

Arizona Corporation Commission

Annual Report for Fiscal Year 2010–2011



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

Contact the Commission

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Phoenix, AZ 85007

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Phoenix, AZ 85007

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Consumer Services – Corporations...602-542-3026
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Table of Contents

Mission	7
About the Commission	7
Commissioners	8
Executive Director	14
Administration Division.	15
Corporations Division	17
Hearing Division	19
Information Technology Division	22
Legal Division	24
Safety Division	26
• Pipeline	26
• Railroad	27
Securities Division	28
Utilities Division	31
Appendix	36
Commissioners Since Statehood	38

July 2010-December 2010

Kristin Mayes, Chairman

Gary Pierce, Commissioner

Sandra Kennedy, Commissioner

Paul Newman, Commissioner

Bob Stump, Commissioner

Executive Director

Ernest Johnson

Administration

Kim Battista

Corporations

Jeff Grant

Hearing

Lyn Farmer

Legal

Janice Alward

Securities

Matt Neubert

Utilities/ Pipeline and Railroad Safety

Steve Olea

Information Technology

Clark Lathrum

January 2011-June 2011

Gary Pierce, Chairman

Bob Stump, Commissioner

Sandra Kennedy, Commissioner

Paul Newman, Commissioner

Brenda Burns, Commissioner

Executive Director

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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.

About the Commission

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

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

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

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

Organization

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.

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 Director 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 eight 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 Director.

Kristin Mayes, Chairman

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

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

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

Commissioner Mayes was appointed in October 2003 to fill a vacancy. She ran for and won the election to complete the vacancy term which expires in January 2006. She has devoted much of her time since the appointment to pipeline safety, renewable energy and natural gas issues.

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

Commissioner Gary Pierce

Commissioner Gary Pierce was born in Illinois and raised in Mesa, Arizona. He graduated from Mesa High School. A track scholarship took him to Mesa Community College then transferring to Arizona State University, he graduated in 1974 with a Bachelors Degree in Education.

Pierce taught at Mesa's Taft Elementary School with a career in the automobile business following his teaching experience. After managing dealerships for four years in Sierra Vista, he moved to Yuma and became a Honda and Nissan dealer. Pierce also owned a Shell Gas Station and Budget Rent-A-Car franchise. Upon selling his businesses, he was twice elected to the Yuma County Board of Supervisors. The Pierce family moved back to Mesa 1998.

Pierce served in the Arizona House of Representatives for District 19 (North/East Mesa) from 2001 thru 2006. In 2005 and 2006 he served as Majority Whip. He served on a number of legislative committees including Environment; Natural Resources and Agriculture; and as Chairman of Transportation. He previously served on the Arizona Housing Commission, the Maricopa County Planning and Zoning Commission and the Maricopa County Department of Transportation Advisory Board.

In January of 2004, Representative Pierce sponsored HB2456, which authorized Maricopa County to call an election for a twenty year extension of the half-cent sales tax to fund transportation. The Regional Transportation Plan was placed on the November ballot, as Proposition 400. That measure passed, ensuring the resources to continue construction of our freeways with the goal to build a complete transportation system in Maricopa County.

Pierce has been married to Sherry, a Mesa native, for 34 years and they have four sons, three daughters-in-law and four grandchildren.

Pierce served as an Assistant Scoutmaster with his son's Boy Scouts of America troop and all four of his sons are Eagle Scouts.

Commissioner Sandra Kennedy

Sandra D. Kennedy was elected to the Arizona Corporation Commission on November 4, 2008. Kennedy was first elected to the Arizona House of Representatives in 1986 where she served for six years (1986-1992). During this time, she was appointed to the Arizona Employment and Training Council by Governor Rose Mofford and, in 1990, was appointed to the Executive Committee of the State Democratic Party and served for two years. Also, that year, she was elected to serve a four year term on the Phoenix Union High School Governing Board. IN 1992, she was elected State Senator and subsequently served three terms (1992-1998).

A graduate from South Mountain High School, Kennedy attended college within the Maricopa Community College District and Arizona State University, majoring in Accounting and Business Administration.

Her many past and present community and civic projects include the following:

- Tutor for Valley Christian Center and Valle Del Sol
- Board member of the Arizona Cactus Pine Girl Scout Council
- Ex-Officio Member of Phoenix Community Alliance
- Former Board member of the Community Excellence Project
- Performer with the Arizona Black Theatre

Additional Accomplishments of Sandra Kennedy:

- Voted Outstanding Young Woman of America in 1984.
- A member of the National Association of Female Executives
- A delegate to the Foreign Relations Conference in June 1988 from the American Council of Young Political Leaders
- A member of the National Conference of State Legislators and the National Black Conference of State Legislators.
- Former owner of the business enterprise, Kennedy Restaurants, LLC

Sandra Kennedy was born in Oklahoma City, Oklahoma and came to Phoenix in 1971. She is the mother of three: Mahogany; Amber and Seth.

Commissioner Paul Newman

Paul Newman was born and raised on his family's dairy farm in New Jersey. He earned a B.A. in Behavioral and Social Science from the University of Maryland, a Master in Public Administration and a Master in Judicial Administration from University Southern California, and a Juris Doctorate from California Western School of Law.

Before moving to Arizona in 1988, he was an administrator, researcher, and consultant with the California court system where he served as Court Management Consultant for the National Center for State Courts, California Supreme Court, Los Angeles Municipal Court, Sacramento Municipal Court and San Diego Superior Court from 1976 through 1986.

Newman has also served as a Public Defender in San Diego County, Cochise County and Pima County and maintains a private practice in Bisbee. He has also completed a Certificate in Public Policy from the University of Arizona.

