education students about the stock market, risk and reward and how to create and track a portfolio.
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**Hearing
Division**

**Jerry
Rudibaugh
Chief Hearing
Officer**

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

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 Hearing Officer, proceedings are conducted on a formal basis through the taking of direct 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 Hearing Officer from the bench. Rate applications are processed under the procedural schedule established by the Hearing Officers, 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 1999-2000, the six Hearing Officers in the Division conducted 260 public hearings/arbitrations, encompassing a total of 270 days. A summary of hearings/arbitrations is shown in the table on the next page.

Based upon the record evidence presented at public hearings, or filings made in non-hearing matters, the presiding Hearing Officer 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 1999-2000, the Hearing Division prepared a total of 317 recommended orders, 112 for cases involving a hearing and 205 for non-hearing matters, mainly expedited rate applications

for small water companies, coin operated pay telephones, and inter/intraLATA resellers.

Throughout the pendency of cases before the Commission, the presiding Hearing Officer 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 1999-2000, the Hearing Division issued 522 such orders.

As to FY 2000-01, the Hearing Division anticipates a major increase in workload related to arbitrations, electric competition, telephone competition, major rate cases, as well as a continuance of an increased workload related to the Securities Division. Many of the initial Interconnection Agreements approved pursuant to the Federal Telecommunications Act of 1996 will be expiring, resulting in an increase in the number of arbitrations. With the commencement of electric competition, it is anticipated that the number of certificates of convenience and necessity hearings and other related electric competition matters will increase. In addition, the number of certificates of convenience and necessity proceedings for the resale of competitive telecommunication services will increase.

There are already a number of significant rate cases scheduled for FY 2000-01 and Qwest's rate case is presently scheduled for late 2000. In addition, the Commission is revisiting the consolidated Telecommunications Cost docket. Further, hearings will take place to determine if Qwest has complied with the requirements of the checklist for Section 271 of the Telecommunications Act of 1996. There are also several major sales and mergers pending including the sale of Qwest's telecommunications holdings to Citizens.

Because of increased competition in the electric and telecommunication industries, the amount and extent of discovery disputes has increased substantially. As the workload has dramatically increased, the Hearing Division is concerned the continued growth will make it more difficult to keep up with the increased workload. As a result, the Hearing Division will be requesting a new position to be added in FY 2001-2002 as well as higher salaries commensurate with other Divisions.

The table to the right lists all hearings held by the Hearing Division in FY 1999-2000.

Public Hearings During FY 1999-2000

Type of Hearing	Number
Pre-Hearing Conferences	58
Orders to Show Cause and Complaints	37
Certificates of Convenience and Necessity	29
Rate Cases	25
Securities Division	24
Miscellaneous (oral arguments, motions to compel, etc.)	22
CC&N Extensions	17
Transfers/Sales	13
Railroad/Safety Group	11
Public Comments	11
Rules (new and amended)	8
Arbitration	3
Generic Investigations	2
Deletions	0
Tariff	0
Line Extensions/Agreements	0
Financing	0
Adjudications	0
TOTAL	260

**Public Hearings
During
Fiscal Year
1999-2000**

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.

The following tables portray actual revenue and expense data for FY 1998-99 and FY 1999-2000. Estimated numbers for FY 2000-2001 are offered as well.

Commission Revenue by Source	Actual	Actual	Estimated
	1998-99	1999-00	2000-01
Corporation Filing Fees*	7,047,389	7,563,095	7,899,600
Security and Broker Fees*	11,800,726	12,450,934	13,073,500
Miscellaneous Service Charges*	116,195	100,946	93,700
Fines & Forfeitures*	407,950	1,871,756	288,800
Utility Assessments	7,256,069	8,801,164	9,297,400
Pipeline Safety Revolving Fund — Fines	100,000	0	0
Sec. Regulatory & Enforcement Fund	2,474,939	2,863,557	2,400,000
Sec. Investment Management Act Fund	1,153,526	1,194,102	1,200,000
Public Access Fund	1,757,400	1,969,110	2,051,200
Federal Grant	470,400	428,481	373,500
TOTAL	32,584,594	37,243,145	36,677,700

*Deposited in the State General Fund

Expenditures by Budget Program	Actual	Actual	Estimated
	1998-99	1999-00	2000-01
Administration & Hearing Divisions	1,952,200	2,229,400	2,327,900
Corporations Division	3,558,700	4,037,200	4,094,200
Securities Division	3,970,900	4,331,500	4,648,400
Railroad Safety Group	487,600	456,000	691,500
Utilities Division	5,735,700	5,990,700	6,802,300
Legal Division	1,144,000	1,188,200	1,232,600
TOTAL	16,849,100	18,233,000	19,796,900

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Table 2
Expenditures
by Budget
Program

Expenditures by Fund Source	Actual	Actual	Estimated
	1998-99	1999-00	2000-01
General Fund	5,714,500	5,938,900	6,165,300
Arts Trust Fund	29,800	31,700	34,900
Sec. Regulatory & Enforcement Fund	1,954,800	2,608,400	2,882,500
Sec. Investment Management Act Fund	666,700	692,600	711,700
Utility Regulation Revolving Fund	6,893,200	7,298,200	7,991,700
Public Access Fund	1,480,100	1,568,900	1,672,900
Pipeline Safety Revolving Fund	0	0	0
Federal Funds	110,000	94,300	337,900
TOTAL	16,849,100	18,233,000	19,796,900

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Table 3
Expenditures
by Fund Source

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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-present
Jim Irvin	Republican	1997-present
Tony West	Republican	1999
William "Bill" Mundell	Republican	1999-present



Arizona Corporation Commission

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