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January 28, 2016

NOTICE OF INVESTIGATION

RE: Docket No. AU-00000A-15-0309

Dear Mr. Brandt:

It is with regret that I now embark upon the next stage of my inquiry into APS's possible campaign contributions. Originally, I had hoped to address these concerns by focusing upon APS's future behavior, and to that end, I asked APS last year to voluntarily agree to refrain from making political contributions concerning the Corporation Commission in the upcoming election cycle. You rejected that proposal.

I next asked you to provide a report listing any campaign contributions provided by APS in 2014. You declined to provide this information, claiming that such disclosure would "impinge on APS's First Amendment rights." As I have previously stated, I recognize that both APS and Pinnacle West have a First Amendment right to make campaign contributions, and it is not my intention to interfere with the exercise of those rights. It is my position, however, that disclosure requirements do not offend the First Amendment when the information sought is related to the Commission's constitutional and statutory regulatory authority.

In the current climate, there is a public perception that APS has used funds earmarked for its costs of service to support various political campaigns. Recently, I have become concerned about the lack of transparency for all of APS's below-the-line expenditures. In sum, I intend to initiate an investigation pursuant to my authority under A.R.S. § 40-241 to determine whether APS has used above-the-line funds for political, charitable, or other donations. Although my inquiries were initially focused on potential campaign contributions, I now intend to broaden my inquiry to include funds expended on all political contributions, lobbying, and charitable contributions, *i.e.*, all donations made—either directly or indirectly—by APS or under APS's brand name for any purpose.

APS's 2014 FERC Form 1, page 117, reports "donations" (Account No. 426.1) in the amount of \$1,998,442 and "expenses for civic, political & related activities" (Account No. 426.4) in the amount of \$2,883,694. I am interested in examining APS's books and records to determine the specific expenditures that make up these amounts. In addition, I am under the impression that APS's affiliates sometimes make donations using affiliate funds, but under APS's brand name. I would like to examine the full parameters of this arrangement, including a full accounting of all contributions/donations given by APS's affiliates under APS's brand name.

Finally, I am aware that APS and its affiliates, especially Pinnacle West, share commonalities in terms of officers and directors, as well as other personnel. I would like to investigate the degree to which APS and Pinnacle West are intertwined in terms of organization, operation, and structure.

Pursuant to my authority under A.R.S. § 40-241, I hereby expressly direct APS to make its accounts, books, papers, and documents available for inspection. Also pursuant to A.R.S. § 40-241, APS is directed to make available the appropriate person(s) to answer questions about their books, records, and business affairs. I will designate a representative to perform the inspection and the interviews, and pursuant to A.R.S. § 40-241, I intend for those examinations to be conducted under oath so that a written record may be publicly filed pursuant to A.R.S. § 40-241.C.

My office will be in contact with you soon in order to schedule a mutually convenient series of dates for the conduct of this investigation. To be clear, unlike my previous communications, this letter is not intended as a request, but is instead a *requirement* for your cooperation under A.R.S. § 40-241. I look forward to your full compliance in this matter.

Sincerely,

A handwritten signature in cursive script, appearing to read "Robert L. Burns".

Robert L. Burns
Commissioner