Newman is a proven, effective leader in his life of public service. He was a two-term Cochise County Supervisor and three-term State Representative. He was named Legislator of the Year by Arizona Association of Counties and by the Behavioral Health Community for his work in the Arizona Legislature and has served the people of Cochise, Graham, Greenlee and Santa Cruz counties since 1992. During his tenure in the Arizona Legislature, The League of Conservation Voters consistently ranked Paul Newman #1 in voting to protect the environment.

As an example of his dedication to the environment, as Cochise County Supervisor, Newman successfully stopped a trash burning incinerator in Whetstone and a coal burning power plant in Bowie. On April 21, 2008—Earth Day—he received The U.S. Dept. of the Interior Cooperative Conservation Award for his work in preserving the San Pedro River.

Paul Newman led a successful funding effort for Kartchner Caverns and established a state-wide rural technology incubator system; secured funding for Healthy Families, Healthy Children; developed tax credits for businesses to hire the unemployed; fully-funded the widow and disabled homeowners tax credit; assisted in establishing and funding the border volunteer corps program; and lobbied to secure full funding for the University of Arizona at Sierra Vista and Cochise College. He has always been responsive to the needs of constituents and can be trusted to be a strong voice for the people.

Paul Newman is an advocate for creating a sustainable economy while protecting our environment and works to lead Arizona in becoming a significant source of solar energy. Establishing Arizona as an exporter of solar power to the entire United States will create good paying green collar jobs and will allow America to throw off the chains of foreign oil dependence. Arizona can spur the growth of appropriate technologies for addressing climate change by leading the way on solar power. Our state's economy will reap the benefits of the research, development, construction, maintenance, staffing and training required to upgrade to the energy source of the new millennium.

Commissioner Bob Stump

Commissioner Bob Stump was elected to the Arizona Corporation Commission in 2008. He represented District 9 in the Arizona House of Representatives from 2002-2008.

Bob has been deemed one of Arizona's "Best State Representatives" by the *Arizona Capitol Times*, based on a survey of Arizona's government and civic leaders. He has received over a dozen awards in recognition of his efforts to improve Arizonans' health care and protect Arizona's taxpayers – including awards from the Arizona Medical Association ("Walk the Talk" award), the Arizona Healthcare Association ("Legislator of Distinction"), the Alzheimer's Association and the Autism Society of America. The March of Dimes has honored Bob for helping improve the odds for Arizona's babies by working to prevent birth defects. Bob has also been recognized as a "Champion of the Taxpayer" by the Arizona Federation of Taxpayers and an "Eagle for Enterprise" by the Arizona Small Business Association for his work on behalf of small-business owners.

In the Legislature, Bob served as a member of the House Water and Agriculture Committee, where he helped promote sound water management policies for our state. He has a wide range of policy experience, having served as Chairman of the House Health Committee; Co-Chair of the Joint Select Committee to Investigate Operations and Conditions at the Arizona Veterans Home; Vice Chair of the Health and Rules committees; and as a member of the Commerce & Military Affairs, Ways & Means, Financial Institutions & Insurance, Ethics and Education committees. Bob also helped craft several multi-billion-dollar budgets for our state.

Bob's innovative policy proposals have made front-page news in *USA Today* and serve as model legislation for legislatures throughout the country. He has discussed key legislative initiatives on CNN; "Your World with Neil Cavuto," on the Fox News Channel; National Public Radio; as well as various national and international media. In 2006, Bob was a featured guest on C-SPAN's "Washington Journal," which devoted nearly an hour to discuss his policy ideas with a national audience.

Before seeking public office, Bob worked as a reporter and editor for leading national and local magazines and newspapers in Washington, D.C., and Tucson.

Bob also served as a research associate via the New York-based Manhattan Institute to author and former presidential speechwriter David Frum; as an aide to Fred Barnes and William Kristol; and as a speechwriter for Republican candidates and officeholders in Arizona.

Bob holds degrees from Harvard University, where he studied political philosophy with columnist George F. Will, as well as American religious history, and the University of California at Berkeley, where he studied philosophy and social thought, and from which he graduated with High Honors.

Commissioner Brenda Burns

Raised in a military family, Brenda Burns lived many places while growing up. In 1969 she moved to Arizona and made it her home. As an owner/manager of a family business, Brenda learned firsthand the impact which laws, rules and regulations can have on a small business' ability to succeed and create jobs. Brenda Burns' business experience was invaluable when she began her long history of representing Arizonans. She first served in the Arizona House of Representatives from 1987 to 1995. In 1993, Republican House members elected Brenda to the position of Majority Leader, making her the first woman to hold the position in Arizona.

Brenda served eight years in the Arizona State Senate. In 1997, she became the first woman to hold the position of Arizona Senate President. As Senate President, Brenda was instrumental in the formation and passage of the State's \$6 billion dollar budget and reduced the Senate's multimillion dollar budget by over eight percent. A champion of taxpayers, she led successful efforts to reduce and keep taxes low for both individuals and business. Brenda's persistent emphasis on protecting Arizona citizens from high taxes, high regulatory costs and excessive spending led to her recognition by the U.S. Small Business Administration as "a leader in regulatory reform".

Throughout her political career Brenda Burns worked with leaders throughout the United States. As an active member of the American Legislative Exchange Council, she served on its board for nine years, becoming ALEC's national Chairman in 1999. There she worked with other national leaders on many issues, with a strong focus on States' Rights.

Brenda lives in Scottsdale and is a licensed real estate agent. She is married to Bob Isbell. They have a combined family of six adult children and ten grandchildren.

Executive Director

Ernest G. Johnson

Mr. Johnson has over twenty years of Public Utility regulatory experience spanning all aspects of Electric, Natural Gas and Telecommunication issues. He currently serves as Executive Director for the Arizona Corporation Commission. Mr. Johnson began his regulatory career at the Oklahoma Corporation Commission serving as Staff Attorney, Deputy General Counsel and Utilities Director. Mr. Johnson joined the ACC as Utilities Director in 2001 and served in that capacity until August of 2009 when he was appointed to the position of Executive Director. Mr. Johnson has served on numerous commissions and boards including NARUC sub-committees focusing on Electric and Telecommunication issues.

Administration Division

The Administration Division is composed of the elected Commissioners and their staffs, the Executive Director's office and the administrative functions that provide the fiscal and administrative services to support all divisions of the Corporation Commission. The Administration Division Director oversees both the administrative and fiscal functions.

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

Open Meetings & Other Proceedings

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

The Commission conducts formal hearings on contested matters such as rate requests, complaints and securities violations. Evidence is collected at hearings but no vote is taken. All decisions of the Commission are made in open meetings. Open meetings are conducted after the agenda of the meeting has been made available to the public. In some limited instances, such as legal matters and personnel matters, the Commission may meet in executive session.

Hearings, open meetings, and executive sessions, while administrative in nature, are very formal in process. Comments may be

received from the public, interested parties and the staff of the Commission during Open Meetings.

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

Legislative Activities

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

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

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

Civic Activities

Commission employees have often been recognized for their personal efforts and contributions to fulfill civic needs.

During FY 2010-11, the Commissioners and employees together:

- Commission employees contributed through 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.

- Commission employees volunteer time to non-profit groups, Donate blood in specially arranged blood drives held at the Commission's facilities; and
- Fully support and actively participate in environmental improvement activities such as the "Clean Air Force" (car pools, Don't Drive One-in-Five Campaign, bus riding) and recycling of paper, newsprint, and aluminum cans.

In addition to revenue deposits, the Business Office issued 199 purchase orders, 1510 claims; received and entered 134 items into inventory; and serviced 255 employees through personnel actions and payroll transactions.

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 in coordination with the Executive Director 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, and salesperson or agent registrations. During FY 2010-11 the Business Office received and processed almost \$60 million in revenue to the State Treasurer.

Penalties and fines for violations of the Securities Act or utility regulations are required to be deposited in the General Fund and do not remain within the control of the agency.

Corporations Division

Patricia L. Barfield
Director

Mission: *To grant corporate or limited liability company status to entities organizing under the laws of Arizona; to approve applications from foreign corporations and limited liability companies to conduct business in this state; and to maintain corporate and limited liability company records for the benefit of public record and service of process.*

The Corporations Division approves the filing of all articles of incorporation for Arizona corporations, all articles of organization for Arizona limited liability companies (LLCs), grants authority to foreign corporations and LLCs to transact business in this state, propounds interrogatories when necessary, and may administratively dissolve corporations and LLCs that do not comply with specific provisions of Arizona law.

The Division collects from every corporation an annual report, which reflects its current status and business, and 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 information to them in the most expedient manner possible.

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

The Corporations Division has limited investigatory powers and no regulatory

authority. Arizona corporations and LLCs, however, may be administratively dissolved if certain statutory requirements are not met. Likewise, the authority of foreign (non-Arizona) corporations or LLCs to transact business in Arizona may be revoked.

The Corporations Division is comprised of five sections (Corporate Filings, Call Center, Records, Annual Reports, Initial Processing), with each Section designed to perform specific functions. The division also has a Tucson Office to serve the residents of Southern Arizona.

Overview of Activity

As of June 30, 2011, there were a total of 678,983 corporations and LLCs transacting business in the State of Arizona.

Total Corporations & LLCs.....	678,983
Annual Reports Filed.....	137,614
Total Phone Calls Handled.....	123,184

Corporate Filings Section

Some of the key documents processed by the Section during FY 2010-11 were as follows:

Domestic Articles of Incorporation.....	7,497
Foreign App. for Authority.....	2,374
Amendments – corporations	2,095
Amendments – LLCs.....	14,339
Domestic and Foreign Mergers.....	622
Domestic Articles of Organization (LLCs).....	45,558
Foreign applications for LLCs.....	2,539
Dissolutions/Withdrawals.....	1,959
LLC terminations.....	4,831

Call Center Section

Call Center employees handle the vast majority of telephone inquiries regarding corporate filings. The staff researches rejected filings, assists online filers, and responds to other general filing questions.

Incoming Calls.....149,163
Total Phone Calls Handled.....123,184

Annual Reports Section

The documents processed by the Annual Reports Section during FY 2010-11 were as follows:

Annual Reports filed.....137,614
E-submitted Annual Reports96,922
Total Reinstatements.....3,029
Notices of Pending Administrative
Dissolution or Revocation54,264
Certificates of Administrative Dissolution or
Revocation24,985

Records Section

The Records Section processed 31,235 records orders received by mail and over the counter during FY 2010-11. The Commission acts as an agent for Arizona corporations and LLCs whenever either entity does not maintain a statutory agent or when the agent cannot be located. In these instances, service of process directed to the entity is accepted by the Records Section on behalf of the corporation or LLC.

Initial Processing Section

This Section is the beginning point of processing and examination for nearly all documents received by the Division, including Annual Reports, Amendments, Articles of Incorporation, Articles of Organization, Name Reservations, Changes, Applications

for Authority to Transact Business and Applications for Authority to Conduct Affairs. The Initial Processing Section processes filing fee payments, bar codes and stamps the document, and enters information into a computerized tracking system (STARPAS). The Section then scans the documents into the Division's imaging system for subsequent review by examiners in the Annual Reports and Corporate Filing sections. The Section also prepares documents to be microfilmed.

The following payments and documents were processed by the Initial Processing Section during FY 2010-11:

Payments processed105,660
Documents Scanned231,703

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.*

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 ("ALJ"), 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 recommended Opinion and Orders are issued in a timely manner within the framework of the Commission's "timeclock" rules.

During FY 2010-11, the eight ALJs in the Division conducted 383 public hearings/arbitrations, encompassing a total of 478 days. The ALJs also conducted 163 procedural conferences.

Based upon the record evidence presented at public hearings, or filings made in non-hearing matters, the presiding ALJ 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 2010-11, the Hearing Division prepared a total of 155 recommended orders, 75 for cases involving a hearing and 80 for non-hearing matters. These recommended orders resolved rate applications, CC&N applications and extensions of CC&Ns, Securities cases, and various other matters.

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 2010-11, the Hearing Division issued 551 procedural orders.

During FY 2010-11, major rate cases that were resolved included: Arizona Water Company, Black Mountain Sewer Corporation, Arizona-American Water Company, Global Water – Palo Verde, Litchfield Park Service Company, UNS Electric, Inc., Arizona Electric Power Cooperative, Inc., Southwest Transmission Cooperative, Inc., and Johnson Utilities, LLC. Significant rate cases resolved included Rio Rico Utilities Inc., Sahuarita Water Company, Bella Vista Water Company, Mount Tipton Water Co., Inc., Southland Utility Company, Coronado Utilities, Inc., and emergency rate

cases for Mirabell Water Co., Kohl's Ranch Water Company; and Eden Water Company, Inc. The Hearing Division also conducted a telecom arbitration involving Qwest Corporation, several CC&N hearings and order to show cause proceedings, as well as numerous financings and waiver/reorganization/merger cases, including the Qwest Corporation/CenturyTel Inc. merger. The Hearing Division conducted rulemaking proceedings for both Electric and Gas Energy Efficiency and issued numerous recommended orders on non-hearing rate cases, CC&N applications, railroad crossings, and extensions of time to a previous Decision.

During FY 2010-110, significant time was invested in hearings, procedural conferences, and procedural orders related to the following cases: Radical Bunny (Securities); Litchfield Park Service Co. (Rehearing of Decision No. 72026); Arizona-American Water Company (Waiver); Arizona Public Service Co. (Finance); Far West Water and Sewer Complaint, Bermuda Water Co., Las Quintas Serenas Water Company, Goodman Water Co., Arizona Water Co., and Baca Float Water Co. (all Rate cases), Arizona Water Co. (CC&N Extension), Bureau of Indian Affairs vs. Mohave Electric Cooperative (Rehearing of Decision No. 72043), Johnson Utilities Co. (Amend Decision No. 71854), and Sulphur Springs Valley Cooperative, Inc. (REST tariff) and various CC&N application and extension cases.

The Hearing Division has continued to see an increased number of rate cases and Securities cases, along with numerous requests for extension of time for utilities to comply with previous Commission Decisions.

As to FY 2011-12, the Hearing Division anticipates an exceptionally heavy hearing year conducting rate cases including: Arizona Public Service Co., Southwest Gas Corp., UNS Electric, UNS Gas, Arizona Water Co. (2 rate applications), Arizona-American Water Co., Navopache Electric Cooperative, Inc., Mohave Electric Cooperative, Inc., SemStream Arizona Propane, Doney Park Water, Indiada Water Co., Tusayan Water Development Association, Inc., Chino Meadows II Water Co., Inc., Bermuda Water Co. Inc., Appaloosa Water Company, Picacho Peak Water Company, DII Emerald Springs, Pima Utility Company, and Sabrosa Water Company. In addition to all the pending rate cases, the Hearing Division is conducting a hearing on APS' request to acquire additional ownership interest in generating units at Four Corners and we expect to conduct a rulemaking docket on pipeline safety, hearing(s) on the REST implementation plans, CC&N applications, and CC&N extensions for Arizona Water Company and Rio Rico Utilities Co., and additional cases filed by various utilities as well as Securities cases.

During FY 2010-11, Docket Control continued to scan documents and final decisions from prior years into eDocket, which will enhance the ability of users to research and relevant documents.

The following public hearings were held during FY 2010-11:

Type of Hearing	Number
Orders to Show Cause and Complaints.....	5
Certificates of Convenience and Necessity	15

Rate Cases	78
Securities Division	47
Miscellaneous (oral arguments, motions to compel, etc.)	20
CC&N Extensions	5
Transfers/Sales	13
Railroad/Pipeline Safety Group	15
Public Comments	9
Rules (new and amended)	3
Arbitration	7
Generic Investigations	6
Deletions	0
Tariff	0
Line Extensions/Agreements	0
Financing	19
Adjudications	7
Line Siting	1
Mergers	88
Amend Decisions	35
SUB TOTAL	373
Pre-hearing Conferences	39
TOTAL	412

decisions, and transcripts of cases for use in research.

During FY 2010-11, the Docket Control Center processed the following documents:

Responses to Inquiries/ Research/Assistance	6,000
Filings docketed & distributed	8,530
Opinion and Orders/Administrative Closures processed and mailed	575
New applications input	608
Open Meeting items processed	1,220
Certifications	82
Transcripts logged & microfilmed Utilities	337
Securities	51
Corporations N/A	

Docket Control Center

The Docket Control Center accepts filings and maintains the official case records for the Utilities, Securities, and Safety 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 scans and inputs data and filed documents into the Commission’s *e-Docket*, making them available for viewing on the internet. Docket Control also assists the public and staff in retrieving the files,

Information Technology (IT) Division

Clark Lathrum
Chief Information Officer/Director

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

The Information Technology Division provides technology leadership, solutions, services and support for the entire Commission.

The staff is organized into four specialty areas:

- Development -- Specialists in software and computer programming, who develop, maintain and enhance the various systems used by the staff and the general public.
- Project Management – Specialists in the initiation, definition, execution, control and close-out of information technology projects.
- Support – Support Center staff troubleshoot, train and respond to requests for assistance from agency-wide staff and the public.
- Systems -- Personnel who focus on integrating enterprise network hardware (servers, switches, etc) and software (email, operating systems, data security, etc.).

During Fiscal Year 2010, development of the new STARPLUS system continued. The STARPLUS project is a collaborative effort with the Corporations Division and to replace

the 18 year-old current incorporating application (STARPAS) and website.

A complete redesign and update of the Commission's web site was completed and implemented. The new design is easier to navigate, user-friendly and more aesthetically appealing.

Audio-visual infrastructure and capabilities were significantly upgraded to support broadcast quality transmission of Commission public proceedings and to position the Commission for future audio-visual expansion.

The Commission's Enterprise Procurement System (EPS) received enhancements to the claims process that further streamlined the Commission's internal procurement process.

Completed a significant upgrade to the Commission's back-end e-mail services which positions the Commission for a major upgrade to front-end (client) e-mail services during FY12.

Other significant IT Division achievements of Fiscal Year 2011:

- Expanded/Extended the use of virtual server technology to provide more efficient and cost-effective use of existing data center resources.
- Continued to upgrade and expand electronic document management services across the agency to support ongoing paper reduction efforts.
- Continued to achieve permanent cost savings in enterprise software and hardware licensing which helped mitigate reductions to agency budgets.
- Continued to expand and enhance the Commission's mobile computing capabilities, providing staff more options and flexibility and security in accessing data and network resources via mobile devices.

- Continued to expand a business intelligence infrastructure that supports increased reporting options to agency staff and the public.
- Completed numerous infrastructure, security, e-mail and server upgrades.
- Continuing to refine business policies and procedures to map to industry standards which enable more effective and streamlined resource allocation.
- The IT Division is continually focused on improvements to existing applications and processes, security, enhanced reliability of network and storage systems, increased automated network monitoring, and enhanced security practices and technology.

Legal Division

Janice Alward
Chief Counsel

Mission: *To provide professional, high quality legal representation to the Corporation Commission; to assist in the performance 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 cases are handled by the Securities Division. 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 territories, or the implementation of rate increases.

The Commission is 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. The Division routinely appears on behalf of Commission Staff in a variety of

administrative proceedings, such as CC&N cases, rate cases, financing cases, and enforcement matters.

The Legal Division has represented staff in a number of rate cases for some of the State's largest water providers, including Arizona-American Water Company and Arizona Water Company. In addition, a number of energy companies, such as Arizona Public Service Company and Southwest Gas Corporation, have had rate cases pending during FY 2010-11. The Division also represented Staff in the proceedings related to Century Tel's acquisition of Qwest.

The Legal Division represents the Commission's Safety Division in applications addressing railroad crossings.

Federal Dockets

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

During FY 2010-11, the Legal Division represented the Commission in matters before the Federal Energy Regulatory Commission (FERC) concerning the gas and electric industries to ensure that the public interest of Arizona is considered in these matters. The Division also represented the Commission in Federal Communication Commission (FCC) dockets.

Key federal proceedings included:

- Participation in federal dockets involving the regulation and classification of Voice Over Internet Protocol ("VoIP") and broadband;
- Participation in federal dockets involving Qwest's Petitions for forbearance from key requirements of the 1996 Act and/or FCC rules; and

- Participation in federal dockets involving the Federal Universal Service Fund and Intercarrier Compensation.

The Commission has also been actively involved in proceedings at FERC 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 cases where gas supply and transportation, as well as competing rights among states to receipt of shipped gas, are at issue.

Litigation

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

The cases filed or pending during FY 2010-11 involved challenges to Commission decisions in rate applications, rulemakings, enforcement actions, or other utility-related matters.

The Division participated in continued civil litigation in the Arizona Federal District Court and the Ninth Circuit Court of Appeals involving arbitrations of interconnection agreements between Qwest and competitive telecommunications providers.

The Division has represented the Commission in several challenges to the Commission's Renewable Energy Standard and Tariff (REST) Rules. These cases have been filed before the Arizona Supreme Court, the Arizona Court of Appeals, and the Maricopa County Superior Court. In September of 2011, the Arizona Supreme Court denied the challengers' petition for review, thereby affirming the Commission's authority to enact the Rules.

Administrative Matters

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

The Corporations Division has the responsibility for processing corporate filings, such as Articles of Incorporation, Certificates of Disclosure, and Annual Reports. These items 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 matters.

Special Projects

The Legal Division participates in the adoption and revision of all rules for the Corporations Division, the Utilities Division, and the Safety Division. It has also represented the Commission in litigation that has occurred following rulemakings. Upcoming rulemaking matters will address revisions to the pipeline safety rules and revisions to rate application requirements for cooperatives.

The Division assists staff with several generic dockets involving telecommunications, including review of the Arizona Universal Service Fund and Intrastate Access Charges.

The Division assists with a variety of generic proceedings related to the energy industry, such as inquiries related to smart meters.

The major cases before the Commission usually include an advisory staff assigned to separately advise Commissioners and Commissioners' staff without violating the *ex parte* communications rule. Thus, in many 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.

Safety Division Pipeline Safety Section

**Steve Olea
Director**

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

The Pipeline Safety Section 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.

Inspection and operation 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 operations, such as apartments, mobile home parks, schools and other gas distribution systems at the point beyond the utility company meter. The Pipeline Safety Section also enforces the Arizona Underground Facilities Law, otherwise known as the "Blue Stake" Law.

As a result of these responsibilities, the Pipeline Safety Section monitors the activities of 6 interstate natural gas transmission pipelines, 1 interstate hazardous liquid pipeline, 15 major intrastate gas pipeline operations, 2 intrastate liquefied natural gas facility, 8 intrastate gas transmission pipelines, 3 intrastate hazardous liquid pipelines and 1011 master meter natural gas operations.

During FY 2010-11, the Pipeline Safety Section inspected 15 major intrastate natural gas and Liquefied Petroleum Gas (LPG) distribution pipeline operators, 7 intrastate gas

transmission pipeline operators, 3 intrastate hazardous liquid pipeline operators, 2 intrastate liquefied natural gas (LNG) operator, and 1 interstate hazardous liquid pipeline operator. In addition to the comprehensive inspections above; Pipeline Safety Section staff also spent 20 days conducting construction inspections, conducted 54 specialized inspections and 36 incident investigations of major intrastate operators.

The Pipeline Safety Group conducted 612 comprehensive Master Meter (MM) inspections, 80 specialized MM inspections, 374 follow-up MM inspections and 171 construction inspections of master meter natural gas distribution systems.

Also during FY 2010-11, the Pipeline Safety Section investigated 255 reported violations of the Underground Facilities Law, issued 74 notices of violations and collected \$14,250 in fines.

Staff also received 1028 notices of incidents from pipeline operators and pipeline operators shut off gas service to 78 master meter gas systems requiring repair.

During FY 2010-11, the Pipeline Safety Section provided 16 training workshops for 223 operators of master meter gas systems and assisted master meter operator personnel by making pipe locating and leak detection equipment available to them. Staff participated in 24 Blue Stake seminars held state-wide with attendance of nearly 1975.

Pipeline Safety Personnel inspected the construction of a new 8 inch 27 mile Intrastate Transmission pipeline providing natural gas service to the Mineral Park mining facilities near Kingman.



Safety Division Railroad Safety Section

**Brian Lehman
Director**

The Railroad Safety Section enforces the Federal Safety Standards for track, signal, motive power and equipment, railroad operating practices, and the shipment of hazardous material by rail. The Railroad Safety Section is also responsible for inspection and review of industrial track, and rail-highway crossing construction projects. In addition to its main office in Phoenix, two Rail Safety Inspectors are located in the Tucson office. 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 2010-11, the Section inspected 1,150 miles of track, 2,183 freight cars, 160 locomotives, 187 crossings, and 6 industrial track facilities. It also made 3,219 inspections of manufacturers that ship and receives hazardous materials by rail. Also, 13 incidents were investigated that involved tank cars carrying hazardous materials. Additionally, 486 signal and train control devices were inspected. In late October of 2009, the Section's operating practices inspector resigned, so no further operating practices have been performed. The Section investigated 23 train derailments, along with 19 grade crossing accidents and 39 complaints received from other governmental agencies, railroad employees or the public. In total, the Section recommended 16 violations for prosecution of federal regulations

Commission staff, in conjunction with the Federal Highway Administration (FHWA) and the Arizona Department of Transportation (ADOT), 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 funds. From the list, the Commission publishes an array of 8-10 crossings each year. During FY 2010-11, the Commission approved 11 crossing projects for improvement using federal funds. The array is then submitted to the cities, towns, and/or counties to make applications for funding through ADOT to the FHWA.

Another responsibility of the Section is reviewing applications for modification to existing at-grade crossings or the creation of new at-grade crossings. Staff review and analyze the crossing applications and make recommendations to the Commissioners regarding safety requirements at the crossings. During FY 2010-11, the Commission approved 7 crossing improvement projects.

The Section is also very active in the Arizona Operation Lifesaver Program, a public awareness program that promotes rail-highway crossing and trespasser safety. The Commission's award-winning video, "Operation Lifesaver," is widely used in the Arizona High School Driver Education and Driver Survival Programs as well as other driver safety programs around the country. During FY 2010-11, Railroad Safety Staff gave five Operation Lifesaver presentations to several school bus operators within their communities.

Securities Division

Matthew Neubert
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 salesmen, and investment advisers and their representatives; to enhance legitimate capital formation; and to minimize the expense of regulatory compliance on legitimate business, consistent with vigorous investor protection.*

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

Securities dealers, salesmen, 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, investment adviser representatives, dealers, and salesmen; investigates possible violations of the Securities Act and Investment Act; where the evidence warrants, brings administrative or civil or refers criminal actions; and conducts programs to educate investors to protect themselves.

The Division consists of three sections:

- 1) Registration and Compliance
- 2) Enforcement
- 3) Office of the General Counsel

Registration & Compliance Section

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

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

During FY 2010-11 the Section processed 2,104 dealer and 172,478 salesman registrations.

In addition, the Section processed 5,533 investment adviser representative licenses and 1,991 state investment adviser licenses and federal investment adviser notice filings.

The Section conducted 33 field examinations of dealers and investment advisers.

The Section processed 24,423 applications for securities registration and notice filings, 1,359 filings for various exemptions from registration, and 2,082 name change requests during FY 2010-11.

Enforcement Section

The Securities Division maintains an active enforcement program in order to protect the integrity of the marketplace and to preserve the investment capital formation process by investigating possible violations of the Securities Act and the Investment Management Act. During FY 2010-11, the Division initiated 38 investigations and had a total of 69 cases under investigation at year-end.

The Corporation Commission is authorized to enter cease and desist orders, to assess penalties, and to order restitution. The Commission may also apply to the Superior Court of Maricopa County for an injunction or the appointment of a conservator or receiver or to enforce Commission orders. The Corporation Commission may also transmit evidence to the Attorney General and County and United States Attorneys, who may file criminal cases.

The Securities Division makes a substantial commitment to its cases once litigation is commenced. Securities Division attorneys litigate administrative and civil cases, assisted by special investigators, legal assistants, and certified public accountants. Because of their familiarity with the facts in a case they have investigated, Enforcement staff may also assist in criminal prosecutions of cases they refer for prosecution.

During FY 2010-11, the Securities Division filed 35 administrative proceedings involving 102 respondents, and assisted state and federal law enforcement agencies in obtaining 10 indictments.

During the same period, the Corporation Commission issued 49 Cease and Desist Orders against 131 respondents based on Securities Division actions. The Commission also ordered 77 respondents to pay \$64,427,906 in restitution and 105 respondents to pay \$2,171,500 in administrative penalties. The Commission revoked or suspended seven licenses or registrations.

Criminal prosecutions assisted by Securities Division staff resulted in 22 criminal convictions during this fiscal year with defendants being ordered to pay \$11,929,321 in restitution.

These administrative and civil actions resulted in money being paid into Arizona's General Fund. The Corporation Commission's

funding is appropriated through the normal state budget process.

Office of General Counsel

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

Division duty officers responded to approximately 2,572 inquiries from the public regarding the substance of the Securities and Investment Management Acts and 1265 inquiries regarding dealers, salesmen, investment advisers, and investment adviser representatives.

Investor Education

The Securities Division's investor education program features a full-time investor education coordinator who makes presentations to civic, consumer, and educational groups across Arizona. The Securities Division believes that an informed investor is the best defense against investment fraud.

In FY 2010-11, the Securities Division conducted 45 public education programs. This outreach included both communities inside Maricopa County and other communities across the state.

In addition to group presentations, the Securities Division distributes its investor educational message and materials through the Internet, radio, television, press releases, newspaper articles, and printed materials available at libraries and in the public office areas of various consumer groups. Through

these efforts, the Securities Division stresses to Arizonans the importance of verifying the licensure status of the promoter before they invest and of making informed investment decisions, thereby reducing the likelihood of falling prey to con artists and unscrupulous financial professionals.

The Securities Division maintains strategic partnerships with other agencies and nonprofit organizations in order to further educational efforts. These partners include the North American Securities Administrators Association (NASAA), the U.S. Securities and Exchange Commission, the Arizona Attorney General, the Maricopa Elder Abuse Prevention Alliance (MEAPA), the Elder Fraud Prevention Task Force, and the Arizona Jump\$tart Coalition.

Utilities Division

Steven M. Olea
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 monitors the operations of approximately 708 companies 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 rates that are just, fair and reasonable to the utility’s customers and company stakeholders which will result in a reasonable return on fair value for public service corporations.

The Division reviews utility company financial records and recommends to the Commission appropriate rates and revenue 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 the telecommunications industry evolving from monopolies to a competitive industry, 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 telecommunications services.

Throughout FY 2010-11, the Division devoted significant resources to the following major efforts:

- Southwest Gas Rate Case
- Arizona-American Water Company Rate Case
- Arizona Water Company Rate Case
- UNS Gas Rate Case
- Navopache Electric Rate Case
- Cerbat Water Company – Order to Show Cause
- APS Energy Efficiency
- APS Rate Case
- Truxton Canyon Water Company – Order to Show Cause
- Review and preparation of recommendations on certain energy efficiency programs proposed by utilities
- Analysis and preparation of Staff’s testimony in multiple other rate cases and Certificates of Convenience and Necessity
- Participation in several transmission line siting cases

- Investigation of Preferred Carrier Agreements in the telecommunications arena
- Continued supervision of interim managers for several water companies; and
- Ongoing efforts to monitor service quality and reliability among regulated utilities

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

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

The Division oversees the following numbers of utilities:

Telecommunications companies	265
Water utility companies.....	282*
Sewer companies.....	44*
Water and Sewer	19*
Electric companies.....	16
Gas utilities.....	5

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

Financial & Regulatory Analysis

This Section is responsible for the analysis of all financial aspects of utility company applications, including requested approvals for rate increases, mergers, debt and equity issuances, transfers of assets, purchased power and gas adjustor revisions, and applications for CC&Ns. The analysts prepare staff reports and written testimony, including financial schedules and

spreadsheets, and testify in administrative hearings regarding their findings, conclusions and recommendations.

During FY 2010-11, the Section analyzed numerous large rate-related cases, , as well as a number of small water company rate cases. Staff's responsibilities in analyzing a rate application include conducting a regulatory audit and developing recommendations that address various accounting issues, reasonableness of expenses, cost of capital, overall revenue requirement, rate design and, ultimately, proposed rates.

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, renewable energy programs, demand-side management programs, rulemakings, telecommunications tariff filings, proposed tariff revisions and competitive telecommunication interconnection agreements. The section also processes applications for CC&N's for competitive telecommunications firms.

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), irrigation, telecommunications and electric companies. 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 engineers work with the Compliance and Enforcement Section to assure compliance with Commission Orders.

The Engineering Section assists the Financial & Regulatory Analysis Section in the processing of rate case applications, financing applications 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 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 evaluating issues related to reliability of newly-proposed generating stations and transmission lines.

The electrical engineers are responsible for preparing the Biennial Transmission Assessment Report and for reviewing the associated utility filings. The electrical engineers are also responsible for enforcement of the Overhead Power Line Safety Law.

In the area of telecommunications, the Telecommunications Engineers review tariff filings, various telecommunications applications, utility requests for numbering resources (waiver requests) 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 Geographic Information System (GIS) program for producing detailed utility service area maps for use by the Commission and the general public.

Consumer Services Section

The Consumer Services Section investigates and arbitrates complaints from the public regarding operation, billing, terminations, quality of service and facilities of public service corporations. The Section engaged in the following activities during FY 2010-11:

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 2010-11, the Consumer Services Section held 10 public comment/town hall meetings.

Arbitration/Mediation: 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/mediation to resolve the complaint. During FY 2010-11, the Consumer Services Section conducted 31 arbitration/mediations.

Meter Testing: The Consumer Services Section, tests water meters when the accuracy of the meter reading is questioned. During FY 2010-11, the Consumer Services Section tested 39 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 4 field investigations in FY 2010-11.

Opinions: During a pending rate case, consumers are able to provide feedback to the Commission which becomes docketed with the case. During FY 2010-11, the Consumer Services Section handled 4,880 opinions.

Complaints & Inquiries: The following table lists the total complaints and inquiries handled by the Consumer Services Section in

FY 2010-11 by utility type and complaint or inquiry type:

Communication Companies	1085
Sewer Companies	87
Water Companies	1,262
Electric Companies	1,777
Gas Companies	1,444
TOTAL.....	5,655
Billing issues	1,152
Deposit issues	172
New service issues.....	130
Service issues.....	158
Quality of service.....	719
Disconnect/termination.....	279
Repair issues	71
Rate case items.....	103
Rates/tariffs.....	156
Other issues	3,541
Misc/Non-jurisdictional.....	150
TOTAL.....	6,631

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 2010-11, the Compliance Section reported the following compliance actions:

- 631 annual reports were mailed to utilities and monitored for filing.
- 366 new decisions were entered and tracked for compliance
- 130 utilities were required to remit an annual assessment, which was monitored for compliance.

agreements; scan monthly decisions for Division use; provide research; distribute mail and internally generated documents; and provide general customer service.

Administrative Services Section

The Administrative Services Section provides general and complex administrative and clerical support to the Director's office and the following Sections: Financial & Regulatory Analysis; Telecom & Energy; Engineering, Compliance & Enforcement and Consumer Services.

Administrative support staff provide the following services: format and process open meeting items, staff reports, testimony and correspondence; maintain various databases; process, scan and link tariff files for posting on the web; process interconnection

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

Other items processed by the Administrative Services Section during FY 2010-11 include:

Staff Reports	107
Tariffs Administratively Approved..	165
Testimony.....	35

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 legislative appropriation. Beginning in FY 10, the Commissioners' Wing, and Corporations and Securities Divisions were moved from the General Fund to other funds. Only the Railroad Safety program remains on the General Fund.

The Administration Division receives funding from the Utilities Regulation Revolving Fund., the Public Access Fund, and the Securities Revolving Fund. The Corporations Division is the recipient of funding from the Arts Trust Fund and Public Access Fund. 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, Pipeline and Railroad Safety Sections, 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 fulfilling 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
	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>
Corporation Filing Fees*	6,564,800	7,506,020	6,500,000
Security and Broker Fees*	14,987,400	17,447,228	15,800,000
Miscellaneous Service Charges**	60,200	71,106	50,000
Fines & Forfeitures*	4,346,200	1,978,406	2,500,000
Utility Assessments	7,541,5000	15,963,317	13,337,400
Sec Regulatory & Enforcement Fund	4,909,400	4,798,798	4,798,400
Sec Investment Management Act Fund	2,076,000	2,248,002	2,075,000
Public Access Fund	6,580,200	7,516,421	6,325,000
Federal Grant***	<u>1,201,300</u>	<u>1,064,215</u>	<u>760,000</u>
TOTAL	48,267,000	58,593,513	52,145,800

*Deposited in the State General Fund

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

Table 2

Expenditures by Budget Program

Expenditures by Budget Program	Actual	Actual	Estimated
	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>
Administration & Hearing Divisions	4,423,600	4,675,483	4,485,000
Corporations Division	3,971,000	4,157,170	4,240,600
Securities Division	4,258,500	4,447,050	4,500,000
Railroad Safety Section	560,900	613,779	600,000
Pipeline Safety Section	1,578,200	1,787,216	1,650,000
Utilities Division	5,828,300	5,668,033	5,622,700
Legal Division	1,751,100	1,830,106	1,855,000
Information Technology	<u>2,498,600</u>	<u>2,249,176</u>	<u>2,389,800</u>
TOTAL	24,870,200	25,428,013	25,343,100

Table 3

Expenditures by Fund Source

Expenditures by Fund Source	Actual	Actual	Estimated
	<u>2009-2010</u>	<u>2010-2011</u>	<u>2011-2012</u>
General Fund	586,800	620,013	600,000
Arts Trust Fund	47,400	52,665	51,300
Sec. Regulatory & Enforcement Fund	4,234,600	4,387,515	4,317,900
Sec. Investment Management Act Fund	711,600	694,018	702,000
Utility Regulation Revolving Fund	13,028,700	13,153,304	13,000,200
Public Access Fund	5,527,700	5,645,252	5,927,700
Pipeline Safety Revolving Fund	---	---	
Federal Funds**	<u>733,400</u>	<u>875,246</u>	<u>750,000</u>
TOTAL	24,870,200	27,428,013	25,343,100

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

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	1997-2003
Tony West	Republican	1999
William "Bill" Mundell	Republican	1999-2008
Marc Spitzer	Republican	2001-2006
Mike Gleason	Republican	2003-2008
Jeff Hatch-Miller	Republican	2003-2008
Kristin Mayes	Republican	2003-present
Barry Wong	Republican	2006
Gary Pierce	Republican	2007-present
Sandra Kennedy	Democrat	2009-present
Paul Newman	Democrat	2009-present
Bob Stump	Republican	2009-present
Brenda Burns	Republican	2011-present

Southern Arizona Office

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

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

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



Arizona Corporation Commission

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Southern Arizona Office

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